

Subject: FEBEG comments on ELIA's public consultation on ELIA's study on the integration of additional offshore capacity
Date: 8 July 2020
Contact: Jean-François Waignier
Phone: +32 485 779 202
Mail: Jean-francois.waignier@febeg.be

FEBEG thanks ELIA for the organization of a public consultation on its study on the integration of additional offshore capacity¹. Please find hereafter the comments of FEBEG in the framework of this consultation. FEBEG welcomes this consultation and would like to thank Elia for creating this opportunity for all stakeholders to react on the study and the recommendations. The comments and suggestions of FEBEG are not confidential.

Impact of the 2nd wave offshore capacity on Elia's reserve capacity needs

In its study Elia analyses the impact of the 2nd wave offshore capacity on Elia's reserve capacity needs. The approach of Elia, especially as regard the assessment of the behavior of the BRP's, raises the following concerns and questions:

- Scenario's on the ability of BRP's to balance their portfolios in the future should not be based on data of the historical behavior (2018 & 2019) of the BRP's. In fact, these data don't take into account the impact of the measures put in place (alpha component, storm tool...) while the extension of the offshore wind power capacity as such – and the related potential impact on the position of BRP's – will also have an impact on the behavior of BRPs.
- Elia investigates the best case in which the BRP ability to balance offshore prediction errors amounts up to 65%, whereas the 90% percentile reveals that the BRP can cover 74% DAH forecast errors. How is the value of 65% calculated by Elia?
- It can be observed that the forecast error decreases with the extension of the offshore capacity. This is explained by the increase of geographical distribution (on aggregate, it is easier to forecast a larger than a smaller region). Why is this conclusion not taken into account in the assessment of future behavior of BRPs?

Preliminary list of potential mitigating measures

Preliminary comments

FEBEG wants to remind the following important principles:

- Elia should at all times ensure a level playing field between BRP's without offshore wind production and BRP's with offshore production in their portfolio.
- Elia should adhere the principle of non-retroactivity of the mitigating measures in order not to endanger the business plan of the existing offshore parks: in this context FEBEG wants to remind that some measures, e.g. increasing the alpha component, will also increase the risk for existing offshore parks.

¹ https://www.elia.be/en/public-consultation/20200608_public-consultation-on-the-integration-of-additional-offshore-capacity

Existing mechanisms

Current storm procedure

FEBEG supports the current storm procedure as it improves information exchange between the BRP and Elia on storm forecast and mitigation measures, but reminds that it remains the responsibility of the BRP to choose – at all times – the appropriate means to fulfill its balancing obligation which is and should remain an obligation of means.

Based on the first experiences with the storm tool, some shortcomings and potential improvements have been identified. Therefore, FEBEG encourages Elia to improve the storm tool:

- Elia should ensure that the proposals for improvement of the storm tool, following the feedback received by the stakeholders, will be implemented before the new go-live (1 November 2020). Elia committed to integrate the day-ahead schedules (CIPU nominations) and the updates in intraday (IDPCR) of wind parks.
- As the storm tool will most probably become a remaining tool, Elia should invest in robustness and user-friendliness.

Alpha component

At several occasions², FEBEG has expressed its concerns and reservations with regard to the introduction of an alpha component in the imbalance price:

The sole function of the imbalance price is to reflect the real-time supply/demand equilibrium of the system. The formation of real time energy prices should only be market based. Hence, FEBEG opposes to any regulated administrative ‘incentivizing components’ such as the ‘alpha component’ being used in imbalance pricing.

Therefore, FEBEG prefers the alpha component to be put at ‘0’ for the following reasons:

Distortion of the price signal

Indeed, article 44.1(b) Electricity Balancing Guideline (EBGL) states that the imbalance settlement price should reflect the ‘real time value of energy’. The real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EBGL principles, the imbalance settlement price mechanism should *de facto* provide an adequate price in situations of scarcity. As a result, adding an administrative component would be distortive since it would reduce the ability of imbalance prices to effectively reflect the real time value of the energy and would jeopardize the proper signaling function of an efficient imbalance settlement price. It would create counter-incentives and thus trigger inefficient behavior by BRPs.

² ‘Elia design note on offshore integration’, FEBEG, 9 November 2018, ‘Elia proposal for formula for alpha component in the imbalance tariff’, FEBEG, 5 December 2018 and ‘Elia consultation on tariff proposal 2020–2023’, FEBEG and ODE, 13 March 2019.

Distortion of the level playing field between countries

In addition, since the imbalance settlement harmonization proposal recently proposed by ENTSO-E did not provide any harmonized methodology for such an administrative scarcity component, FEBEG is concerned to see national uncoordinated adders to be developed. The EBGL foresees an integrated balancing market. Implementing such administrative component in a non-coordinated way would lead to different imbalance price behavior with similar imbalance volumes in the different control areas. This would be a threat to level playing field in the European electricity markets.

Contradictory to measures to reduce the occurrence of price spikes

The Pricing Proposal currently under consultation by ENTSO-E introduces the new concept of a Balancing Energy Pricing Period (BEPP). One of the objectives to introduce the BEPP is to reduce the occurrence of price spikes. FEBEG questions why on the one hand measures are being formulated to suppress the real-time value of energy, while on the other hand 'incentivizing components' such as the alpha component are necessary to artificially increase the imbalance settlement price. It would be more efficient, more market-based and more transparent to avoid all such artificial interventions into the balancing prices and instead allow the market to function properly.

FEBEG therefore strongly opposes a further reinforcement of the alpha component. A possible increase of the alpha component should only be considered after a thorough cost-benefit-analysis taking into account the following elements:

- The introduction of the alpha component seems to have a negative impact on the imbalance costs of BRP's. However, as the modification of the alpha component has only recently been introduced, it's too early to draw conclusions and to only assess the impact of the offshore deviation separately: currently it is difficult for BRP's to evaluate the wind imbalance impact individually, since data of historical observed and forecasted wind speeds are missing. Therefore, Elia should provide feedback and return of experience of alpha before the second public consultation.
- FEBEG also wants to point out that the risk of large imbalance costs will be covered by the BRP's and that the additional cost due to the alpha component will be reflected in the prices of the reserves (mFRR capacity bids). An increase of the costs of reserves as a result of an additional risk induced by Elia is probably not the result Elia is looking for.
- The alpha component has also its limitations as an incentive as from a certain point – given the fact that flexible resources are limited – the alpha component will no longer be able to trigger the activation of additional flexibility and thus lose its effectivity: it will then only have the character of an additional penalty for the BRP's.

Measures to be investigated by Elia

Incentivize reactions to real time prices

Elia is putting in place an ecosystem allowing market parties to develop new services for the end-consumer. FEBEG supports this initiative which can increase the flexibility but, on the other hand, such model will also add complexity in market functioning which will be a challenge for the forecasting tools.

mFRR activation decision in context of extreme events

Elia is considering to modify the criteria for the activation of mFRR and to introduce the ‘direct activations of mFRR to cope with extreme variations of wind power’. FEBEG doesn’t oppose such evolutions, but reiterates³ its request for clear and transparent rules for the activation of mFRR:

Under the current balancing rules Elia activates mFRR when it identifies a risk of saturating aFRR bids. Identification of this risk is done on the basis of a set of various information.

In the proposal for new balancing rules Elia refers to two new criteria, i.e. (1) to keep the System Imbalance within an acceptable range and/or (2) to relieve aFRR in case of long-lasting System Imbalances. So, the definition of the ‘trigger’ for Elia to start activating mFRR has changed.

Does FEBEG understand correctly that there is a change in the way mFRR activations are being handled? Will mFRR be activated more often? Or, does FEBEG have to expect more frequent aFRR saturation? FEBEG would welcome additional clarification on the impact of this modification.

As Elia is aware, FEBEG is concerned that the activation of aFRR could lead to price spikes in the imbalance prices although still cheaper mFRR bids are available. The occurrence of imbalance price spikes in such situations is dependent of the actual decision of Elia to start activating mFRR. Aside the concern on price, FEBEG wonders if the change in criteria, where prevention of aFRR saturation is not any longer a criteria as such, does not have an impact on system security. Therefore, FEBEG calls upon Elia to further and fully investigate more clear and transparent rules and/or indicators that could lead to the activation of mFRR, and that prevent frequent saturation of aFRR and possible related price spikes. Elia has not demonstrated by means of an analysis that has been shared with market participants that transparent rules with regards to the activation of mFRR would be detrimental to the balancing cost.

As an alternative to a fixed set of rules, Elia could also consider a clear and numerative set of key indicators that could potentially lead to the activation of mFRR: this could give more transparency on the warning lights used by Elia dispatching to make this decision.

Measures related to the forecasts

FEBEG supports the proposed measures related to the forecasts, but wonders to what extent it would not be possible to provide even more information to the BRP’s:

- It’s not clear if the real-time wind speed’s which will be measured by the wind turbines from another park (close surrounding of the park to be forecasted) will be at the disposal of the BRP’s.
- Could Elia also consider providing information on ‘variation of production’ or metering in real-time measured for neighboring parks in Belgium and in others country (FR, NL, ...). This could allow BRPs to do a better forecast and to anticipate the risk (with agreement between BRPs to disclose data).

³ ‘FEBEG comments on the market functioning rules for the compensation of quarter-hourly imbalances’, FEBEG, 24 April 2020.

Measures implying constraints for wind parks/or concerned BRPs

High wind speed technologies

FEBEG wants to warn for the risk of pancaking of costs: it should be checked if not only a very limited number of equipment suppliers will be able to install wind turbines with high wind speed technologies.

Preventive curtailment of wind parks & ramping rate limitation

FEBEG considers the preventive curtailment of wind parks and imposing ramping rate limitations as an intervention in or constraint to the task of the BRP to balance its position. Although the modalities of the preventive curtailment or ramping rate limitation are still missing, FEBEG would like to refer to its initial comments⁴ to the first proposal of Elia on curtailment of wind parks:

FEBEG questions the proposed mitigating measures in the offshore integration design note as they mix up different roles: a BRP is responsible for balancing its portfolio and Elia is responsible for grid security and stability. FEBEG considers it of utmost importance – from a market design perspective as well as from a legal perspective – to clearly distinguish the role of the BRP and the role of the TSO, especially for these situations where a large imbalance risks to have an impact on the grid security and stability.

Role of the BRP

As Elia is pointing out in the design note at several occasions, it is the obligation of the BRP to balance injection and off-take within its portfolio: a BRP will thus have to organize – on a best effort basis – the management of a predictable storm event having an impact on the offshore wind generation. The BRP is incentivized to fulfil this obligation as he's exposed to the imbalance price while additional liabilities are foreseen in the regulatory framework.

A BRP is only responsible for complying with the abovementioned obligation to balance and cannot be held responsible for managing system risks which is the responsibility of Elia.

Apparently, Elia seems to be convinced that not all BRP's are sufficiently incentivized to organize themselves to be able to forecast and fully mitigate the impact of a storm on the offshore facilities in their portfolio. As the obligation to balance is a best effort obligation, the proposed measures can clearly be considered as interventionist, meaning that they interfere in the tasks of the BRP and in the level playing field between the BRP's. In this respect FEBEG would like to draw the attention to the following elements:

- FEBEG is of the opinion that it is the task of Elia to ensure a level playing field between all BRP's which means that Elia should inform all BRP's or facilitate the tasks of the BRP's on a level playing field basis. So, FEBEG wonders if it is justifiable that Elia organizes a privileged forecasting service for and data exchange with only some BRP's.
- It is also worthwhile to point out that the proposals imply an intervention of Elia in the imbalance price formation: when Elia decides to activate a decremental bid – without perimeter correction – and compensates this with an incremental bid, Elia is using balancing means. The result is that when a second event would happen, e.g. outage of a power plant, the imbalance price would be much higher than without the intervention of Elia as Elia will have to activate a balancing bid further in the merit order.

⁴ 'Elia design note on offshore integration', *FEBEG*, 9 November 2018.

- FEBEG would also like to point out that the notion of ‘time to act’ is not entirely clear. A storm might be perfectly predictable 30 minutes before it takes effect, but such a short timeframe doesn’t allow the BRP to take a lot of mitigation measures. A BRP can only be held responsible for predictable or forecastable events which allow the BRP to act upon. Otherwise this event should be seen as forced or unforeseen.
- Finally, the consequence of the Elia proposal is that, when a decremental bid is imposed to a BRP for the duration of the storm, this BRP is faced with an imbalance for the duration of the imposed decremental bid although he would possibly still been able to find some means to – partially – improve his position in this period.

FEBEG remains convinced that Elia should rely on the BRP’s being sufficiently incentivized by the imbalance price to fulfil their obligation. Elia shouldn’t intervene in the responsibility of the BRP to balance its portfolio. If, nevertheless, Elia does want to intervene, Elia should:

- establish clear, transparent and non-discriminatory rules;
- demonstrate ex ante that the BRP doesn’t properly fulfill his balancing obligation – which is a best effort obligation – in order to justify an intervention;
- take the complete responsibility for its actions and its interventions.

Indeed, the proposals in the design note foresee that measures could be imposed upon some of the BRPs, but only ex post it will be investigated if these measures were justified and only then Elia will take up responsibility for its action or not. Such approach creates major uncertainties and market distortions, and will no doubt lead to discussions and disputes with Elia and between market parties.

Role of the TSO

While it’s the obligation of the BRP to balance injection and off-take in its portfolio, it is the role of the TSO to ensure the security and stability of the grid. In this context, FEBEG also clearly recognizes the right of the TSO to interfere in market functioning in order to safeguard the grid.

Therefore, if Elia would identify a system risk related to the offshore generation, it should definitely intervene in order to ensure the security and stability of the grid using the tools it has at its disposal. At its own discretion Elia can at all times – proactively or in real-time – redispatch – i.e. activate decremental and incremental bids with perimeter correction to shift injection – to mitigate system risks. This is an effective measure – based on clear, transparent and non-discriminatory rules – that has no impact on market functioning and full respects the role of the BRP.

Taking into account the abovementioned considerations, FEBEG is of the opinion that it is the responsibility of the BRP’s to manage the cut-off/cut-in of wind parks. The BRP is incentivized to fulfil this obligation as he’s exposed to the imbalance price while additional liabilities are foreseen in the regulatory framework.

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For these reasons, FEBEG is not in favor of preventive actions taken by Elia whether it be a curtailment or ramping rate limitation as they merely aim at shifting risks and costs to the offshore parks and BRP's. These measures hence need to be based on clear, transparent and non-discriminatory rules. According to FEBEG the following considerations should be taken into account when elaborating such rules:

- Elia should confirm that preventive actions will only be required only on DAH and not in ID.
- Elia should provide transparent rules that ensure that there's no discrimination between BRPs regarding the frequency of curtailment/ramping rate limitation (e.g. more preventive curtailment for party A compared to party B because of 'bad' position in geographical zone).
- Ramping rate limitations should be remunerated. If not, Elia should also foresee a cap to allow offshore wind parks to take into account the production loss in their business plans.
- It's not acceptable that BRP's would not be compensated for preventive curtailments or ramping limitations resulting from forecast errors made by Elia, even if the cap is low compared to the annual production hours.
- The cap for preventive curtailment should also include the hours during which the wind parks voluntarily decide to reduce production (including a security margin which will take into account on the starting time of curtailment) in order not to jeopardize the incentive for parks to voluntary decrease production.
- Elia should also clarify how it will compensate any preventive curtailment above the foreseen cap.