CREG Consultation (PRD)2086 relative to the draft proposal of the gross cost of a newcomer and correction factor X

Febeliec reaction

Febeliec thanks the CREG for the opportunity to respond to this public consultation and would like to formulate the following comments.

As for the deadline of the consultation, Febeliec would like to formally reject the very limited (12 days) response time for such a complex and important issue (the cost of the Belgian CRM could amount up to 940 million euros per year according to CREG's own estimates). This deadline is not in line with the (not yet approved) Royal decree, which clearly states "*Deze planning en aanpak mogen afwijken van de standaardprocedure bepaald in dit besluit, maar zij beogen om dit maximaal te respecteren, alsook de reeds beschikbare methodes op Europees niveau.",* nor with the house rules of the CREG, which state (art. 37) "*Bij het vaststellen van de raadplegingsperiode wordt een redelijk evenwicht betracht tussen een voldoende antwoordtermijn voor de geraadpleegde personen, enerzijds, en een snelle en efficiënte besluitvorming, anderzijds. Het directiecomité zal hierbij rekening houden met onder meer de complexiteit van de problematiek, het belang ervan, de urgentiegraad, eventuele deadlines in het dossier en vakantieperiodes."* For Febeliec (and assumedly for many other stakeholders), it is impossible to analyse the proposal, verify the figures and proposals formulated in it, discuss the issue with its members to reach a consensus and formulate a full answer to this consultation within the imposed time span. Febeliec would like to underline that the "Comité de Suivi" already received an invitation from the Minister on 20 April 2020 to start preparing a.o. these issues, which should have given sufficient time to organise a public consultation with the normal time span of 1 month as proposed by the Royal Decree and the 3 to 6 weeks as stipulated in the CREG house rules.

Febeliec is very surprised to read that (§25) *: "Aangezien het voorontwerp van koninklijk besluit fundamenteel verschilt van voorstel (E)2064 over de parameters waarmee de hoeveelheid in het kader van het capaciteitsmechanisme aangekochte capaciteit wordt bepaald, wordt dit ontwerpvoorstel gedaan onder voorbehoud en zonder nadelige erkenning."* and (§37) "*Rekening houdend met de vastgestelde problemen in de voorgaande paragrafen, dient de CREG alle nodige voorbehoud te maken met betrekking tot het voorliggende ontwerpvoorstel en de mogelijke vragen inzake de voorstelbevoegdheid van de regulator. Verder zal een gedeelte van de opdracht, namelijk de bepaling van de brutokost van een nieuwkomer, in de komende maanden het voorwerp uitmaken van een Europees goedgekeurde methodologie (goedkeuring voorzien tegen 5 augustus 2020 door ACER), die overeenkomstig de Elektriciteitsverordening ook zal moeten worden toegepast."* Febeliec is therefore confused about the formal status of this consultation, and insists on the need for a new formal consultation to be organised in case the proposed Royal decree and/or the CREG proposal is/are changed.

As CREG states that (§41) "*De CREG moet bijgevolg concluderen dat het maken van een voorstel met volledig respect van de bepalingen in het voorontwerp van koninklijk besluit, en in het bijzonder de raadplegingstermijn van één maand en de toepassing van een alternatieve methodologie met een gedetailleerde analyse van de kosten voor verschillende technologieën over hun hele levensduur, binnen de gevraagde termijn niet realiseerbaar is.",* Febeliec strongly questions the compatibility of the CREG proposal with the requirements of the EEAG guidelines, the Electricity regulation and the Belgian Electricity Law.

Febeliec takes note of the invitation by the CREG to stakeholders to propose alternative technologies in the framework of this proposal. Given the extremely short time frame for this consultation, Febeliec cannot provide a full answer, but would like to mention the following routes:

- CCS/CCU can bring some of the fossil fuels based technologies (e.g. diesel generators) in compliance with the CO2 caps imposed by the regulation; this should be further examined;
- Storage technologies are developing very rapidly. It is unclear whether they can contribute to system adequacy by 2026 but Febeliec strongly suggests to follow this evolution closely.
- Febeliec takes note that certain technologies are totally excluded of the list proposed by the CREG (e.g. coal, nuclear) and wonders if this is compatible with the technology neutrality criterion.

Febeliec is surprised by the position of Elia on demand response (§53). As similar comments are mentioned several times in the draft proposal (see e.g. §76), Febeliec sincerely hopes market response is considered to be a valuable contributor to system adequacy by all members of the Comité de Suivi.

As for the decision of the CREG to work on the basis of Table 2-63 of the Elia "Adequacy and flexibility study for Belgium 2020 – 2030" of June 2019, Febeliec is very surprised as the sources of the data in this table are often "Elia assumptions" or "Engie" or other unclear sources.

In §56, CREG uses the same level of fixed operational and maintenance cost for an 850 MW CCGT as for a 400 MW plant. Febeliec wonders if these costs could not be lower given possible economies of scale.

As for the WACC (§64), Febeliec wonders what the impact of the deep recession caused by the corona crisis will be, as the Elia study of June 2019 does not take this into account. Furthermore, Febeliec would like to point at that in § 74, "*heeft de CREG een vrij conservatieve bepaling van de parameters toegepast, <u>namelijk een hoge WACC</u>, een beperkte economische levensduur en vrij hoge investeringskosten.*", which for Febeliec does not seem in line with the least cost criterion for the CRM in the Belgian Electricity Law. Febeliec strongly urges CREG and all other members of the Comité de suivi to apply correct and not overly conservative values at each step in the process, as the accumulation of such margins all along the process will end up in an over-dimensioned CRM, to the detriment of cost for consumers.

In general, Febeliec would like to point out that the cost of a newcomer and the derating/reduction factor for market response are very diverse, in contrast to the more "homogenous" technologies of the different gas-powered technologies (cfr. §§54, 58, 65, 66, 74 and 78). Febeliec therefore wonders if a single cost and reduction factor for demand response is the most appropriate approach. It is extremely important to know how other parameters of the CRM design will be set up in order to guarantee the CRM in introduced at the lowest possible cost as imposed by the Electricity Law.

Febeliec wonders what gas price CREG used as fuel cost for the different gas powered technologies in §74.

As for the conclusion (§78), Febeliec wonders why the (derated) gross costs as calculated by the CREG are all (except for OCGTs and Market Response) significantly higher than the overall cost of new entrants as calculated by the Bureau du Plan (see §§45-46), with figures apparently "*gevalideerd [werd] door de sector*" (§45, we assume this relates to the electricity generators' sector) and considered plausible and representative by the Belgian authorities (§46).