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Febeliec answer to the informal Elia consultation on the aFRR design in the framework of the European PICASSO project

Febeliec would like to thank Elia for this informal[1] consultation on the design for mFRR in the framework of the European PICASSO project as well as related workshops that have been and will be organised by Elia. Febeliec greatly appreciates that stakeholders are from an early phase involved in the discussions, as the switch to the European PICASSO platform is a very important new evolution that could potentially bring great benefits to the Belgian system (more liquidity, lower overall costs), yet which also comes with additional risks and potential cost increases in (mostly) the short run. For Febeliec, it is very important to keep a clear view on the overall cost-benefit analysis throughout the implementation phase of the PICASSO project. Indeed, while at European level the (according to Febeliec correct) decision has been taken to start integrating the balancing markets of the different LFC blocks in order to come to a better overall integrated European balancing market with more liquidity and less inefficiencies (e.g. through netting of opposing needs to the extent possible and thus less activation and potentially reservation of balancing capacity), which should have a positive effect on the overall cost of balancing, it is of the utmost importance that the expected benefits are not jeopardized a too hasty implementation phase.

On the PICASSO (but also MARI) design, Febeliec wonders to which extent a quantitative analysis has been conducted to determine the expected impact of the PICASSO (and MARI) project on balancing volumes, both in activation and reservation (if a larger pool of bids to be activated is available at all times, less capacity should be reserved, as this comes with a cost for consumers). Febeliec also wonders what will be the impact on the number of activations of contracted and non-contracted capacity, as in the future not only Belgian balancing needs but also foreign and non-balancing needs can be covered with the balancing assets located in Belgium. Moreover, Febeliec also wonders what could be the impact (in volume but also and specifically in overall cost) of such activations, as this could result in activations which create imbalances for BRPs before and after the activation period itself (because of ramps during F[2]AT and after activation), as in a pure Belgian context such energy impact should be predominantly in the direction to help the Belgian TSO to restore balance (and thus will in most cases not be penalized through the imbalance tariff) but in the future under the European projects could lead to imbalances which could be penalizing for the BRPs (e.g. Belgian zone in perfect balance, bid activation for a cross-border request during one time period, the ramps before and after this activation would create an imbalance in Belgium and thus have a negative monetary impact on the corresponding BRP) and could, through evaluations of probability and risk, lead to overall higher bid prices (as BSPs/BRPs will want to cover their potential cost impact), which would not be to the advantage of Belgian consumers (through higher reservation costs but also through higher imbalance prices, which are ultimately also charged to consumers). Febeliec asks that such elements are quantitatively looked into and mitigated as much as possible.

Febeliec also wants to reserve the right to come back to certain points it mentions below in light of certain aspects that are currently not covered in the proposed design note, a.o. in particular the new proposal for aFRR capacity auctions.

On the (future) aFRR standard energy products, Febeliec wants to insist that the future product with a FAT of 5 minutes instead of the current 7,5 minutes is a much more stringent product, which could lead to a decline in liquidity which would not be in the interest of consumers. Febeliec asks that this aspect is duly taken into account in the determination of the move towards the standard product with a FAT of 5 minutes, especially also in light of the recent issues with (later than expected) liquidity in the capacity auctions. In general, Febeliec wants to stress explicitly that it is very much concerned about the speed of changes in balancing products and the balancing framework in recent years, as it can observe by its members but also by other actors that the rate of change is too high to follow, which could lead to lagging implementation (or even much worse, market actors giving up and leaving the market!). Febeliec urges the utmost

[1] Febeliec wonders what the governance framework is for this informal consultation: to which extent will Elia take these comments into account or justify when is decided not to do so? Will there be a consultation report with an updated version of the design note? Will the outcome of this consultation not only be presented to the stakeholders but also discussed and validated with the regulator?

[2] FAT = Full Activation Time

caution to this aspect, insists that a related analysis becomes a key element of the implementation track and go-live dates of new changes and that to the extent possible modifications are clustered, to avoid that market actors have to continuously make (costly) adaptations to their products, operations and systems (to the detriment of overall cost and potentially as described above overall liquidity). Febeliec nevertheless wants to stress that it believes that the integration in European platforms could bring great benefits, yet wants to ensure that this comes not too hasty and to the detriment of liquidity and consumer invoices (especially if the cross-border platforms would be unavailable or cross-border capacity be very limited and Belgium would have to source only on a local market with potentially much reduced liquidity or higher costs).

On the cross-border capacity, Febeliec asks that Elia provides insights in how much capacity they expect to be available (ex ante and especially also during this design phase) and reports on this ex post, when the design is implemented, to ensure that stakeholders can have a good view on the impact and volumes, as the optimiser function will be to a large extent a blackbox for stakeholders (e.g. how will scarce cross-border capacity be distributed amongst LFC blocks and who will ultimately get access to cheaper parts of the shared merit order).

On the local bid properties, Elia mentions it will include a.o. information on delivery points allowing to apply CRI filtering, but it is unclear which other local bid properties Elia envisages (as the previous point is only mentioned as an example).

On the removal of the aFRR energy bids price cap, Febeliec urges caution, as this could lead to very high cost increases in case no or very limited cross-border capacity is available in combination with potentially reduced liquidity in Belgium (see above), and insists that such removal is only done when is proven that sufficient capacity can be found on the platform (meaning sufficient liquidity through ascension of sufficient other LFC blocks to the platform) in combination with mitigating measures to ensure that liquidity in a pure Belgian context does not deteriorate (see also above).

On bid volume modifications, Febeliec insists that such modifications are only allowed under strict conditions, to avoid any potential for gaming.

With respect to jumps, Febeliec understands that this is part of the current already applicable design, yet also observes that Elia states that "*in case a significant jump is detected, the aFRR Energy Discrepancy will not be accounted for in the penalties for a (**yet to be determined**) duration*", which indicates that this could lead to some modifications. While Febeliec understands this is meant to safeguard BSPs against (potentially high) penalties (and thus avoid that they increase prices substantially to mitigate such risk exposure), it is clear that there is a trade-off with the overall cost for consumers, as any discrepancies will impact the Elia balancing perimeter and thus will have impact on the overall balancing framework, including the calculation for balancing reserves. As such, Febeliec urges caution and insists that the abovementioned trade-off is duly taken into account.

Febeliec also reserves the right to come back to this topic in light of the announced discussions on the (future) determination of the imbalance price, as this topic has not yet been completely addressed by Elia and there are of course cross-links with PICASSO (and MARI).

Febeliec in any case remains available for further explanation about its comments and of course also stays involved in the on-going discussions.