POSITION

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| Subject: | Comments on the public consultation regarding the draft decision on the objectives to be achieved by Elia System Operator SA in 2020 in the framework of the incentive to promote the balance of the system |
| Date: | 25 October 2019 |

Please find hereafter the comments of FEBEG on CREG's public consultation regarding the *draft decision on the objectives to be achieved by Elia System Operator SA in 2020 in the framework of the incentive to promote the balance of the system.*

# Background

The CREG has launched a public consultation on the on the objectives to be achieved by Elia in 2020 as part of the incentive to promote the balance of the system referred to in Article 27 of the tariff methodology.

In order to promote the balance of the electricity system, and after consulting Elia, the CREG decides to condition the granting of the financial incentive of € 2,500,000 to the realization, during the year 2020, the following seven objectives (or projects) within the given deadlines:

- Remuneration of reserves aFRR et mFRR : pas-as-bid vs pay-as-clear
- Suppression or reduction of balance obligation in day ahead of the BRPs
- Smart tests of reserve availability
- Methodology for sizing the needs of aFRR
- Study and resolution of deterministic frequency deviations
- Techno-economic impact study for the integration of 4GW offshore
- Scarcity pricing

# General remarks regarding the incentive

The tariff methodology has introduced a mechanism of incentives to monitor and improve the quality of the network operator's services. FEBEG supports this initiative, but nevertheless wishes to point out that the mechanism should not merely be aimed at providing a certain income to the network operator. For this reason, FEBEG believes that:

- no incentives should be provided for activities that fall under the legal task of the network operator and that it is obliged to carry out in any way:
  In the case of market integration and increasing interconnection capacity - also a legal task of Elia - an incentive could nevertheless be justified as Elia must actually make additional efforts - at European level - to encourage other network operators and governments to provide and maintain sufficient capacity for the Belgian market.
- not only a bonus, but also a malus should be foreseen:
  FEBEG is of the opinion that a malus is certainly useful for those cases in which poor performance of the network operator's legal tasks leads to economic damages for the network user (eg failure to realize connections or network reinforcements in time). FEBEG notes that the proposed incentives only provide a bonus. FEBEG wishes to draw the attention to the fact that, in order to avoid a negative impact of a malus on the network operator, the incentive can be set up in such a way that the maluses cannot exceed the bonuses over the entire duration

of the tariff period. The nature and description of some of the proposed incentives seems to have been set up in such a ways as to ensure Elia a certain income.

- the incentives must also be measurable and verifiable;
  FEBEG wishes to note that it is particularly difficult for market parties to evaluate the definitions, measures and modalities for valorization. The modalities seem more targeted and relevant than those applied in previous years. On the other hand, they are also much more complex at the expense of transparency.
  FEBEG supports the idea of imposing incentives for market integration, innovation, ... with the aim of improving the services of the network operator. FEBEG nevertheless wishes to draw the attention to the fact that efficiency improvement should also be a criterion for developing incentives: the ultimate goal must be to improve overall prosperity.

In addition, we are very concerned about the means used to ensure objectivity and neutrality in such an incentive-based remuneration mechanism. How to ensure that the studies carried out are made objectively, and not in order to satisfy the requirements and point of view of the regulator, as the provision of the incentive is subordinated to the acceptance by the CREG of the tasks carried out by Elia ?

Elia introduces half of the amount, ie € 1,250,000 as part of its total income. This amount is conditional on the success of the projects. If Elia does not receive this financial incentive, it will be carried over to the 2024-2027regulatory period to the detriment of the grid user. We are skeptical about this method.

The total amount can not exceed 2,500,000 € / year, which corresponds to the sum of the individual amounts for each project. We therefore wonder about the dimensioning of these projects: are the project sized temporally to the amount to be achieved or according to the actual work to be provided?

There is probably an error in the antecedents (in the FR version). On June 17, 2019, we assume that Elia submitted a project proposal to the CREG and not the other way around.

# Detailed remarks

## 4.1.1 Remuneration of the aFRR and mFRR reserves: pay-as-bid vs pay-as-clear

Note: there is a typo in the FR text which should be ‘pay-as-bid’ and not ‘pas-as-bid’.

Will the study examine the 3 cross-border capacity allocation methodologies for the exchange or the sharing of balancing capacity (co-optimization, market-based and economic efficiency)? Given the existence of different maximum percentages (10% and 5%, respectively) of the allocation for the exchange or sharing of balancing capacities for the last two methodologies, the interest that Elia could derive from it will vary. In addition, a Balancing Capacity Cooperation can be created as soon as two neighboring TSOs agree. It is therefore important to add in the counter proposal of the CREG "... within the CORE region (or a subset of this one) ... “.

## 4.1.2 Removal or reduction of the BRPs day-ahead balancing obligation

We support reflections and analyzes on this subject. The energy transition requires intraday markets that are increasingly dynamic, liquid and efficient. These are therefore of increasing importance, particularly for the management of renewable portfolios. Moreover, the non-existence of '15 minutes' products in the day-ahead markets makes the obligation to be balanced on a 15 minutes-step concretely impossible to cover in the markets.

### 4.1.3 Smart tests for the availability of the reserves

We wish to emphasize the need for transparency. In addition, we wish to point out that although the motivation to "intelligently" test the reserves is commendable, it should be noted that even if the supplier must include this cost in its offers, all the risks are on his side. As these risks are not "hedgeable", we believe that the proposal is not suitable. Smart testing should contain some fixed elements (frequency, penalties) in order to be properly integrated into the costs.

### 4.1.4 Methodology for dimensioning the needs of aFRR

We would like further clarifications on what is expected from ELIA in terms of dimensioning of aFRR. Is it a reference to a more dynamic dimensioning process similar to what is in place for mFRR ?

### 4.1.5 Study and resolution of deterministic frequency deviations

It would be interesting not only to know what is needed in terms of extra reserve (extra FCR) for deterministic frequency deviations (DFDs), but also to understand the reasons for these DFDs and to allocate the incorrect costs correctly and transparently to those responsible for them.

### 4.1.6 Techno-economic study of the impact of 4GW offshore integration

As part of the studies carried out for the integration of 4GW offshore, we will be particularly attentive to the fact that the measures that will be proposed do not mix the respective roles of the BRP and the TSO, and that the balancing obligation of the BRPs remains an obligation of means.

### 4.1.7. Scarcity pricing

FEBEG is a strong supporter of measures to improve the functioning of short-term electricity markets, as currently being implemented through the European Guidelines CACM and EBGL, as well as the recast European Electricity Regulation. These measures will improve the market functioning and make the short-term price signals more market driven. However, FEBEG has consistently argued that well-functioning short-term markets improve economic signaling for flexible capacity, but do not provide investment signals required to ensure long-term adequacy. Therefore, FEBEG has the following considerations regarding the incentive for scarcity pricing:

- First, it should be clarified what issue the scarcity pricings aims to tackle. As it does not provide structural investment signals, such a mechanism cannot substitute for the Capacity Market currently being designed. On the other hand, if the scarcity pricing aims to further improve market signals for flexible capacity, FEBEG would like to remind that multiple measures are currently already being implemented to improve such signaling, such as Pay-as-Cleared/Marginal Pricing for balancing products and improved Intraday markets, as well as improving market access for Demand Response. FEBEG would urge that first these no-regret measures are properly implemented.
- Second, FEBEG has not seen clear indications of a lack of flexible capacity in the Belgian market. This raises the question whether the implementation of scarcity pricing is tackling any structural or urgent issue that would require such a radical measure. FEBEG would therefore advice that first - and probably best after the implementation of measures as mentioned in the first consideration - a clear analysis is made whether the Belgian electricity market has a lack of flexible capacity.
- Finally, after the previous two steps would still result in a further requirement to better valorize flexible capacity, the study made by Elia (published 10 December 2018) raises important concerns on the viability of a scarcity pricing measures in the Belgian context. The lack of a real-time reserve market significantly reduces the impact scarcity pricing can have in a Belgian - and even European - context. As such, it is highly questionable whether scarcity pricing can realistically become an effective measure to further stimulate flexible capacity beyond the measures already currently under implementation.

FEBEG therefore asks that CREG would first consider the need and viability of a scarcity pricing measure - based on the studies already performed - before including it further in the financial incentives towards Elia.