

CREG

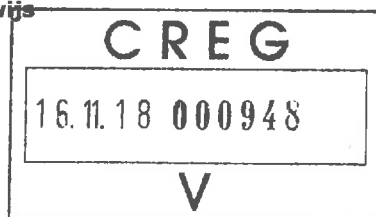
De heer Andreas Tirez

Directeur Technische werking van de markten

Nijverheidsstraat, 26-38

1040 BRUSSEL

Per drager met ontvangstbewijs



Brussel, 16 november 2018

Onze ref. : 20181116/PRA/Y2.612.10/SME

Betreft: Goedkeuringsaanvraag van het voorstel van Elia voor de vrijstelling van de verplichting om afzonderlijk opwaartse en neerwaartse balanceringscapaciteit aan te kopen voor de frequentieherstelreserves met automatische activering

Geachte heer Tirez,

Conform artikel 32(3) van Verordening (EU) 2017/2195 van de Commissie van 23 november 2017 tot vaststelling van richtsnoeren voor elektriciteitsbalancing heeft Elia System Operator (hierna "Elia") een voorstel opgemaakt voor de vrijstelling van de verplichting om afzonderlijk opwaartse en neerwaartse balanceringscapaciteit aan te kopen voor de frequentieherstelreserves met automatische activering.

In uitvoering van artikel 5(4)f en artikel 32(3) van Verordening (EU) 2017/2195, wil Elia u hierbij het voorstel van Elia: *"Proposal for the exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Article 32 (3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing"* ter goedkeuring voorleggen (Bijlage 1).

Voor dit voorstel werd een raadpleging gehouden overeenkomstig artikel 10 van Verordening (EU) 2017/2195. In uitvoering van paragraaf 6 van dit artikel 10 hebben de TSOs terdege rekening gehouden met de standpunten die tijdens de publieke consultatie van 9 oktober tot en met 10 november 2018 door de belanghebbenden werden geformuleerd. Bijlage 2 (*"Consultation report on Elia's draft Proposal for the exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Article 32 (3) of Commission Regulation (EU) 2017/2195 establishing a guide-line on electricity balancing"*) bevat hiertoe informatief een rechtvaardiging van Elia voor het al dan niet in het voorstel opnemen van de uit de raadpleging voortgekomen standpunten.

/...

Conform de afspraken tussen ACER en ENTSO-E zal een vertaling van dit voorstel nog op een later tijdstip aan de CREG worden bezorgd.

Aarzel niet om ons te contacteren, mocht u nog bijkomende vragen hebben.

Met vriendelijke groeten,

A handwritten signature in blue ink, appearing to read "Julien Damilot".

Julien Damilot
Manager Public & Regulatory Affairs

A handwritten signature in blue ink, appearing to read "Patrick De Leener".

Patrick De Leener
C.O. Customers, Market & System

Bijlagen:

1. Voorstel (EN)
2. Consultatierapport (EN)

Proposal for the exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Article 32 (3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing

[16/11/2018]

Elia, taking into account the following,

Whereas

- 1) This document is the proposal for the exemption of Elia System Operator (hereinafter referred to as "Elia") from the obligation to procure upward and downward balancing capacity for frequency restoration reserves with automatic activation (hereafter "aFRR") separately. This Proposal is hereinafter referred to as the "Proposal".
- 2) Article 32(3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (hereafter "EBGL") stipulates, *"The procurement of upward and downward balancing capacity for at least the frequency restoration reserves and the replacement reserves shall be carried out separately. Each TSO may submit a proposal to the relevant regulatory authority in accordance with Article 37 of Directive 2009/72/EC requesting the exemption to this requirement [...]"*
- 3) Article 1 of EBGL states, among others, that procurement rules for balancing capacity for frequency restoration reserves are laid down in the EBGL.
- 4) Elia currently does not procure jointly upward and downward balancing capacity for mFRR and as a result, this Proposal concerns only aFRR.
- 5) Pursuant to Article 5(4) of EBGL, the exemption included in this Proposal requires approval by each regulatory authority of each concerned Member State on a case-by-case basis.
- 6) Article 10(1) of EBGL stipulates, *"TSOs responsible for submitting proposals for terms and conditions or methodologies or their amendments in accordance with this Regulation shall consult stakeholders, including the relevant authorities of each Member State, on the draft proposals for terms and conditions or methodologies and other implementing measures for a period of not less than one month"*.
- 7) Article 10(5) of EBGL stipulates that *"At least the proposals pursuant to points (a), (b), (c), (d), (e), (f), (g) and (i) of Article 5(4) shall be subject to public consultation in each concerned Member State."*
- 8) In article 10(6) of EBGL, it is provided that *"TSOs responsible for the proposal for terms and conditions or methodologies shall duly consider the views of stakeholders resulting from the consultations undertaken in accordance with paragraphs 2 to 5, prior to its submission for regulatory approval. In all cases, a sound justification for including or not including the views resulting from the consultation shall be provided together with the submission and published in a timely manner before or simultaneously with the publication of the proposal for terms and conditions or methodologies"*.
- 9) Article 65(2) of EBGL stipulates that *"For Articles [...] 32 [...], this Regulation shall apply from one year after entry into force of this Regulation."*
- 10) This Proposal has been developed in the general framework of continuous improvement of aFRR market. This Proposal is consistent with the conclusions of two studies performed by Elia in 2018 "Separate procurement of FCR and aFRR products" and "New aFRR design". These studies were consulted and the views of the stakeholders were considered in the final versions. The learnings of a previous pilot project "R2 non-CIPU" were also considered in the Article 3 of this Proposal for the justification of this exemption.

- 11) This Proposal contributes to the objectives of EBGL as stated in Article 3(1)(b), Article 3(1)(e) and Article 3(1)(f) of EBGL. The impact on these objectives is explained in Article 3(2) and Article 3(3) of this Proposal as they are directly related to the explicit requirements of the Article 32(3) of EBGL.

SUBMITS THE FOLLOWING PROPOSAL FOR THE EXEMPTION FROM THE OBLIGATION TO PROCURE UPWARD AND DOWWARD BALANCING CAPACITY FOR AFRR SEPARATELY IN ACCORDANCE WITH Art. 32(3) of EBGL TO CREG.

Article 1 - Subject matter and scope

1. Elia currently procures balancing capacity for Frequency Containment Reserves and Frequency Restoration Reserves with automatic activation in a common auction. In this auction, both symmetric aFRR bids (upward and downward balancing capacity offered in the same bid) and asymmetric aFRR bids are allowed.
2. Article 32(3) of EBGL provides that the procurement of upward and downward balancing capacity for at least the frequency restoration reserves and the replacement reserves shall be carried out separately. Each TSO may submit a proposal to the relevant regulatory authority in accordance with Article 37 of Directive 2009/72/EC requesting the exemption to this requirement. The proposal for exemption shall include:
 - a) specification of the time period during which the exemption would apply;
 - b) specification of the volume of balancing capacity for which the exemption would apply;
 - c) analysis of the impact of such an exemption on the participation of balancing resources pursuant to Article 25(6)(b) ;
 - d) justification for the exemption demonstrating that such an exemption would lead to higher economic efficiency.
3. The proposal is compliant with the requirement of the Article 32(3) of EBGL. The period during which the exemption applies pursuant to Article 32(3)(a) of EBGL is mentioned in Article 3(4) of this Proposal. The volume of balancing capacity for which the exemption applies pursuant to Article 32(3)(b) of EBGL is mentioned in Article 3(1) of this Proposal. The analysis of the impact of the exemption pursuant to Article 32(3)(c) of EBGL is developed in Article 3(2) of this Proposal. The justification demonstrating that the exemption leads to higher economic efficiency pursuant to Article 32(3)(d) of EBGL is given in Article 3(3) of this Proposal.

Article 2 - Definitions and interpretations

1. For the purposes of this Proposal, the terms used in this document shall have the meaning of the definitions included in EBGL and COMMISSION REGULATION (EU) 2017/1485 establishing a guideline on electricity transmission system operation.
2. In addition, in this Proposal, the following definition shall apply:

“Must run costs” are the additional short-term costs incurred and calculated on the contractual period, to bring assets not planned to be dispatched for day-ahead or intraday markets for economic reasons to the generation level required for providing aFRR.
3. In this document:
 - (a) headings are inserted for convenience only and do not affect the interpretation of this Proposal; and

- (b) any reference to legislation, regulation, directive, order, instrument, code or any other enactment shall include any modification, extension or re-enactment of it then in force.

Article 3 – Exemption from the obligation to procure upward and downward balancing capacity for aFRR separately

1. Elia proposes an exemption from a separate procurement of upward and downward balancing capacity for the entire volume of balancing capacity for aFRR procured.
2. The impact of this Proposal on the participation to the aFRR procurement of demand facility owners, third parties, owners of power generating facilities from renewable energy sources or owners of storage will be limited for the following reasons:
 - (a) The balancing service providers that are not able to provide symmetric bids for upward and downward balancing capacity have the option to provide separate bids for upward and downward balancing capacity.
 - (b) These providers are currently contractually not allowed to participate in the aFRR market. Even if they would contractually have the possibility to participate, the following reasons make the aFRR provision less attractive for them:
 - i. Current pro-rata activation leads to continuous activation which makes the requirements hard to achieve.
 - ii. Weekly procurement requires a certainty of availability for the offered volume over the whole period and an ability to forecast for a relatively long period.
 - iii. These providers can face a non-selection due to:
 1. Lack of bidding obligations that request all balancing service providers offering symmetric aFRR bids to also offer the volume in an asymmetric way, thereby leading to sufficient volumes of asymmetric products in either direction to cover the needs of the system.
 2. In the bid selection process, an asymmetric bid of one BSP has to be matched with another asymmetric bid in the opposite direction in order for Elia to ensure the required total service. As a result, BSPs offering asymmetric bids may not be selected due to the absence of competitive bids in the opposite direction.
3. This Proposal for exemption will lead to higher economic efficiency in aFRR procurement. The reason is that a separate procurement of upward and downward aFRR may prevent the assets with must run costs to distribute efficiently their must run costs in their upward and downward bid. This may result in inefficient selection of the bids that may result in higher procurement costs. As long as assets with must run costs are unavoidably selected in the aFRR market, a symmetric procurement will lead to a higher economic efficiency, at least for the short term until the market evolves.
4. Elia proposes that the exemption from a separate procurement of upward and downward balancing capacity for aFRR applies until 15 December 2021.
 - (a) This duration will allow adapting the necessary technical and market requirements listed in Article 3(2)(b) which will make effective and efficient the participation of new providers, and to have a sufficient period to observe the evolution of the aFRR market and the avoidability of assets that may face must run costs.
 - (b) Elia shall re-evaluate the need for the exemption at the latest 6 months before the end of the exemption, possibly leading to a new proposal for exemption. The re-evaluation shall be based on the volumes of exclusively asymmetric bids offered until this time in the aFRR market.

**Consultation report on Elia's draft Proposal
for the exemption from the obligation to
procure upward and downward balancing
capacity for aFRR separately in accordance
with Article 32 (3) of Commission Regula-
tion (EU) 2017/2195 establishing a guide-
line on electricity balancing**

[16/11/2018]

1. Introduction

Elia System Operator (hereinafter "Elia") has prepared a Proposal to be submitted to CREG for the exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Article 32 (3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (further "EBGL").

Elia currently gives to the BSPs the possibility to offer symmetric aFRR bids upward/downward and would like to maintain this option in the aFRR procurement according to this Proposal until 15 December 2021.

As explained in the Proposal, Elia is of the opinion that maintaining the option for symmetric procurement could lead to higher economic efficiency at least for the short term until the market evolves. The argumentation behind this opinion can be found in the official Proposal together with the expected effect that this exemption may have to certain market participants. A more analytical description of the reasons leading to the request for this exemption can be found in the study that Elia performed called "Separate procurement of FCR and aFRR products".

A draft version of the Proposal has been consulted for the period of 9 October until 10 November according to articles 5(4)(f) and 10(2) of EGBL and Elia has received non-confidential replies from the following participants:

- FEBELIEC
- FEBEG

Elia would like to thank these participants for their contribution to our attempt to improve the Belgian balancing market. This report explains how their input is taken into account in the final Proposal towards CREG.

2. Input of FEBELIEC

Febeliec explains that their answer is in line with the answer provided during the public consultation of the study on "Separate procurement of FCR and aFRR products" and welcomes any evolution towards a more efficient sourcing of balancing products while indicating that short term and long term goals might lead to different options and thus a trade-off must be found. As a result, FEBELIEC suggests that Elia implements a phased approach with several intermediary steps towards the target model.

According to the understanding of Elia, the target model refers to the fully asymmetrical procurement of aFRR up/down without the possibility to have any links between two asymmetrical bids as presented in the study for on "Separate procurement of FCR and aFRR products". Elia agrees with an approach with intermediary steps and as stated in paragraph 4 of the Proposal, Elia is planning to implement some necessary developments in the aFRR market before moving to the target solution.

In addition, FEBELIEC requested to have a clear indication of the required targets that need to be met before the next step is taken. Elia is of the opinion that clear "pass-fail criteria" are hard to identify in a market that may present many different evolutions. If not properly defined, this criteria could even lead to decisions that would not comply with the intention of achieving the best trade-off between short-term and long-term goals. Elia is however willing to re-evaluate the need for an exemption in the light of the past developments of the market. For this reason, the proposal was adapted to include in Article 4 a commitment for a re-evaluation of the need for the exemption at the latest 6 months before the end of the exemption. This evaluation may lead to a new proposal for exemption, which will be duly consulted with stakeholders. In case the evaluation concludes that no exemption is required anymore, the terms and conditions for balancing service providers will have to be adapted, which will also lead to a consultation of the stakeholders.

3. Input of FEBEG

In general, FEBEG supports the exemption from the obligation to procure upward and downward aFRR separately.

FEBEG welcomes the conclusion from Elia that the conditions are not met to evolve to a separate procurement. FEBEG repeated that a thorough cost-benefit-analysis demonstrating that the separate procurement of upward and downward aFRR would bring economic benefits is lacking.

Nevertheless, FEBEG doubts whether the duration of the exemption is sufficiently long and is concerned that during this period, the conditions of the Section 3.4 of the aforementioned study may not be met. An extension of this period may then be needed. As a result, FEBEG wonders if Elia could apply for an extension in 2020 to 2021.

Elia is also of the opinion that the exemption must last as long as the trade-off between long-term and short-term goals does not indicate the opposite. As EBGL does not limit the number of exemptions or the maximal duration of these exemptions, Elia prefers to engage in a process of regular review of the need for an exemption in order not to hamper possible faster market developments. Hence the proposed duration for the exemption has not been changed. Article 4 has however been completed with a commitment to re-evaluate the need for an exemption in order to clarify the process. The re-evaluation will be based on up-to date information in 2021 when Elia will be able to have a better view on the actual evolution of the market and demonstrate, or not, the need for a new exemption.

