

CONSULTATION REPORT

Report on the public consultation regarding proposal for Procurement Procedures for Reactive Power Services

29th of March 2024



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1. Introduction

Elia organized a public consultation from 23rd of February 2024 to 25th of March regarding Public consultation on the proposal for Procurement Procedures for Reactive Power Services.

The changes in the Procurement Procedures were discussed with the Market Parties during the reactive power and voltage control incentive of 2023.

The purpose of this report is to consolidate the feedback received from the public consultation, while at the same time reflecting Elia's position on these reactions.

2. Feedback received

In response to the public consultation, Elia received the following non-confidential replies from the following parties:

- FEBEG
- Febeliec
- BASF
- BOP

In addition, 0 responses were received that were designated as confidential:

All responses received haven been annexed to this report. These reactions, together with this consultation report, will be made available on Elia's website.

3. Instructions for reading this document

This consultation report is structured as follows:

- Section 1 contains the introductory context,
- Section 2 gives a brief overview of the responses received,
- Section 3 contains instructions for reading this document,
- Section 4 discusses the various comments received during the public consultation and Elia's position on them,
- Section 5 contains the annexes of the consultation report.

This consultation report is not a 'stand-alone' document, but should be read together with the proposal submitted for consultation, the reactions received from the market participants (annexed to this document) and final proposal.

Section 4 of the document is structured as follows with additional information on the content per column below.

Subject/Article/Title	Stakeholder	Comment	Justification
A	B	C	D

- A. Subject matter covered by the various responses received.
- B. It is indicated who made the comment. In general, the comments are listed alphabetically in the name of the parties concerned.
- C. This document contains an overview of the main, but also specific comments on the document submitted for consultation.
 - o In doing so, an attempt was made to list/consolidate all comments received and to argue whether or not they should be taken into account.
 - o In order to maintain authenticity, the comments have been copied as much as possible in this document. However, the comments have sometimes been shortened and term have been uniformed to make them easier to read.
 - o For clarification purposes, it is recommended to always include the original comment of the stakeholder concerned, as included in the appendix to this report.
- D. This column contains Elia's arguments as to why a comment was or was not included in the final proposal. However, this column does not contain the final text. For this purpose, the final proposal must be consulted.

4. Comments received during the public consultation

4.1 Specific comments received during the public consultation

SUBJECT	STAKEHOLDER	FEEDBACK RECEIVED	ELIA'S VIEW
<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>FEBEG</p>	<p>Concerning the activation price, the VSP has the option to choose a variable price (formula) instead of a fixed price per calendar year. FEBEG insists that the VSP must be free to make its own choice on this matter.</p>	<p>Elia confirms that the VSP has indeed the freedom to decide to offer a fixed price or a variable one.</p>
<p>Procurement Procedures: General</p>	<p>Febeliec</p>	<p>Febeliec at first view has no objections to the proposed approach for the procurement process, but insists that participation remains voluntary for consumers and in particular their demand facilities, as their primary goal is not being active in the power market and as such cannot be obliged to alleviate grid concerns for Elia at the detriment of their own processes and operations and potentially even the security of those. Febeliec thus strongly insists that also no additional burden would be placed on them to provide any justification for non-participation.</p>	<p>The imposition of the obligation does not fall under the competences of Elia. However, Elia can confirm that no changes to the obligation of the market parties occur following the introduction of the Procurement Procedures as consulted.</p>
<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>BASF</p>	<p>Hoe wordt er omgegaan met negatieve prijzen van de Belgische biedzone day-ahead referentieprijzen zoals bijvoorbeeld op 31/12/2023. Kost het de VSP-leverancier op deze moment geld om MVAR's te leveren?</p>	<p>The goal of the price formula is to correlate the reactive power activations to the active power market prices, in order to directly cover the active power usage at the correlated market price. As such, in case of a negative price, the VSP would be remunerated for its activation of reactive power based on its active power</p>

			losses in the energy market. Following the logic of the price formula, this “negative cost” would then be considered in the price formula summed with the fixed cost component.
Procurement Procedures: Submission of Reactive Power Service proposals	BASF	Hoe zal de CREG deze prijsformule evalueren en beoordelen? Indien het voorstel als manifest onredelijk wordt beschouwd, wordt er dan een vast bedrag opgelegd of worden X en Y afzonderlijk opgelegd door de CREG.	The evaluation of the prices, along with a potential imposition via a public service obligation (and the modalities under which this would be done), fall under the competence of CREG.
Procurement Procedures: Submission of Reactive Power Service proposals	BASF	Gezien de impact van reactieve energie-regeling zich hoofdzakelijk op het (lokale) spanningsniveau van de injectie/afname laat voelen, gezien deze impact ook sterk afhankelijk is van het netconcept en gezien elke RSO of beheerder van een demand facility de spanning op zijn net binnen voorgeschreven grenzen moet houden, is het om fysische redenen niet mogelijk een vrije markt toe te laten voor wat het MVar-vraagstuk betreft. Elia moet ervoor zorgen dat de (goedgekeurde) VSP-leverancier te allen tijde de VSP-dienst aanbiedt en levert, ongeacht de prijsindex op dat moment. De VSP-leverancier mag niet de mogelijkheid hebben om te weigeren of te kiezen om de dienst niet aan te bieden tegen de op dat moment geldende prijs, zoals bij een vrije elektriciteitsmarkt voor actief vermogen wel mogelijk is.	Elia confirms that when a technical unit delivering the VSP service is available as defined in the T&C VSP, the Technical Unit will also be obliged to deliver the service as defined in the T&C VSP.
Procurement Procedures: General	BOP	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.	Elia thanks BOP for its support and will consider its comment regarding longer durations for the next tender procedure.

<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>BOP</p>	<p>But the document doesn't stipulate whether this is possible when using the day-ahead prices as reference price, and how it would work.</p>	<p>The Belgian bidding zone day-ahead reference price is an hourly price index. The "indexation" will thus be done on an hourly basis. Elia will clarify this in the Procurement Procedures.</p>
<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>BOP</p>	<p>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).</p>	<p>Since the price would only be known ex-post, it would no longer be possible to do a techno-economical optimization of the activations and as such is not possible in the framework of the MVAR market design.</p>
<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>BOP</p>	<p>The proposed price formula for the activation price reads : $X * (\text{price index}) + Y$, with X and Y constant values.</p> <p>To better align the formula with the cost structure of offshore windfarms, we would like to propose the following formula: $X * (\text{price index}) + B * \max(\text{price index}, \text{LCOE}_y)$</p> <p>This updated formula captures the following aspects:</p> <ol style="list-style-type: none"> 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. 	<p>The goal of the introduction of a price formula is to enable market parties to better represent their costs in a simple and accurate way. The overall design would not benefit from the additional complexity. In addition, in order to be in line with the subsidy scheme, a cap on the remuneration should also be introduced. So, the price formula proposed by BOP does not capture all the nuances of the subsidy scheme.</p> <p>Elia would like to highlight as well that BOP can propose a fixed price based on the LCOE cost. This ensures that the offshore wind farms recuperate their costs without being exposed to market price fluctuations.</p> <p>Finally, the proposed formula is only on indexed prices and as such lacks a fixed price component. Costs not related to the energy prices would thus not be accurately represented.</p>

<p>Procurement Procedures: Submission of Reactive Power Service proposals</p>	<p>BOP</p>	<p>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.</p>	<p>Given that these Procurement Procedures specifically cover 2025 and 2026, the issue does not present itself. However, Elia will take the feedback for the next revision of the document.</p>
<p>Procurement Procedures: General</p>	<p>BOP</p>	<p>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:</p> <ul style="list-style-type: none"> • 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; 	<p>Elia understands the comment from BOP and will take its feedback for the planning of the coming tenders. However, given the legal obligations and constraints regarding the timing, it will not be feasible to change the planning for the current tender. A "grace period" cannot be handled in the Procurement Procedures. Elia will further analyse this in the upcoming revision of the T&C VSP.</p>
<p>Procurement Procedures: General</p>	<p>BOP</p>	<p>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.</p>	<p>This is not part of the Procurement Procedures but is defined in the T&C VSP. Elia will not address the comment here, but will take the feedback for the next revision of the T&C VSP which is planned to start in Q3 2024.</p>

<p>Procurement Procedures: General</p>	<p>BOP</p>	<p>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.</p>	<p>This is not part of the current consultation. As such, Elia will not address the comment here but will take the feedback for the next revision of the T&C VSP which is planned to start in Q3 2024.</p>
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5. Next steps

On the basis of the reactions received from market players and its views, as set out in this consultation report, Elia will finalise its proposal for Procurement Procedures for Reactive Power Services. The proposal for Procurement Procedures will be sent to the CREG on the 29th of March.

6. Attachments

The reactions Elia received to the document submitted for consultation:

- FEBEG
- Febeliec
- BASF
- BOP

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