Feedback in response to the public consultation on the procurement procedures for reactive power services

BOP would like to provide feedback and make some suggestions in response to the public consultation on the proposal for procurement procedures for reactive power services as launched by Elia on 23rd of February 2024.

We understand that the current public consultation covers the procurement procedure for the reactive power services and as such not explicitly concerns the design evolution of the service. However, as responded in the public consultation in the frame of the incentive study of 2023 on the voltage services and reactive power control, offshore wind farms are not always correctly remunerated for the mandatary reactive power services they provide to the system, in particular in the early years of offering the service, when knowledge building and better understanding was still ongoing by all parties involved. In this regard we would like to continue the discussions on the T&C in particular w.r.t. the remuneration and the proposed measuring and penalty mechanisms.

Multiple year contracts with a price formula option

As suggested in the feedback during the Mvar incentive study of 2023, we support the adaptation to provide a service contract for multiple years with prices determined based on a predefined formula in the contract. If positively evaluated, service contracts lasting 3 years could be considered in the future to further reduce the administrative burden of the procurement procedure for mandatory units.

We are in favour of price formulas which can be proposed by the VSP during submission of the bids for several reasons:

(i) it might simplify the procedure, as the VSP takes less risk on the time between submitting the bid and the time of contract award,
(ii) it might allow for multiple year contacts,
(iii) it might allow for prices to vary within the year (f.i. monthly) to better mirror the costs structures related to the service.

Since the operational costs when providing the service are directly linked to the market price, the preference goes to prices varying within the year, instead of fixing the prices prior to the start of the year. We understand this is possible in the proposed design when using the average of the futures index of the month before the start of the delivery of the product (e.g. for a monthly reference price for March 2025: in February 2025 the average of the daily notations of the futures index, in this case the MAR25, will be used as the reference price.). But the document doesn't stipulate whether this is possible when using the day-ahead prices as reference price, and how it would work. We suggest to do so in the following manner: the price for delivery in February should be based on the monthly average day-ahead prices of February (this implies that the price is only known ex-post, but it ensures for the best matching with actual costs).

Additional elements to be considered in the formula

The proposed price formula for the activation price reads : X * (price index) + Y, with X and Y constant values.

To better align the formula with the cost structure of offshore windfarms, we would like to propose the following formula: X * (price index) + B * max (price index, $LCOE_y$)

This updated formula captures the following aspects:

1. to capture the situation whereby the price index (i.e. average monthly Belpex) rises above the $LCOE_y$ of the OWF, the 2nd part of the formula should be adjusted as proposed.
2. as the LCOE of the last 4 OWFs will be indexed annually, based on a formula specified in the relevant royal decree and implemented (and controlled) by the CREG, the reference to LCOE should be allowed to be $LCOE_y$, and in order to be updated annually.

Compensation for PPAD

The document doesn't stipulate whether the compensation for PPAD will be automatically linked to the tariff structure of Elia. At the end of the tariff period (4 years), the tariffs for the next period are unknown at the moment the OWF need to submit their VSP offer. In practice, the compensation was adapted to match with the new tariffs, but it would provide comfort if this mechanism was written down in the tender regulations.

Suggestions for further improvement of the procurement procedure

It would be useful to further adapt the procurement procedure in the near future. For the offshore wind parks, which are obliged to participate, the procedure is perceived as an administrative burden, especially considering the prices are in the end, more often than not, set by royal decree:

- Improve the procedure to minimize the time between submission of the bids (in June) and decision on the final prices (in December);
- The final decision of the service is currently too late (a few days or weeks prior to the start of delivery in the new calendar year) for both technical and financial reasons. Budget forecasts and decisions within companies are typically made in September or October. From a technical standpoint, if an (offshore) unit is not selected for year Y, this would require certain changes to the asset steering set-up. We therefore suggest to improve the procedure to be able to obtain decisions in September for the delivery in the next year. If the decision is made after September, units that are not selected should be offered a 'grace period' of 1 months (January) in which they can still deliver the service at the prices of Y-1 until they are able to return to a MVAR=0 control setup;

Decoupling of price bands

While the proposed market design by Elia indicates the price bands will be maintained, it is suggested that the pricing of the lower and upper price bands are decoupled. In case of operation in price bracket P2, the full volume should be compensated at the Price 2 instead of at Price 1 for the volume up to Q1 and the remainder at Price 2 as is the case in today's market design. This can easily be demonstrated by a simple example assuming that:

- Qtech+ = 100 Mvar
- Q1 = 90%, i.e. 90 Mvar
- Operational cost at Q1 = 2,00 €/Mvarh
- Operational cost at Qtech+ = 2,50 €/Mvarh

The activation price for P1 at Q1 can easily be determined and is in this example equal to 2,00 €/Mvarh. In case the entire Mvarh volume for P2 would be remunerated at the price P2, the resulting activation price for P2 at Qtech+ would also be equal to the operational cost at Qtech+.

However, since the Mvarh volume up to Q1 is remunerated at price P1 instead of at price P2, the price for P2 needs to be corrected to ensure the revenues cover the costs:

$$Activation\ Price\ P2 = 2{,}50\ €/Mvarh + 90\ Mvar * \frac{2{,}50\ €/Mvarh - 2{,}00\ €/Mvarh}{100\ Mvar - 90\ Mvar}$$
$$= 7{,}00\ €/Mvarh$$

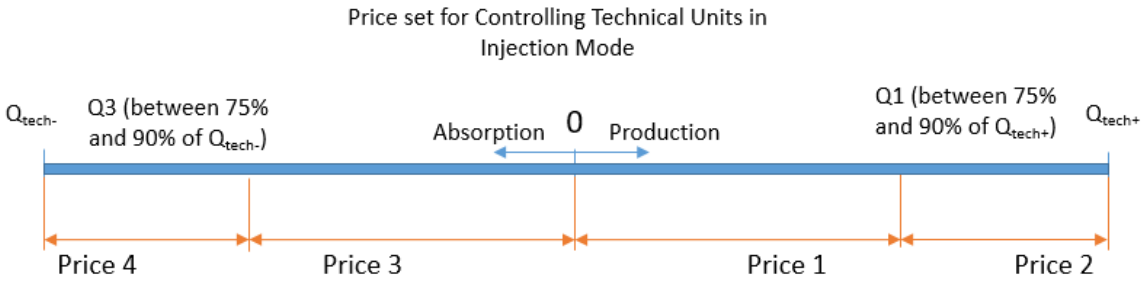
It can be easily verified that this corrected activation price results in an equivalent remuneration at –100 Mvar activation compared to the situation where the entire Mvarh volume would be remunerated at the price P2. One hour of operation at 100 Mvar would result in:

$Operational\ cost$: $2{,}50\ €/Mvarh * 100\ Mvarh = 250\ €$
Remuneration: $2{,}00\ €/Mvarh * 90$ Mvarh $+ 7{,}00\ €/Mvarh * 10$ Mvarh $= 250\ €$

Assuming the 7,00 Mvarh price for P2 would be accepted, the above methodology allows for an correct remuneration at Qtech+. However, for operating points between Q1 and Qtech+, the operational costs are not adequately compensated at this price point. For example, when delivering the service at 92 Mvar for one hour:

$Operational\ cost$: $2{,}50\ €/Mvarh * 92\ Mvarh = 230\ €$
Remuneration: $2{,}00\ €/Mvarh * 90$ Mvarh $+ 7{,}00\ €/Mvarh * 2$ Mvarh $= 194\ €$

To achieve a remuneration equal to the operational cost at 92 Mvar, the activation price P2 would have to be increased from 7,00 €/Mvarh to €25,00 €/Mvarh, which would clearly result in an incorrect remuneration at activations different from 92 Mvar.



As such, with the current pricing mechanism, there is no single activation price P2 which would result in a representative remuneration of the operational cost to activate the Mvarh volume across the price bracket P2. The same conclusion applies to price brackets P4, P6 and P8.

Decoupling the remuneration between P1 and P2, P3 and P4,… would allow for price formula's which better mirror the actual costs structure to provide the service.

Additional investment costs

Elia proposes to provide units without an obligation to participate the possibility to recover the investment costs via the Mvar service tender procedure. We would argue that all service providers would be allowed to recover the additional investment costs needed in case Elia implements changes such as the communication standards to the Terms and Conditions of the VSP.