

BDRA Comments on Elia's consultation regarding R3 DOWN design note and study on daily procurement of R3 UP

The present document brings the merged comments from BDRA on the 2 consultations undertaken by Elia on (i) the design note for R3 DOWN, and (ii) the study on daily procurement of mFRR.

Summary of key points

- 1. We ask Elia for more visibility regarding R3 DOWN implementation timeline and on volume calculation: the topic has been moved several times and is expected quite soon now (2019) so market needs commitment and visibility.**
- 2. We ask that Elia does not over-dimension the requirements of R3 that would unnecessarily and severely reduce the amount of MWs available: we ask that some proportionate neutralization delays, maximum activation time and maximum number of activations are set in R3 DOWN and future R3 UP**
- 3. We believe Pay-as-cleared for availability price in the single R3 UP daily reserve should be implemented in 2020.**
- 4. We support the application of availability tests in R3, but ask that they are remunerated and contractually capped to one test per month.**
- 5. Penalties in case of missed availability tests should only impact revenues of the contract period, and take into consideration results of previous succeeded tests.**
- 6. Penalties in R3 DOWN in case of declared forced-outages proposed by Elia seems gameable and not fair since subject to discretion: we ask to apply 1.3x proposed penalty from beginning of unavailability.**
- 7. Regarding dynamic dimensioning:**
 - . We support Elia's positions to consider long-term effects of a too volatile need while assessing dynamic dimensioning of R3 (risk to see capacities disappear)**
 - . We ask that availability of exchange contracts with other TSOs is assessed using ATC availability after intraday market and not after day-ahead**
- 8. We ask Elia to further investigate with the Balancing Working Group the timing of R3 procurement, since we believe some arguments rather advocate for a procurement after day-ahead market clearing.**
- 9. Links with iCAROS implementation:**
 - . Need for clarification on link with iCAROS, to make sure assets that will schedule can still offer their flexibility in aggregated pools.**
 - . Opportunity to use schedules as an alternative to the current baseline available in R3.**
- 10. Other points**

Detailed response

1. R3 DOWN implementation timeline and on volume calculation

We acknowledge that at this stage Elia is not able to communicate any volume for the R3 DOWN capacity reserve, but any additional information on the timeline would be appreciated, so BSPs have more transparency on the timeline and on the next steps given that the R3 DOWN topics has been moving on and off the agenda since beginning of the year.

-> We ask Elia for more visibility regarding R3 DOWN implementation timeline and on the volume that will be required (at least transparency of the methodology to calculate it).

2. We ask that Elia does not over-dimension the requirements of R3 that would unnecessarily and severely reduce the amount of MWs available: we ask that some proportionate neutralization delays, maximum activation time and maximum number of activations are set in R3 DOWN and future R3 UP

First, we recall that R3 is used to provide MW and not MWhs: it should not overlap with intraday market (limited need for long activations): the Example of 2 & 3 January 2018 given by Elia is relevant, showing that wind outages can be partly resorbed by intraday market since on that day the amount of imbalances on the Belgian Grid did not reach the 400 to 600 MWs of gap created by windfarm outages. In particular, the development of intraday cross-border exchanges (with the launch of Xbid) will only increase the liquidity of this market and its ability to react to such situations, leaving only the remaining MWs to be filled by R3.

Second, contracted R3 should have an insurance value, to cover only exceptional situations where the market would not have been able to provide enough capacity before (example of RTE with a maximum 2 x 2 h activation per day on the existing R3 standard instead of unlimited number and length of activations proposed by Elia). R2 on the other hand, which completes R3 to face dimensioning incidents on the Grid, has requirements allowing it to be used continuously and with longer activation horizons.

Third, we underline that the solution proposed by Elia to (i) bid only on certain 4-hour blocks and/or (ii) to submit very high activation price to avoid activations does not solve the issue. It does not (i) cover against risk of facing activations that would contractually have to be delivered to Elia and (ii) will therefore leave out of the market number of MWs engaged in R3 flex today¹ while there is on the same time an expected need for more MWs.

The fact that there will only be one standard product does not imply that ELIA cannot set some parameters for recovery time or minimum amount of energy². In France, the product that is bought has maximum 2 x 2 hours of activation per day, with a recovery time. Providers that are able to propose unlimited activations can do it, allowing both (i) RTE to have more energy in R3, and (ii) those capacities

¹ We remain available to present to Elia on a bilateral basis further elements to illustrate the quantitative impact such a measure would have on available MWs in R3.

² There is for the moment no target model for R3 capacity product in Europe, and other TSOs like RTE or NG still have R3 standard products with some limitations in terms on number or length of activations.

to have the opportunity to grab more revenues than the energy limited ones thanks to more activation revenues.

-> *We ask Elia to reconsider this proposal, both for R3 DOWN and for future R3 UP in order to find a workable balance between its requirements on one side and the capabilities of the MWs available on the market on the other side.*

-> *We remain available to present to Elia on a bilateral basis further elements to illustrate the quantitative impact such a measure would have on available MWs in R3*

3. We believe Pay-as-cleared for availability price in the single R3 UP daily reserve should be implemented in 2020.

With the implementation of the unique R3 UP in 2020, procured on daily basis with 4-hour blocks, we ask Elia to shift to pay-as-cleared for the payment of availability. We believe that (i) there will be sufficient liquidity on the auction, given that all technologies will from then compete on the same product, and (ii) that pay-as-cleared will be key to ensure a level playing field for all participants. The granularity of the auction and the amount of needed information to process will be such that in a pay-as-bid model participants would face very unequal ability to predict prices and to bid most efficiently. Pay-as-cleared will be required for daily auctions to function correctly.

-> *We ask Elia to implement pay-as-cleared for availability price in the single R3 UP daily reserve hat will be implemented in 2020*

4. We support the application of availability tests in R3, but ask that they are remunerated and contractually capped.

Availability tests are an efficient way to ensure reliability of the procured MWs. However, we recall that such tests are not to be considered as “product specs” as such. They are here and accepted to enhance the reliability but could as well not exist. So they should not create any distortions in the availability price between capacities:

- Current proposal leads to having potentially 6 tests par day, every day (1 on each 4h block sold). We believe the intention of Elia is not to trigger as many tests, and ask that the number of availability tests is capped explicitly to max 1 per month.

- Elia does not even guarantee that the tests are activated when the system is LONG, creating the need for compensation bids. At the very least they should be triggered when the system is long, and paid at marginal activation price of the ISP. This would also incentivize Elia to trigger tests at the less expensive moments instead of being able to do it at any time.

- Additional cost linked to bids out of the merit order should be charged to the BSP only if test is failed (we believe this is a good incentive to succeed. Anyhow test results can already be challenged today so this does not create new difficulty for Elia). If the test is successful, then the additional cost should be mutualized, paid either by all BSPs or through network tariff. It's the needed cost to ensure a reliable product. We also believe this will incentivize Elia to not abuse of these tests, being financially responsible for the additional cost created.

-> *We ask that Elia clarifies the maximum contractual number of tests, with 1 per month max.*

-> *We ask that the activation costs of availability tests are paid when the test is successful, and only charged to the BSP in case of failure.*

5. Penalties in case of missed availability tests should only impact revenues of the contract period, and take into consideration results of previous succeeded tests.

The current formula is not clear in the sense that even if the BSP sells only one 4-hour block in a month, the penalty in case of missed availability test is based on the number of hours of the month.

-> *We propose to base the penalty on the number of hours SOLD in the month at least.*

-> *We ask to apply the same parameter than in R1 to take into consideration the results of the prior tests if succeeded (50% lower penalty)*

6. Penalties in R3 DOWN in case of declared forced-outages proposed by Elia seems gameable and not fair since subject to discretion

The current document is not clear if the 1.3x penalty is the one applied in case of “normal” unavailability (not a forced outage). Since this is a new product we can accept this level, and later on increase it to the 5x level of the R3 up.

This concept of FO is similar to the one applied by RTE: it is easily gameable and not fair, since some BSPs will abuse this to avoid paying penalties. We propose to apply the 1.3x penalty for all unavailabilities, FO or not.

-> *We ask to apply 1.3x proposed penalty from beginning of unavailability, whatever the reasons of this unavailability are to avoid gaming around the concept of forces outage.*

-> *For R3 DOWN, once the product will be launched and some experience gathered, the need to move to a 5x penalty level like in R3 UP could be assessed.*

7. Regarding dynamic dimensioning:

We do support argument of Elia saying that there is a long-term dimension to consider: if some capacities disappear of the market (especially the one which are “out of the money” anyhow since not reacting to wholesale market prices), when Elia needs to contract more MWs in R3 they will not be there anymore³.

Regarding the consideration of exchanges contracts with other TSOs, we underline the need to assess the availability of such contracts following the remaining ATC cross-border capacity after the closure of the intraday market instead of the day-ahead one. As outlined in point 2. of this document, we believe that R3 should not overlap with intraday market, in which the cross-border exchanges can change a lot compared to day-ahead, and where available capacity can be used actually to fill a need in a country, to the point it will no longer justify the activation of R3.

-> *We support Elia’s positions to consider long-term effects of a too volatile need while assessing dynamic dimensioning of R3 (risk to see capacities disappear)*

-> *We ask that availability of exchange contracts with other TSOs is assessed using ATC availability after intraday market and not after day-ahead*

³ See survey made by RTE on short term vs. long term procurement showing the long-term effects leading to some capacities exiting R3 market, and prices increasing after having decreased, resulting in overall ambiguous results.

8. We ask Elia to pursue the discussion on the relevant timing to procure R3 (before vs. after day-ahead market clearing).

We believe that there are some relevant arguments on the table to advocate for organising the R3 auction after the Day-Ahead Market rather than before as proposed by Elia. We think this would have several advantages:

- . If a generation unit that can provide R3 is expected to be in the money on the DAM, it will not offer on the R3 auction, or only at an opportunistic/high price; organising the R3 auction after the DAM will give the generator the possibility to set a more realistic price on the R3 auction;

- . Demand also may not know whether it is available to provide R3 Up before the DAM, as it may not yet know whether/when it will be running;

- . Since R3 Down is expected to come for an important part from running generation, organising the R3 auction after the DAM will give better visibility on the possibility to provide R3 Down;

- . Estimating the available amount of free bids to determine the volume to be reserved, will not be accurate before the DAM results are known.

-> Therefore, we ask Elia to pursue the concertation in order to fully assess all the pros and cons of each solution before we collectively come up with the most relevant option.

9. Links with iCAROS implementation:

The design note states that all assets that will have scheduling obligations with iCAROS will have to provide the full service with individual bidding obligations, i.e not be into pools. This is not what we understood during the iCAROS design phase early 2018, so we ask some clarifications to Elia. In addition to this, we believe that even assets with individual scheduling obligations should have the possibility to be offered in a pool for balancing purposes as indicated in the iCAROS design notes (example of pilot-project for SES in France where we propose a solution to RTE).

-> We ask for clarification on the link with iCAROS, to make sure assets that will schedule can still offer their flexibility in aggregated pools.

-> We ask for the opportunity to use schedules that will be required from certain assets as an alternative to the current baseline available in R3

Other points

We would prefer the granularity of the orders on the auction to be 100 kW, with a minimum of 1 MW, to better reflect our portfolios; the finer granularity would be also useful in the nominations, even if the granularity of the auction would remain the same as today.

Mobility between FSPs should be improved regardless of, and beyond, the move to daily procurement. Testing could be done while the delivery point is still in the portfolio of the initial BSP, the client could mediate between the initial and new BSP as far as transfer of energy, ... are concerned. Measurement data of the tests should be available as soon as possible.

Finally, we recall our ask to see an easier access to sub-metering opportunities in R3, relying on (i) wider options for sub-metering equipments on distribution connected assets, and (ii) possibility to handle lower accuracy levels, like proposed in R1.