POSITION

Subject:	CREG consultation on the request for approval of the NV Elia System Operator regarding the functioning rules for the access to the intraday electricity market within the framework of congestion management
Date:	10 April 2020
Contact:	Jean-François Waignier
Phone:	+32 485 779 202
Mail:	Jean-francois.waignier@febeg.be

Introduction

CREG has launched a public consultation on the request for approval of the NV Elia System Operator regarding the functioning rules for the access to the intraday electricity market within the framework of congestion management. This consultation is open until the 10th of April, 2020.

FEBEG would like to thank CREG for organizing this consultation and for creating the opportunity for stakeholders to submit their comments and suggestions with regard to the proposals for functioning rules for access to the intraday electricity market. The comments and suggestions of FEBEG are not confidential.

Disclaimer

FEBEG wants to emphasize that its detailed comments and suggestions on the proposed functioning rules for the access to the intraday market cannot at all be interpreted as a consent with the proposed concept of access to the intraday market nor with the objective to enlarge the scope of the functioning rules. FEBEG also wants to remind that it has already in previous position papers[1] raised questions with regard to the proposal to access the day-ahead or intraday market to compensate local congestions, especially because the rules and criteria for access to those markets are not clear.

Comments and concerns with regard to the Elia proposal

FEBEG takes note of the extension's request of Elia concerning the validity period and the scope of its access to the ID market. It is also clear that, apart from the scope and the validity period, nothing has changed compared to the previous set of rules. Therefore, the global FEBEG position will remain the same – being against Elia's access to the ID market. FEBEG will nevertheless comment the new version of the rules and on the explanatory note.

FEBEG is rather concerned by the Elia extension's request without any regular re-assessment process that is foreseen. During the trial period, there has been only one activation in order to support a need in National Grid's network. That means that the use cases developed around local congestion issues in Belgium were not tested nor assessed in terms of efficiency during the trial period. It seems then a bit early to grant Elia ID access for an undefined period of time. FEBEG would support the introduction of a new trial period in order to test the use cases that were initially planned to get solved by an access to the ID market.

[1] Position paper 'Elia consultation with regard to the design note on the coordination of assets for system operations and market procedures (iCAROS)', *EDORA, FEBEG and ODE*, 15th of January, 2018.

Role of the TSO in the electricity market

Efficient functioning of the European internal electricity markets is not possible without the guarantee of fair competition and non-discriminatory access in the wholesale and retail markets. The strict respect of unbundling rules via a clear separation and institutionalized independence of the TSO is one of the most important conditions to safeguard these principles. The independence of TSO's ranks high among the prerequisites required from a new market participant's perspective.

In order to ensure independence of a TSO, it is important to prevent situations where it may face a conflict of interests and/or incentives. Separation of activities proves to be the most efficient way of solving the problem of entanglement of generation and supply (as activities susceptible to competition) on the one hand, with transmission and distribution functions (which tend to be natural monopolies) on the other, within vertically integrated energy entities.

In particular, **a TSO should not have direct access to the electricity market** for congestion management or for any other reasons. On the contrary, only market parties should have access to the market. **Having market parties competing with TSO's in the market would create discrimination and unfair competition.** TSO's should let market participants transact freely between themselves and adjust their positions until close to real time, while TSOs have the responsibility of balancing the system in real-time and guaranteeing transmission system security. To this end, TSO's can contract services from market participants whereby TSO's express their needs.

On the needs and advantages of Elia having access to ID market

First of all, FEBEG understands from the consultation document that Elia has concerns on higher volume of countertrading. FEBEG would like to recall that high volumes of countertrading are not bad as such as long as they don't undermine the social welfare created by trades over considered interconnectors. Anyhow, the costly remedial actions are currently not taken into account when allocating the cross-border capacity. The result is that the impact of the costs related to remedial actions applied after the cross-border allocation can only be observed ex-post and cannot be concomitantly optimized with the cross-border capacity allocation. **Therefore - in order for Elia to decrease the risk of being exposed to high countertrading volumes - FEBEG insists on the correct calculation of the flow-based domain** by better forecasting net positions, HVDC flows and offshore wind production.

Second, Elia listed the following advantages in having direct access to the ID market:

This will increase the available liquidity for the compensation mechanism.
FEBEG is of the opinion that this liquidity is already managed/used by the market itself. Market participants are indeed constantly optimizing their assets (generation, storage, demand response) against available liquidity in the markets (including the intraday market). Should there be at a given moment an additional need (for instance, the need to increase the injection of electricity in the Belgian bidding zone), the TSO should send a signal to the market (see detailed comments below) and the market participants will use all possible means to provide the most economic offer to match the signal sent by the TSO.

There will be a cost optimization of compensation bids due to local and cross-border markets coupling.
FEBEG thinks that this is the exact task of the market parties in a context of portfolio optimization, as is being done today. This tasks should not to be done by the TSO itself.

Reserves obligation for balancing management purpose will be preserved.
FEBEG agrees with Elia that the balancing reserves must be safeguarded and not been put at risk because of congestion issues. However, and as it seems to be one of the main arguments used by Elia, FEBEG asks a quantification regarding the "safeguarding of balancing reserves' obligations".

On one hand side, Elia contracts balancing reserve capacity bids to make sure there is enough balancing reserve energy bids to be activated if needed. To our understanding, this is how the balancing reserves obligations must be safeguarded and the access of Elia to the ID market has no impact on that. On the other hand, BRPs offer free bids (via the implicit bidding mechanism in place under the CIPU contract). It seems that Elia is counting on those free bids to meet its reserve obligation (meaning that Elia is not contracting 100% of its reserves obligations). If this is the case, it is normal that Elia prefers to compensate the XB RD / CT on the XB ID market so that the local flexibility is not depleted. However, this is not always true. By having access to the ID market to compensate a CT or XB RD action, there is a probability that the counterparty is exactly one BRP located in Belgium from which the free bids were accounted for in the safeguarding of the balancing capacity (this is probably what happened under hour 1, 10 & 11 of the activation on the 11th of August 2019).
Therefore, FEBEG sees an inconsistency in the argumentation of Elia.

Comments related to definitions

Under the definition of “Bid de compensation”, the difference between redispatching and countertrading is not clear. To our understanding the fact that “the compensation bids have the same total volume than the congestion bid but in the opposite direction” is also true for countertrading.

Comments related to legal references

Elia refers to the article 8, §1, 14° of the Electricity Law as legal basis for the introduction of a direct access to the ID market by the TSO (as part of a more general description of the congestion management’s methodology).

This article also refers to the ‘plan général de calcul de capacité d’interconnexion aux différentes échéances’. According to Elia, this plan would be linked to article 35 of the CACM referring especially to the Channel and CORE (not approved yet) methodologies. In reality, it is actually covered by the article 20 of the CACM.

Comments related to the new proposal

Apart from the abovementioned comments, FEBEG would like to react to the following elements of the consultation:

Chapter 4: entry into force and validity period

In the case of an evolution of the rules as mentioned in the last paragraph of the chapter, FEBEG asks that a public consultation is organized so that the CREG can take into account the opinion of market parties before deciding on the approval of the amended proposal. This should be formally added to the proposal.

Chapter 5.2 Rules for the uses of the ID Market

- Elia explains that if a RD/CT need is detected before 6PM in DA, the ID market access will not be used because it is not coupled yet with the other European market. However, FEBEG wants to recall the XBID opens at 3PM in DA and not at 6PM. FEBEG asks for a clarification concerning the choice of this detection time which seems to only be linked to the DA vs ID timeframe under the CIPU contract (cost-based vs free price redispatching).
- The example 3 under 5.2.3 shows a situation where countertrading might be used together with the access to the ID market. However, it is not clear whether the axis Horta-Mercator is

completely out of service or if the transmission power is just partially derated. In the second alternative, the compensation bid cannot be not location-free. Badly located D-bid might still have an impact on the overloading between Avelin-Horta.
Moreover, it seems to be an inconsistency in the text: *"Dans ce cas, le changement de flux sur Nemo Link devra aussi être compensé au sein de la zone belge"* is not in line with the proposed solution.

- The loading on the critical grid elements that is mentioned (case 5.2(a)), is not only dependent on the allocated flow on NEMO. The offshore wind generation also feeds in on this 380kV axis. The Rules for coordination and congestion management state that "Elia will prioritize electricity produced from renewable energy sources or high-efficiency cogeneration, meaning not activate downward flexibility on such Technical Units, provided that alternative actions are available at an acceptable cost (meaning not at a significantly disproportionate costs in accordance with article 13 (6) of the Electricity Regulation) and do not severely increase the risks for a secure operation of the transmission grid". FEBEG would like the term "significantly disproportionate" to be quantified. Indeed, in the current proposal, Elia will not set any maximum price to its order on the ID market if the volume to be compensated is above the available ID RD volume, this one being then technically limited by the price cap used on the ID market (-13 500; 13 500 EUR/MWh).

- Figure 3 of the consultation document is not clear. From the figure, it seems that Elia plans to use ID market access for the compensation of local redispatching. However, Elia explains that ID market access will not be used for the compensation of internal redispatching where the compensation needs to be precisely localized.

- If the countertrading need is smaller than the CIPU ID volume, Elia proposes to source the volume with a price cap equal to the weighted average price of the CIPU ID free bids. However, the market already does this ID optimization in the framework of its portfolio management. Hence there is no guarantee at all to have better prices.

- Moreover, if the concern of Elia is lacking local resources (because all assets run at full power and the need is an upward bid compensation) for the compensation without endangering the balancing reserves, it is unlikely to have ID ATC different than 0 in the direction of Belgium.

FEBEG welcomes the explanatory note and provides hereunder some comments on the analysis of the trial period, the extension of the rule and the feedback of Elia on the FEBEG's counterproposal.

Comments related to the trial period's analysis

Under the point 2.14, Elia assesses the success of the trial period alongside three indicators. They are all three positive if compared to today's situation which is good. However, we encourage Elia to also compare the results with the potential results held with the FEBEG counterproposal. It can be shown that the same advantages are present:

- The liquidity increases by having access to the XB ID market;
- The costs decrease as you would have to pay decremental bids on the LC assets (however quantitative figures would have been welcomes to confirm that qualitative assertion);
- Flexibility: is maintained as DLC bids have not been activated (however other D bids might have been activated in Belgium - cfr hour 1)

The method for assessing the impact on ATC is not complete enough to draw conclusions. The change (initial vs at GCT) in ATC is not only due to Elia ID access but also normal ID trades between market participants. Moreover, FEBEG would have expected a much more detailed analysis on the effect on market participants given the new possibility granted to TSOs to directly act in the market.

Comments related to rules extension

Again, the FEBEG would like to emphasize that the concept of "*Preservation des obligations en matière de réserve de balancing"* is not quantified. Using 50% of the DC bids (as stated under 3.2.2) is not a sufficient reason not to use them for congestion management. Another example of that can be found under 3.2.3: what does *"mieux assurer la préservation des obligations en matière de réserve de balancing"* mean?

Comments related to the analysis of FEBEG's counterproposal

If the compensation needs are below the available ID bids, FEBEG proposes not to change the actual process. Elia sees the following shortcomings to this proposal:

1. *Volume are not guaranteed*. FEBEG would like to point out that this would mean an error in the implicit bidding mechanism. Elia can always request a "back-to-schedule" at the cost of the BRP and therefore can count on the volume that are shown as available in the system. If, however the volume is not found, then Elia would launch a call for bid.
2. *Compensation is done close to RT.* FEBEG does not understand the validity of this argument. As a reminder XB ID GCT is one hour before delivery. What does *"proche du temps reel"* means. The "call for bid" solution could take place until closer to RT than the XBID GCT.

If the compensation needs are above the available ID bids, FEBEG proposes to organize a "call for bids". Elia sees the following shortcomings to this proposal:

1. *The volume depends on the participation of the BRPs, this is not sure all will participate*. The service requested by Elia (compensation) has a value. This represents an economic opportunity for market participants that will strongly incentivize them to participate.
2. *Cost optimization via ID market is not done* as free bids for local BRP for the "call for bid". FEBEG thinks that competition will however remain amongst the local BRPs.

Counter-proposal

FEBEG understands Elia's concerns but does not support a direct access for the reasons mentioned previously in this answer. **FEBEG reiterates its proposal for a market-based approach that would fit Elia's requirements without breaching the unbundling principle and allowing at the same full transparency towards the market parties**.

Rather than placing anonymous orders on the ID market via a third-party, **FEBEG proposes a mechanism where Elia launches a 'Call for I/D bid' equal to its countertrading compensation needs towards the market parties**. It will be then up to the market parties to (potentially via the ID market) offer an answer to Elia's need. This process does not require the TSO to have (probably expensive) access to the market as it will be the market parties themselves that have access via their existing processes. Moreover, this proposal offers full transparency to all BRP's active in Belgium.

In intraday, market parties already capture the XB opportunities/liquidities as they do in the day-ahead market by optimizing their positions. Prices offered as free bids in Belgium are already optimized with the XB ID market.

In practice, the FEBEG proposal comes down to the two following cases:

RDCT compensation need < BE free bids (=business as usual)
There is no reason to deviate from the current set up as this case is not considered by Elia to be the critical one: there is sufficient liquidity preventing Elia to use reserved balancing product for other purposes than balancing. Moreover, as explained above, the cost optimization between local and XB bid is already done by market parties as part of their business processes. Elia would then activate CIPU ID bids.

RDCT compensation need > BE free bids
Elia launches a call for bid so that BRPs can answer this need by trading on the ID market or by re-optimizing their portfolio. The call for bid includes the following information:

- the countertrading compensation need [MW];
- the period to be covered [hh-hh] - hourly granularity;
- deadline for submitting the bids [hh-mm].