

Position of the Working Group Balancing of Elia concerning the connection to the aFRR-Platform (PICASSO project)

Considering the following:

- 1) While the aFRR-Platform is designed to foster cross-border competition and liquidity in the aFRR energy market, the impact on the Belgian balancing market of the connection of Elia entails uncertainties in the current context. This is due to the combination of several factors:
 - When connecting to the aFRR-Platform, the application of the EU pricing methodology¹ requires, by default, design evolutions of the aFRR energy market, in particular the switch from a paid-as-bid to a paid-as-cleared remuneration and the release of the current price cap of +-1.000€/MWh to +-15.000€/MWh;
 - The limited size of the aFRR energy merit-order is a particularity of Elia's LFC Block compared to other European LFC Blocks;
 - Among the neighboring LFC Blocks, only the German LFC Block is currently connected to the aFRR-Platform;
 - There are serious concerns on the wholesale energy prices during upcoming winter, very much limiting the risks that market parties are willing to take.
- 2) The CREG has approved the T&C BSP aFRR (decision 2366), in which Article 2 specifies that the entry into force is conditioned to *an evaluation confirming that the implementation of these T&C BSP aFRR does not lead to a blocking point for the efficient functioning of the Belgian balancing market.*
- 3) The CREG has granted a derogation for the deadline within which Elia must make use of the European aFRR-platform (decision B2412). In its decision, the CREG requests Elia to provide a report evaluating the impact of the connection of Elia to the aFRR-Platform. Based on the report, the CREG will either confirm the prolongation of the derogation (while defining the date of a new moment of evaluation), or confirm the date of the end of the derogation.
- 4) The CREG has approved the rules for the compensation of the quarter-hourly imbalances ("balancing rules") (decision B2433). This includes the impact of the connection to the aFRR-Platform on the computation of the imbalance price, which after almost a year of analysis and dialogue with the stakeholders was acknowledged by all market parties to be the best possible compromise, taking into account market, cost and system security considerations.
- 5) Market parties and Elia have undertaken considerable efforts to complete the necessary developments to allow the adaptations to the new market design and the connection to PICASSO.
- 6) Elia has presented and discussed, during the Working Group Balancing of the 15th of September 2022, the evaluation of the impact of the connection to the aFRR-Platform as well as possible mitigation measures and connection scenarios². Following this meeting, bilateral contacts have taken place with market parties.

¹ Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process

² Slides are available on following link: <https://www.elia.be/en/users-group/wg-balancing/20220915-meeting>

The Working Group balancing of Elia recommends to postpone the connection to the aFRR-Platform to the **28th of March 2023** provided that following conditions are satisfied:

- A **temporary price cap** on the Belgian aFRR Energy bids³ is implemented. The price cap is considered as an appropriate, proportionate and temporary measure, as an answer to the market failure resulting from the combination of the factors listed under point 1) above;
- As of 1st of March, the volume offered in the Belgian aFRR energy market at least corresponds to 120% of the aFRR capacity procured by Elia (i.e. 117 MW) for 75% of the time.

The price cap will be based on the cap currently applying to the Belgian aFRR energy market and adjustable in order to ensure robustness against a strong increase of the BSP's aFRR energy costs. The precise modalities of the price cap will be further discussed between Elia, market parties and the CREG.

The temporary price cap shall be released when all neighboring TSOs are connected to the aFRR-Platform, which is expected at the latest by the 24th of July 2024. An earlier release could take place after the connection of RTE, provided that sufficient additional (cross-border) liquidity becomes available to Elia, thereby relieving the market failure resulting from the combination of the factors listed under point 1).

Besides, in order to mitigate the impact of the limited size of the aFRR energy merit-order on the aFRR activation costs and on the imbalance prices, the Working Group Balancing invites all market players that have the technical capability to do so to increase their participation to the aFRR energy market.

³ It is to be noted that the BSPs will be remunerated at the Cross-Border Marginal Price (CBMP) without cap, only the bid price will be limited