

Subject: FEBEG comments on ELIA's public consultation on the "Balancing Rules"  
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Contact: Jean-François Waignier  
Telephone: +32 485 77 92 02  
Mail: jean-francois.waignier@febeg.be

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FEBEG welcomes the opportunity to react to ELIA's public consultation on the market functioning rules for the compensation of quarter-hour imbalances ("Balancing Rules")<sup>1</sup>.

FEBEG would like thank Elia for its continuous efforts to improve the balancing mechanism and acknowledges the importance of the proposed modifications to the balancing rules for the future evolution of the Belgian balancing mechanism.

We would nevertheless have preferred that such structuring topic as the "Balancing Rules" would have been discussed more elaborately with the stakeholders upfront of the publication of the public consultation.

We invite ELIA to liaise broadly with the different stakeholders in the future when such important topics are addressed.

The future evolution of the Belgian balancing mechanism is and will remain a priority for the coming months and FEBEG is committed to constructively contribute to the discussions.

The inputs and suggestions of FEBEG are not confidential.

## General remark

FEBEG notes that EU integration of balancing markets will require some important changes. The connection to PICASSO will completely review the current set-up of aFRR energy bids as local needs will be shared on a European platform and can be solved by foreign means. Similarly, foreign needs can be solved by local means.

Consequently, the balancing rules need to be changed as a result of a need to (i) adapt the way System Imbalance is computed and (ii) amend how aFRR component is to be used in defining the imbalance price.

FEBEG considers that joining PICASSO will at the same time provide opportunities and bring additional complexity to the market parties. Although it is key that market parties keep having a very good understanding of the market functioning, we see that TSOs might be

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<sup>1</sup> [https://www.elia.be/en/public-consultation/20211223\\_public-consultation-on-the-market-functioning-rules](https://www.elia.be/en/public-consultation/20211223_public-consultation-on-the-market-functioning-rules)

tempted to overcome this additional layer of complexity by proposing its own local rules without harmonization with surrounding TSOs. FEBEG believes that local TSOs should strive to avoid national particularities as these would endanger the functioning of the market.

Concerning the 2 elements (i and ii), FEBEG has the following opinion (that will be further elaborated in the specific remarks):

**i. System Imbalance:**

We understand and find it justified to adapt the way System Imbalance is computed as a result of joining the PICASSO platform. Both the ACE and NRV will need to be modified as they are impacted by the exchanges with foreign countries through, in this case, the PICASSO platform. FEBEG agrees with the adaptations as proposed by Elia.

**ii. Use of aFRR component in the definition of Imbalance Price**

FEBEG disagrees with the modifications on how the aFRR component would be used to define the imbalance price. We believe that:

- the imbalance price should be fully market based, relying only on balancing energy bids effectively activated by the TSOs/the PICASSO platform.
- all optimization cycles should be accounted for, as this gives the most complete information to the market on the need for an implicit reaction.

As such, we do not support the idea that several aFRR optimization cycles should be treated differently whenever Belgium is in a given specific situation. We do not support neither the use of VoAA instead of CBMP when the net satisfied demand of the non-congested zone is not in the same direction as the satisfied demand of Belgium.

## Specific remarks

### Reminder of the basic principles of Imbalance Price

FEBEG wants to remind a key principle that has been shared throughout the past years. The Imbalance Settlement Price should reflect the ‘real time value of energy’ (EBGL art. 44.1(b)).

FEBEG considers as distortive to (i) exclude some Optimisation Cycles of the Imbalance Price computation and (ii) rely on VOAA which is, by definition, an energy bid not activated in the local merit order list. Those 2 artificial measures would reduce the ability of imbalance prices to effectively reflect the real time value of the energy.

FEBEG is worried by the trend of past years to move away from the real-time value of energy. Next to the above two proposed measures, one can think about alpha component, scarcity component, etc. We consider that it is more efficient, more market-based and more transparent to avoid artificial interventions into the balancing prices and instead allow the market to properly function. FEBEG members underlines that, in their role of BRPs, it is absolutely key to stick to this principle both for the market functioning and for

being exposed to clear and understandable balancing prices whenever they are facing a deviation as a BRP. Avoiding overly complex and regulated markets (where rules – once implemented – are also constantly evolving) is essential to reduce (to the extent possible) the high entry barriers and to increase the attractiveness and liquidity of the market.

### EU Integration and overall social welfare optimisation, reserves sharing

The EBGL foresees an integrated balancing market. Integrating the EU Balancing market is about building synergies and taking advantage of pooling means and needs enabling netting, whenever and as much as possible. To obtain most of these benefits, all parties should strive, in an effective and efficient manner, towards the EU target model. EU market integration goes in both directions, sometimes you are better off, sometimes worse off, but the global welfare is maximized. FEBEG believes that TSOs should aim to avoid national particularities as these would endanger the market functioning.

Current developments of explicit balancing are going in the direction of a EU integration as means and needs would be shared amongst TSOs. Implicit reaction, as allowed in Belgium, shall follow the same principles. Local system imbalance can be offset by other TSOs system imbalances in the opposite direction. In this case, the local TSOs issue is solved in a more efficient (less expensive) manner (by the activation of cross-border balancing energy bids), compared to a situation without cross border cooperation. As the role of BRP tends to the one of BSP when it comes to implicit balancing (provide system support to the TSOs through the activation of real-time energy – deviation from schedule for BRP / Balancing energy bids for BSP), we should strive to have as much as possible a level playing field between both roles. In particular, there is no need to “tweak” the effect of European market integration for the BRP only.

In this context, the use of the VoAA is not giving the right signal – as it gives, in combination with implicit balancing, the incentive to de-optimize the found EU optimum (in the non-congested zone).

The integration of the EU balancing market will bring overall benefits to the system and those parts of it, in a similar manner as the DA market has already done. The different timeframes (forward / futures, DA spot, ID, explicit balancing and implicit balancing) should follow the same rationale and be consistent with each other.

### BRP & BSP – Price signal convergence is needed

FEBEG pleads for a convergence (rather than a decorrelation) of prices to BRPs and BSPs. A price convergence seems much more consistent. It avoids twisted situations and difficult decisions where the system imbalance of a local balancing area is long while aFRR needs from the uncongested area are in the upward direction, and vice-versa. Does it make sense to expose a given company at the same moment to a low imbalance price and a high CBMP? How can this company take actions with confidence that it is really acting in an efficient way from a social welfare point of view?

Indeed, it seems to us that implicit balancing allows Elia to contract less balancing capacity. While we acknowledge that the product is slightly different, BRP and BSP are in a sense interchangeable, the means are different but results are comparable.

Further, implementing the above two measures<sup>2</sup> proposed by Elia would lead to different imbalance price behaviour with similar imbalance volumes in the different control areas. This would be a threat to level playing field in the European electricity markets as well as the EU balancing Integration.

### Implicit Reaction – when is it needed?

By using only a part of the optimisation cycles, no distinction is made between an ISP in which all optimisation cycles are in the same direction, and an ISP in which both long and short positions are more balanced. By integrating all of the optimisation cycles in the formula it becomes more clear when a (strong) implicit reaction is useful, and when it is not.

### Publications

FEPEG has appreciated a lot the efforts made by Elia over the past years to publish as many data as possible. We wish to clarify that the transition to European balancing platform should not impact the quality of the publications in general. To the contrary, FEPEG expects that aFRR satisfied demand, aFRR energy bids of PICASSO and aFRR needs (as well as netting) will be published for the entire PICASSO participants (and not limited to Belgium) along with the available CZCs. This information is absolutely key to allow BSPs to have a good understanding of the market and its dynamics. They are also key to allow BRPs to react implicitly and help the system while relying also the published data.

With regards to the balancing price readability (which is a pre-requisite for a well-functioning electricity market, including implicit reaction), rather than to oversimplify it (and by consequence moving away from the EU target model), it is better to ensure that data transparency is of the highest quality as just explained hereabove. BRPs and BSPs that have a slightly different view on the system allows the market to function. One oversimplified signal will have an important additional risk, which is the “systemic” risk (when everybody in the market has exactly the same view, and this is not 100% the correct view, the total system will collapse – this risk is a commonly understood issue in financial markets for example).

Indeed, it is fundamental that BRPs can take informed decisions when helping to balance the system, considering system imbalance volume and balancing energy prices.

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<sup>2</sup> (i) exclude some Optimisation Cycles of the IP computation and (ii) rely on VOAA

## Price formula proposal

FEPEG is convinced that the Imbalance Price formula proposed by Elia is too country specific and could lead to undesired extreme Imbalance Prices. Moving to marginal price (CBMP) in the context of PICASSO is a very logical step supported by FEPEG. However, FEPEG considers that (i) including a direction factor and (ii) excluding some Optimization cycles of ISP will bring extreme Imbalance Price that is decorrelated from the CBMP.

We are convinced that the imbalance settlement price set by the CBMP gives the correct incentives to BRPs to stay balanced. This in combination with full transparency on the status of the (local & global) system, will result in BRPs efficiently helping the system.

FEPEG considers the following formula is more appropriate.

$$IP_{oc} = \frac{\sum_{oc} [(abs(aFRR_{SD_{oc,j}})) \times CBMP_{oc,j}]}{\sum_{oc} (abs(aFRR_{SD_{oc,j}}))}$$

First, it includes all optimisation cycles within a QH and each optimisation cycle is weighted by the local aFRR satisfied demand. It hence reflects the physical reality of the balancing needs in the uncongested area while putting a weight based on the real Belgian needs.

Second, it uses the CBMP for each OC, this time again putting a weight based on the local aFRR satisfied demand.

We believe it is a good proposal because:

- BRPs are incentivized to solve the deviations of the wide uncongested area, similarly to BSPs activating balancing energy bids to solve issues in the same zone;
- Imbalance Price is impacted by (a) how severe the Belgian system imbalance will be and (b) how extreme the RT value of energy (through CBMP) will be;
  - o An ISP which is structurally long or short during 15' should lead to (possibly) extreme imbalance prices and consequently provides the right incentives to the BRPs;
  - o An ISP which is partly long and partly short during 15' should lead to (normally) less extreme imbalance prices and would not incentivize BRP to react (too much) as the system imbalance would not justify implicit reaction;
- Each role should contribute in the most logical and optimal manner:
  - o It is important that BRPs are incentivized to react sufficiently to large structural system imbalances when the signals are very clear in this sense. However, they should not over-react to small system imbalance.
  - o BSPs should help the TSO to solve situations with large a system imbalances but are certainly also the most logical market parties to help solving small system imbalances situations through explicit balancing activations (as price signals are not erratic, cfr pay as cleared).

- VoAA is no longer included as we think it does not give the right signal to find an optimum from a social welfare point of view. It would deviate from the global optimum which is much sought after as EU integration does materialize on all timeframes.

### Are the TSOs concerns or fears based on facts and figures ?

FEBEG wishes to share its concerns that if local TSOs intervene (a lot) in the definition of the imbalance price, we risk to deviate (a lot) from an overall optimum. Indeed, we are convinced that market participants should (and will) adapt to this new EU-interconnected power system and that TSO interventions are very last resort actions to take whenever a country is concretely facing issues with a market design. If such a statement is not backed by evidence or a decent CBA, we see no reasons to deviate from a fully market-based Imbalance price.

### Counter-balancing?

We do not agree that TSOs will need to “counteract with automatic activation of explicit balancing bids”. Indeed, priced-based reaction / implicit balancing by BRPs will not only be based on the price but also on the level of cross-border capacity and on the local imbalance (rather the ACE to assess its flipping potential). There will not be per se an activation of explicit balancing means to counteract the effect of implicit balancing, it all depends on the level of the ACE after the implicit balancing (whether the BE system has flipped or not).

### Increase of contracted reserve?

We do not agree that TSOs will have to “increase the balancing capacity to be procured”. There is no certainty that the system imbalance would be higher in the future (more RES could lead to higher needs, but more cross border cooperation could reduce the net needs). To ensure a low “net-need” the cross border sharing of balancing capacity should continue to be considered as it is currently done by leveraging on cross-border synergies & collaboration. This will decrease the need to increase balancing capacity to be procured.

### ATC in trouble?

If there would ever be a problem with the ATCs, we believe that it would be for a very limited duration. We wish here to remind that the situation without exports/ imports capacities was already anticipated; and in such a case, Belgium would fall back on a local merit order principle. The Imbalance Price would only rely on national energy bids in this situation and BRPs would receive a price signal only reflecting the congested area (read Belgium). In addition, the fact that in the current context and the one of CRI, Elia has /will have tools to ask a BRP to get back to a production plan that does not create congestion (back to nomination under current setup / redispatching under iCAROS/CRI setup)

## Conclusion

We acknowledge that the EU integration of the balancing market(s) will cause some decorrelation between the local system imbalance and the balancing activations by the platform. But this shouldn't be a showstopper, in the contrary, we consider that as a normal consequence of the EU market integration. Integrating the EU Balancing market is about building synergies and taking advantage of pooling means and needs enabling netting, whenever and as much as possible. To obtain most of these benefits, all parties should strive, in an effective and efficient manner, towards the EU target model. EU market integration goes in both directions, sometimes you are better off, sometimes worse off, but the global welfare is maximized – “cherry picking” is not an option and is a very dangerous approach.

In line with previous FEBEG positions, and to avoid any doubts we wish to underline that FEBEG is strongly supporting the Belgian reactive balancing model, where BRP's implicit reaction is a key element in reducing system imbalances. Furthermore, we are convinced that FEBEG's proposal is fully compatible with the implicit reaction in Belgium, and based on a cross border marginal price.

FEBEG wants to reemphasize that its members are committed to do their job of (implicit) balancing with the combination of

- A pure price signal and
- Transparency on the status of the local and global system.

Let it be clear that we are convinced of the fact that we do not need a “designed” price signal, in fact, we are in principle strongly opposed a future where such interventions risk to become a “common practice”.

Finally, as the connection to the EU platform will fundamentally change the balancing market, we invite Elia – in a continuous and transparent dialogue with all stakeholders – to have a close monitoring of the evolution of the Belgian system imbalance and to propose proportional remedial actions to enhance the market functioning if such adaptations would be crucial.

FEBEG would be in favour of making a return on experience of the choices made today after, for example, 6 months of connection to the PICASSO platform.