

Public consultation on the proposal of amendment of the T&C BSP aFRR

25 June 2023

Executive summary

Centrica thanks Elia for the opportunity to provide feedback on the amendment of the T&C BSP aFRR concerning the TCO degradation cap in the aFRR capacity auction.

Preserving transparency and ensuring a level-playing field are crucial for fostering effective competition among all technologies. While we acknowledge the reasoning behind the TCO degradation cap, it is important to carefully consider its implementation to avoid compromising the integrity of price formation and fairness in the market. Centrica would like to share following comments:

- We support a robust design that fosters competition while adapting to changing market conditions.
- We have concerns that implementing a TCO degradation cap jeopardises fair competition.
- We encourage Elia and CREG to consider additional measures for ensuring the effectiveness and transparency of the TCO degradation cap implementation.

Centrica supports a robust design that fosters competition while adapting to changing market conditions

After extensive discussions and collaborative efforts involving Elia, CREG, and market participants, a robust design solution was reached in 2021. It is evident, after two years, that this design is effective and has successfully facilitated the entry of new providers and fostered greater competition in the market.

This being said, we acknowledge the changing market conditions and understand the reasoning behind the introduction of a 20% cap in response to the observed TCO degradation.

Centrica has concerns that implementing a TCO degradation cap jeopardises fair competition

We strongly express our concerns regarding the potential for certain market participants to exploit the introduction of the TCO degradation cap, enabling gaming of the auction system. An example of this could be the submission of upward-sloping bidding curves, manipulating prices to favor higher volumes at lower costs. Such actions could lead to the exclusion of per-CCTU bids once the cap is implemented. Centrica firmly believes that prioritizing competition over improved Total Cost Optimization is the preferred outcome. Therefore, we advocate for an auction design that eliminates these gaming opportunities.



Centrica encourages Elia and CREG to consider additional measures for ensuring the effectiveness and transparency of the TCO degradation cap

In the event that the TCO degradation cap is deemed necessary to control system costs, we urge Elia and CREG to incorporate appropriate measures to safeguard the efficiency of this approach and uphold market accessibility for per-CCTU bids.

Our recommendations to encourage a thriving competitive landscape that benefits all industry stakeholders include:

- Strengthening market surveillance to detect and address potentially abusive bidding practices after the cap's introduction.
- Transparently publishing the progression of the TCO degradation after the cap is implemented.
- Conducting an impact assessment to compare the evolution of costs and competition in the aFRR capacity auction, analyzing a representative time period before and after the cap's introduction.
- Proposing a mechanism for removing the cap once it is no longer required and has achieved its intended purpose. This could be triggered by reaching acceptable levels of TCO degradation or the availability of sufficient volumes from new entrants or running thermal units.