RWE Supply & Trading GmbH
Response to the public consultation on Terms and Conditions For Voltage Service Providers

19 February 2020

A. Introduction

RWE Supply and Trading GmbH (RWEST) once again very much welcomes the opportunity to comment on the future design of the ancillary service of voltage and reactive power control and thus appreciates the opportunity to respond to the public consultation organized by Elia, on the Terms and Conditions for Voltage Service Providers (T&C VSP). This response builds upon our response to the earlier consultation held by Elia in September 2018, regarding the study on the future design of the ancillary service of voltage and reactive power control (Design Study).

RWEST is part of the RWE Group which is a leading global energy company with over 40 GW of installed capacity in Germany, the UK and Benelux. RWEST is, amongst other things, responsible for the marketing of ancillary and other grid services out of the T-Power power plant and in this capacity, RWEST is providing reactive power to Elia for the purposes of voltage control.

We welcome the reduction of the minimum volume to 1MVAr for generation or absorption as in included in Art II.4.1, as well as the change in the calculation of remuneration reductions for non-delivery of MVAr which will allow new technologies to participate in the market for MVAr services in the future.

We are, however, concerned about the calculation of remuneration of the service and the price structure as set out in Annex' 2 and 12 and urge Elia to consider the following remarks.

B. Detailed response to Annex 2 & 12 of the T&C VSP

We are of the opinion that the technicalities included in Annex 2 and 12 do appropriately define the technical boundaries of the remuneration of the service. The draft T&C VSP however lack any determination as to what a reasonable price may be and solely focus on variable costs. Further guidance as to the actual price components a provider of the service may reasonably be expected to price into would be appreciated.

In this regard we would like repeat our comments made in our response to the Design Study that in general, a fair remuneration of investment, service and costs will be the best incentive for any generator to provide the maximum MVAR capacity to the Belgian market and support security of supply to the grid operator.

RWEST is of the opinion that all reserved and activated MVAR shall be remunerated, regardless of whether the activation occurs automatically or manually. That is because leaving out the majority of the provided service from the remuneration would, firstly, let providers of these services recover

only a fraction of the cost incurred and, secondly, give no incentive to generators to voluntarily provide MVAR to the system operator.

In addition to a compensation based on variable prices, **the provision of reactive power service requires significant investment which creates significant incremental fixed costs that providers of the service should be compensated for**. Since these costs are no longer variable at the point in time when the power plant is dispatched, these costs should be reflected as a fixed price component and VSPs should reasonably be expected to include these fixed cost in their pricing structure.

These fixed costs may include the additional cost for larger or more complex machinery, additional administrative costs, additional operating costs (including increased outage and related market risks), additional contract risks as well as a compensation for losses and maintenance related to wear and tear.[1]

In order to better understand the effects of the proposed changes to the remuneration of the service, we would kindly ask Elia to **provide sample remuneration calculations** forthe MVAr activated at T-power in the year 2019 based on the new proposed logic (requested reactive power) in order to compare them to the actual remuneration logic (measured reactive power) in the same timeframe.

We would further like to understand the reasons as to why Elia changed the **price composition** for Group 1 controlling units from currently 0-50% and 50-100% of the technical band in injection or absorption to 0-90% and 90-100% in one way for all Voltage Service Providers, not giving any due regard to the type of installation used to participate in the provision of Reactive Power. Could Elia please make transparent the factual arguments that form the basis of this change? Given that the cost for providing MVAr increases with MVAr produced, providing one price for 90% of the MVAr produced is unreasonable for a majority of asset types. Instead of providing these price bands within the T&C VSP it should be the VSP themselves that split between the most appropriate price bands in their tender according to their installations (which may be at 30%, 50%, 70% or any other value between 0 and 100%).

Finally, we would like to point out a confusion included in the **description of the formula** for the remuneration included in Annex 2. The formula refers to “the price of Reactive Energy for quarter-hour n as determined per Annex 12”. Annex 12 however, does not clarify if prices are set for the hourly or quarter-hourly provision of MVAr. If the price for Reactive Power and the requested Reactive Power are given for the quarter-hour n then we do not understand why it should be multiplied by ¼ in the formula of Annex 2.

[1] For further detail with regards to the different fixed price components that a generator may incur please see our response to the Design Study, submitted to Elia on 5 October 2018.