febeliec
federation of belgian industrial energy consumers

Febeliec answer to the CREG consultation on the parameters for the volume determination for the CRM

Febeliec would like to thank the CREG for this consultation on the parameters for the volume determination for the CRM

Febeliec strongly supports the CREG analysis and proposal as put forward in this consultation.

Febeliec regrets that the CREG only allows for two weeks time to answer this consultation, which does not allow for extensive discussion and consultation with its members, but Febeliec understands that CREG does not want to jeopardize the calendar that has been put forward by the Belgian Government with regard to the notification of the CRM towards the European Commission. Febeliec nevertheless wants to stress that it does not agree with this according to Febeliec artificial urgency created by the Belgian Government, as it does not allow for an in-depth qualitative and quantitative analysis of one of the most impacting changes to the Belgian energy system since the liberalisation of the energy market.
Febeliec would also like to underline that a CRM can only be introduced as a last resort solution, after measures to improve market functioning and the introduction of a strategic reserve have failed to restore security of supply. Since a decision on life extension of nuclear capacity would have a crucial impact on the need, design, volume and financing of a CRM, it is important that these decisions are all taken at the same time. Prematurely deciding on a CRM design without taking into account the other aspects mentioned is not necessary leading to the lowest possible cost solution. In case any CRM would be implemented, it is necessary to provide transparency on the system cost and on the financing mechanism of the subsidies.

Febeliec supports the five principals put forward by the CREG for the selection of the parameters for the determination of the volume for the CRM.

- On the **first principle** with respect to the lowest possible cost as well as proportionality, Febeliec most strongly supports the CREG with respect to the lowest possible cost, a criterion also highlighted by the Electricity Law with respect to any CRM in Belgium, as well as the proportionality of the costs, as indeed no cure should be more expensive than the problem it is trying to solve. Moreover, for Febeliec it is also clear that any CRM, as also described in the Clean Energy Package, should only be put in place insofar there is a clear adequacy risk that cannot be solved by any other measure. And once a CRM is considered needed, it should only be for solving a system adequacy concern on an aggregated level and thus not be used to de-risk assets of individual actors. Last, in case of the implementation of any CRM, first should be looked into out-of-market solutions such as strategic reserves (a mechanism already in place in Belgium) before envisaging any market-wide CRM which creates new market distortions. In any case, with respect to the proposed first principle by the CREG, Febeliec agrees with the reasoning that an upfront announced curtailment has a different (lower) VoLL than an unexpected curtailment as the concerned parties will have had the possibility to take precautionary measures. Febeliec wants to point out in reference to a comment of the CREG that the law does not state that in any case the consumer has to pay for the CRM, as other options are also enabled by the law (e.g. state budget, suppliers, …).
- With respect to the **second principle** regarding the potential for the volume to be acquired under the CRM to be adjustable both upwards and downwards through time, Febeliec also agrees. While Febeliec, as CREG, does not support the conclusions of the Elia Adequacy and Flexibility study vi-à-vis a potential future need in the framework of adequacy, Febeliec does agree with the reasoning of the CREG and is also worried about the trend that can be discerned from aforementioned Elia study, which shows a declining adequacy concern over time. Hence, any future CRM needs to able to cope with such trend and as such, Febeliec agrees with the reasoning of CREG with respect to multi-year contracts, as these could lead to the lock-in of unneeded volumes as well as the corresponding (non-negligible)!) costs for consumers in Belgium. Hence, Febeliec strongly urges for caution in the dimensioning and in any case to elaborate a volume determination and contracting methodology that can cater to this trend. Moreover, Febeliec also completely supports the analysis of the CREG with respect to the proportionality of the cure as compared to the problem, especially in combination with a declining adequacy concern over time, as can be discerned from the most recent Elia study. Febeliec feels comforted by the preliminary assessment of the CREG with respect to the allowed budget under the

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aforementioned condition of proportionality (substantially lower than any public estimate that has been circulated, either by PwC or CREG on the expected annual cost of the CRM and even more, declining over time as the declared adequacy concern by elia in its latest study identifies a declining system concern) and the resulting maximum allowed capacity support. On the discussion of pay-as-bid versus pay-as-cleared, Febeliec follows the reasoning of the CREG, yet wants to confirm its position that it remains in favour of a pay-as-bid approach as it is even at this very late stage still unclear (and unproven by Elia or any other stakeholder) which costs should be remunerated through an inframarginal rent under pay-as-cleared in a CRM design; Febeliec remains most strongly of the opinion that this will only lead to windfall profits for some if not all participants and as such would be in breach with the applicable legislation.

- In regard to the **third principle**, Febeliec agrees with the principle and shares the concern expressed in the Clean Energy Package that risk-averse central authorities or TSOs setting targets for generation capacity risk to lead to unnecessary high levels of generation capacity, which come at an undue and unwarranted cost to consumers. Febeliec also has multiple times expressed its concern towards potential strategic behaviour of certain actors within a CRM, at one or multiple steps, that could lead to an artificially high need for capacity and/or price for such capacity. Febeliec understands the comment of CREG that this might not be easily proven on a legal basis (although it is also not impossible); in any case, the concern remains and Febeliec thus urges for extreme caution towards any design element or decision on the CRM, to avoid to the largest possible extent any loophole or omission that could allow any party to express such unwanted behaviour. Febeliec supports the CREG in its argumentation that any T-4 auction should only be organised if any real and credible urgency and need is proven, especially as this could even lead to an exacerbation of any possible existing market power situation, as rightfully addressed by the CREG in its analysis. Febeliec is basing its opinion also on the outcome of existing CRMs, where the implementation has either not lead to any new-build capacity (despite a very high cost) or where the auctions have cleared at high prices as (too?) low volumes have been offered by market actors. Febeliec in any case sees merit in the CREG analysis on the discussion on volumes to be allocated to T-4 auctions and in any case supports that existing capacity should as much as possible be used to fill any need for capacity in a T-4 auction; Febeliec would even be negatively surprised if existing capacity would not be offered in T-4 auctions, as this could indicate (purposefully?) withholding of capacity in order to unduly increase auction prices.
- On the **fourth principle** on non-discrimination between technologies, Febeliec can only refer to the very clear position of the Clean Energy Package on this point. Febeliec has always been an adamant defender of an as large as possible liquidity of markets, in order to allow competition to discern correct values and prices. As such, it should be guaranteed that any CRFM design element does not discriminate against certain technologies, in particular demand side response or market response in more general terms.
- On the **fifth principle**, that a CRM can under no circumstance lead to over-subsidises, Febeliec could not agree more. Febeliec most strongly remains a proponent of the Energy Only Market, based on the responsibility of Balancing Responsible Parties, as the best incentive for a well functioning electricity system at the lowest cost and with the most incentives towards innovation. As described, Febeliec opposes any inframarginal rent within a CRM auction as this would lead to windfall profits for those participants (as opposed to inframarginal rents in an Energy Only Market, where these are inherent part of the mechanism to allow capacity owners to recuperate their fixed and capital costs).

With respect to the proposal of the CREG of the **parameters for the determination of the required** volume to be auctioned, Febeliec totally agrees with the CREG proposal, as it believes that this will lead to the lowest required volume and lowest cost of the CRM (insofar a CRM is actually needed, as Febeliec remains a strong supporter of an Energy Only Market), except for one small element related to the number of scenarios to be used for the volume calculation for the T-1 auction, where Febeliec wonders whether one single scenario will provide sufficient insight in the sensitivities of the proposed volume. The Adequacy and Flexibility study of Elia as well as the different volume determinations for the Strategic Reserve have shown that the volumes can greatly differ between years and as such it might be interesting to maintain several scenarios or at least sensitivities, in order to retain insight in the probabilities of certain outcomes.

With respect to the **adequacy norm** (LoLE), Febeliec agrees with the CREG that the applied/proposed approach leads to an overestimate of the loads, as a certain volume of energy not served is allowed by the legal dispositions. Febeliec in this framework also strongly supports the proposal of CREG that, taking into account the important disadvantages related to a T-4 auction, it should be envisaged to organise only a T-1 auction whenever no capacity

would be required that requires a longer lead time for development than one year. Febeliec also follows the proposed approach of CREG towards the scenario to be used for the determination of the T-1 auction and in any case the latter should be compliant with the criterion described in the law.

On the **methodology for the determination of the demand curve** for the auctions, Febeliec follows and supports the approach by the CREG. Febeliec only has a question with respect to side number 91, as part of the sentence seems to be missing. In nay caser, and as already voiced many times, Febeliec strongly opposes any inframarginal rent in a CRM auction, as this would lead to windfall profits for at least certain participants and as such would be in breach with the legal criterion of the lowest possible cost of the CRM.

With respect to **multi-year contracts** and the proposed approach by CREG, Febeliec has no specific position, yet wants to reiterate that the most important criterion to assess any CRM design is the lowest cost criterion described in the law, in combination of course with the prescriptions for any CRM put forward in the Clean Energy Package.

With respect to the annexes, Febeliec noticed that in side number 83 a reference is made to an annexe 2, yet the document only contains one annexe. Either an annexe is missing or the reference should be corrected.