

Febeliec answer to the Elia consultation on the proposal for amendment of T&C BSP for aFRR

Febeliec would like to thank Elia for this consultation on the proposal for amendment on Elia's Terms and Conditions for balancing service providers for automatic frequency restoration reserves.

Febeliec agrees with the proposed changes as they constitute a short term solution to avoid the issue that has been identified in October 2020 regarding the extreme increases in cost for aFRR reserve procurement after the instauration of a new aFRR procurement mechanism.

However, Febeliec requests in the strongest possible way that the design of the aFRR procurement is completely revisited as the proposed measure does not solve the underlying design flaw that has led to the disastrous outcome of several aFRR procurement auctions in October 2020, leading to a more than substantial cost increase for consumers through their tariffs. Febeliec also wants to clearly stress that it during the design phase of the aFRR procurement mechanism has already indicated, just as did several other market parties, that the design by Elia has several major flaws. However, the comments from Febeliec and other stakeholders were discarded and not taken into account. Recent history shows nevertheless very clearly that at least one of the identified flaws has led to a faulty design. As stated above, the proposed solution by Elia only wins time, as it does not solve the problem. Indeed, if at some point a certain volume of potential aFRR capacity related to DP_{PG} delivery points will be pre-qualified, the identified issue and related substantial cost increase could yet again occur without the currently proposed measure having any effect.

In general and as stated amply during earlier consultations and during discussions on the aFRR design, Febeliec understands, as already indicated in an earlier phase, that Elia tries to break the chicken-and-egg deadlock for new entrants and new technologies. However, Febeliec strongly insists on the need to avoid a cost increase for the reservation of balancing capacity for this purpose, especially in light of what happened in October 2020. Febeliec still remains, as already stated in April 2020, principally opposed to the proposed two-step approach. Febeliec reiterates its position that shifting volumes towards the second step in the aFRR mechanism should definitely only be done insofar the aFRR market succeeds in materializing the required volumes, which has not been shown, and this at a competitive price level. As the recent events have shown, such volume has not materialized yet. But even if a significant prequalified volume would occur, this does not guarantee that it would be bid in for each period of the auction mechanism, which could potentially result in cost decreases in some time periods yet still more than significant increases in other time periods. As already stated in April 2020, Febeliec urges Elia and CREG to monitor the minimum threshold volume of capacity to be acquired under the second step very closely and proposes that already now the design is modified to take into account additional mitigating measures or revert to a different approach as the current approach has led to substantial avoidable cost increases. Febeliec regrets that in order to break the chicken-and-egg deadlock, the current approach allows to allocate certain volumes at any clearing price, which of course pushes the cost for consumers to stratospheric levels as has been shown in October (and this despite the fact that at first sight no parties seem to have applied speculative bidding behaviour, indicating that the outcome is the result of a fundamental design flaw). Febeliec insists that amongst the mitigating measures that need to be taken in the required modification of the faulty design is an overall cost cap or at least the guarantee that certain costs (e.g. start-stop costs) are only attributed once and not for every MW through a correction factor in the process (as Febeliec already insisted during the discussions on the design of the new aFRR auction mechanism, yet was not taken on board).

Furthermore, as Febeliec is of the strongest possible opinion that the design will need to be adapted to remediate several observed fundamental flaws, Febeliec urges Elia and CREG to also take into account other much needed design modification. Amongst other, Febeliec remains disappointed that it remains impossible to offer aFRR and mFRR from a same delivery point.