

Febeliec answer to the Elia consultation on the modification of the alpha parameter

Febeliec would like to thank Elia for this consultation on the modification of the alpha parameter in the tariff for maintaining and restoring the residual balance of individual access responsible parties.

On the proposal of the modification of the alpha parameter in light of the recent increase of the revenue of Elia from this component, Febeliec has some **fundamental objections**.

First, the revenues from the alpha component are not distributed to the Elia shareholders, but are put on a regulatory account and returned to the grid users through the grid tariffs, in essence reducing the amount grid users have to pay for the system, including the reservation of balancing capacity. As recurring important negative effects on the system imbalance will negatively impact the grid users through potentially higher capacity reservations, it is important not to forget this aspect.

Second, it is important to highlight that BRPs are not automatically exposed to increased costs because of the alpha component. Indeed, if the portfolio of a BRP is balanced, there is a zero exposure to the alpha component. Alternatively said, if BRPs are subject to the alpha parameter, this automatically implies they were not in balance and this in the wrong direction (not helping the system).

It is important to look at the *raison d'être* of the alpha component. The (original) alpha component was introduced because observations at the time of its inception showed that BRPs did not sufficiently (or sufficiently fast) react to imbalances in their perimeters and this for extended periods, thus quite negatively impacting the Elia ACE. Elia is of course only responsible for the residual imbalances, but at that time, the observation was that apparently the Elia imbalance tariff was in itself not giving a sufficient price signal to the BRPs. In order to create an extra incentive for BRPs to balance their own perimeters and reduce the residual imbalances, an alpha component was introduced once a certain threshold of imbalance was exceeded. Based on lessons learned, the alpha component was later strengthened in order to give an even better (faster increasing) price signal to BRPs. Looking at recent balancing market observations, Febeliec can only conclude that Elia is facing ever more often important imbalances (shown a.o. by the more frequent triggering of the alpha parameter). Alternatively stated, this indicates that BRPs collectively ever less succeed to balance their perimeters and force Elia to cope with ever larger residual imbalances. It has also been shown by Elia that the Belgian system is showing a trend of becoming structurally short in the balancing timeframe. As such, and in order to give the best possible incentives to BRPs to maintain the balance in their perimeter (or help the system, at the condition that they can return to a neutral position whenever the system would need so), Febeliec does not support a modification (reduction) or abolition of the alpha parameter, but would rather argue for a stronger signal to BRPs (whether through the strengthening of the alpha parameter or some other, potentially additional, measures). Febeliec wants to stress again that a balanced BRP is not exposed to the alpha parameters, nor is a BRP helping the system, and neither are BRPs collectively remaining under the alpha threshold; only when BRPs collectively create an important imbalance, the alpha component is triggered to give an additional signal.

On the consultation documents, Febeliec wants to stress that the request to modify the alpha parameter did not come from all market parties, but only from the BRPs, and that Febeliec voiced strong concerns about reducing price signals for BRPs (while being open for alternative solutions that give at least similar or better incentives to BRPs to remain balanced). Febeliec wants to stress explicitly that the mission of Elia is to maintain the system balanced and not minimize exposure of BRPs to the balancing price. In light of the trend of an ever more short system in the balancing timeframe, one could easily also argue that the alpha parameter should be even more strengthened.

On the proposed changes, Febeliec, especially in light of the current high price levels on the day-ahead market, wonders whether the proposed values of 200 and 400 €/MWh are proportional and not too low. Febeliec wants to insist that, as also confirmed during the workshop, Elia did not show there was no additional reaction beyond the 400€/MWh threshold but rather that there were not enough data points to draw statistically relevant conclusions from them (while showing even stronger market reactions than at the 400 €/MWh level, even under less frequent occurrences). As also mentioned during the workshop, the most market reaction, insofar capable to react under the conditions of the balancing products, would be at the level of VoLL, which is far from being reached. The same applies to the level of the

Febeliec represents industrial energy consumers in Belgium. It strives for competitive prices for electricity and natural gas for industrial activities in Belgium, and for an increased security of energy supply. Febeliec has as members 5 business associations (Chemistry and life sciences, Glass, pulp & paper and cardboard, Mining, Textiles and wood processing, Brick) and 38 companies (Air Liquide, Air Products, Aperam, ArcelorMittal, Arlanxeo Belgium, Aurubis Belgium, BASF Antwerpen, Bayer Agriculture, Bekaert, Borealis, Brussels Airport Company, Covestro, Dow Belgium, Evonik Antwerpen, Glaxosmithkline Biologicals, Google, Ineos, Infrabel, Inovyn Belgium, Kaneka Belgium, Kronos, Lanxess, Nippon Gases Belgium, Nippon Shokubai Europe, NLMK Belgium, Nyrstar Belgium, Oleon, Proxiums, Recticel, Sol, Tessenderlo Group, Thy-Marcinelle, Total Petrochemicals & Refining, UCB Pharma, Umicore, Unilin, Vynova and Yara). Together they represent over 80% of industrial electricity and natural gas consumption in Belgium and some 230.000 industrial jobs.

price caps on the balancing market, which are much higher. Moreover, while Elia shows that this recalibration would have reduced the alpha parameter revenues in 2021 to the level of 2020, Febeliec does not agree that this is the goal function. The mission of Elia is to maintain the system in balance and overall alpha parameter revenues should be irrelevant from that perspective and definitely not a driver for a modification of the alpha parameter as the goal is not to generate tariff revenues but give an incentive to BRPs (and revenues to be returned to the tariffs in any case).

Febeliec would further also like to reiterate its long-standing comment on the allocation of the costs of the reservation of balancing capacity to the BRPs instead of the grid users. If done in an intelligent way (e.g. linked to their imbalance positions), this could also give an additional signal to BRPs to ensure that they keep their perimeters balanced, in effect reducing the residual imbalance for Elia.

Lastly, Febeliec wants to stress that it cannot accept a consultation period of only two weeks for a modification with a potentially major impact on the Belgian balancing market, in the short and possibly also long run. Febeliec insists that consultation periods run for at least four weeks, in order to allow the concerned parties to also consult their members. Moreover, the proposed modification is not a minor modification but a fundamental shift in the approach towards the balancing market and as such should in any case not be taken lightly.