Subject: Elia consultation on the decisive elements of the developments foreseen in the tariff proposal 2020-2023

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Introduction

On the 13th of February, 2019 Elia launched its consultation on the decisive elements of the developments foreseen in the tariff proposal 2020-2023. This consultation is open until the 13th of March, 2019 included.

FEBEG and ODE welcome this consultation and would like to thank Elia for creating is opportunity for all stakeholders to submit their comments and suggestions with regard to developments for the tariff proposal 2020-2023. The comments and suggestions of FEBEG and ODE are not confidential.

FEBEG and ODE welcome early view on tariff structure

Modifications to the tariff structures lead to implementations at the grid users' side, often within a very short time span. In this context, FEBEG and ODE appreciate the efforts of CREG and Elia to communicate a stable tariff matrix before the actual tariff decision. This initiative clearly facilitates the timely implementation of the new tariff structure.

FEBEG and ODE would welcome more details to be able to effectively evaluate the proposals

FEBEG and ODE are of the opinion that details are missing to allow stakeholders to effectively evaluate the proposals in the consultation document with regard to the transmission tariffs for the period 2020-2023.

In this context FEBEG and ODE would like to refer to article 12, §6 of the Electricity Law: '*Before submitting the tariff proposal, the transmission system operator organizes a consultation of the concerned electricity companies as regards the decisive elements of the developments foreseen in the future tariff proposal*'.

The high level description of the 'decisive elements' in the consultation note are not supported by details, actual tariffs or other relevant data. As a consequence the information in the consultation note is not sufficient:

- to provide the stakeholders with the possibility to challenge the monopolistic – and thus regulated – activities of the system operator;
- to allow stakeholders to assess the impact on their businesses and operations (it is simply not possible to estimate how much a type of grid user will pay for the use of the grid and to assess whether this cost will be similar as under the existing tariffs structure or not) which creates huge risks for all market actors (generators, storage operators, BRP's, suppliers and end consumers);
- to inform suppliers so they can prepare and inform their customers as well;
- to allow stakeholders to challenge the applied distribution keys and principles (level playing field, non-discrimination, cost reflectivity, cost efficiency, no cross-subsidies, …).

For this reason, FEBEG and ODE doubt whether the elements in the consultation note can effectively be considered as 'decisive elements'. Hence, FEBEG and ODE want to express strong reservations as regards the decisive elements of the developments foreseen in the future tariff proposal as described in the consultation note: the following elements in this position paper of FEBEG and ODE cannot be interpreted as an approval of the process, the proposals in the consultation note or the resulting tariffs.

Tariff revenues will increase by 2 to 4 % per year. To be able to assess whether these costs are cost-reflective, not-discriminatory, cost-efficient, … FEBEG and ODE would like to have a better insight in the elements that lead to Elia's forecast:

- recuperated amount from regulatory accounts of previous regulatory period;
- assumptions for the congestion rent;
- expected volumes and cost of ancillary services;
- costs of planned investments;
- value RAB and used OLO;
- foreseen decommissioning costs of assets;
- effective assumptions of net injection and net off-take;
- estimated efficiency gains;
- estimated results of the incentives (boni/mali);
- estimated dismantling costs;
- …

On top of that, FEBEG and ODE would welcome some justification for certain costs Elia intends to make, especially for digitalization. Elia refers, for example, to heat pumps, electrical vehicles, etc. – which are regional competences - and the development of the 'Internet of energy'. The question rises if these activities should be considered as part of the core activities of the regulated TSO.

All in all, FEBEG and ODE observe that the tariff revenues will increase with 2 to 4 % while at the same time a positive residue of around 400 MEUR accumulated on the regulatory accounts in the previous tariff period will be used in the transmission tariffs for the period 2020-2023. This raises concerns with regard to the evolution of the actual costs and a possible tariff increase for the tariff period following the 2020-2023 period. Unfortunately, detailed figures and forecasts are missing to verify and investigate these concerns.

FEBEG and ODE comments and suggestions to the tariff proposal 2020-2023

General framework (page 8)

Elia indicates that the implementation of the European Network Codes creates uncertainty as, amongst others, the impact of the Federal Grid Code is not known. FEBEG and ODE share the observation that the new Federal Grid Code – and the corresponding modification of the Belgian Electricity Law – can have an important impact on the tariffs, e.g. grid losses (compensation in kind or tender), MVAR (obligation with regulated remuneration or tender), …

Grid development (page 10)

Elia foresees to invest around 370 MEUR on an annual basis during the next tariff period. This estimation of the investment cost is based on the Federal Development Plan 2020-2030 that is currently going through the approval process.

FEBEG and ODE want to point out that they have reacted[1] – jointly with EDORA – to the consultation on the Federal Development Plan. As it is only reasonable to expect that the input and comments of stakeholders would lead to adjustments to the Federal Development Plan, FEBEG and ODE are wondering what impact these modifications will have on the forecasted investment budget.

Influenceable costs (page 12)

Elia has avoided an increase of the influenceable costs in the tariff period 2016-2019 by reorganizing the market for ancillary services which increased the liquidity in these markets.

FEBEG and ODE welcome this evolution, but also want to warn Elia that some of its proposals risk to reduce the liquidity in the ancillary services market. This risk was, for example, clearly identified in the initial proposals for the new aFRR design[2].

Non-controllable costs (page 13)

Elia points out that investments in reinforcements of the grid are necessary in order to cope with congestions: FEBEG and ODE would welcome more transparency and details on the expected evolution of congestions in the grid.

Elia doesn't expect major changes in the costs for the activation of MVAR or for the reservation and activation of black start. At the same time, Elia indicates that the market design for these product is being reviewed and that this could have an impact on the estimated costs. This paragraph is a bit confusing: it is not clear if in the end Elia is expecting an upwards or downwards evolution of the costs for these services.

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[1] EDORA, FEBEG and ODE, '*Federal plan for the development of the transmission grid (110 kV to 380 kV) at 2020-2030 horizon*', 14th of December, 2018.

[2] FEBEG, '*Elia consultation new aFRR design*', 28th of September, 2018.

Regulatory accounts (page 15)

In the period 2015-2018 Elia accumulated a positive amount on the regulatory accounts. Although the regulatory accounts for 2018 are not formally approved yet, the positive surplus is estimated at around 400 MEUR.

FEBEG and ODE support the commitment of Elia to redistribute this surplus in the tariffs for the tariff period 2020-2023.

Allocation between injection and off-take (page 20)

The cost sharing of transmission tariffs between generators and consumers is at the end not relevant and even inefficient because the injection costs paid by generators will anyhow be included in the electricity price paid by the consumers. This approach implies that Belgian generators will suffer from a competitive disadvantage compared to other generators in France, the Netherlands and Germany which is at the end also at the disadvantage of Belgian consumers.

FEBEG and ODE are pleased to see that the injection tariff will decrease to 0,6169 EUR/MWh in the next tariff period. The competitive disadvantage of the Belgian generators will thus slightly decrease.

FEBEG and ODE, nevertheless, would like to emphasize once more the importance of a level playing with neighboring countries and a correct benchmarking according to the conditions set out in the Belgian Electricity Law.

<u>Importance of a level playing field</u>

According to FEBEG and ODE, all tariffs based on energy (MWh) or capacity (MW) that create cost components that increase the existing cost handicap of Belgian power generating facilities compared to power generating facilities in neighboring countries are unacceptable.

The consequence of cost components based on energy (MWh) is that power generating facilities with lower efficiency in neighboring countries will be prioritized in the dispatch (merit order) before the Belgian power generating facilities with higher efficiency. Hence, these costs distort competition, have a negative impact on the environment and discourage new investments in Belgium. On top of that, they will affect the economic profitability of existing power generating facilities in Belgium leading to accelerated decommissioning. Such costs components will, in other words, further endanger the security of supply in Belgium. Furthermore, such injection tariffs are also discriminatory as they favor import above generation in Belgium while Belgian generators have to contribute more to the costs of the Belgian system compared to foreign generators.

Cost components on capacity (MW) are to be considered as an additional fixed cost and will increase the overall fixed costs related to a power generating facility: such a tariff will have a relatively larger impact on power generating facilities with low running hours as the cost by produced MWh will go up. Introducing a cost component on capacity will thus again give a signal contradictory to the need to

keep such flexible and back-up power generating facilities in the system for reasons of system balance and security of supply.

Therefore, FEBEG and ODE would like to emphasize that the introduction of any tariff for generators, in EUR/MWh or in EUR/MW, undermines the Belgian adequacy in a downwards spiral as it aggravates the competitiveness of Belgian power generating facilities compared to power generating facilities in neighboring countries (Netherlands, Germany, Luxemburg and France).

Proposed benchmarking methodology is not compliant to the Electricity Law

FEBEG and ODE regret that the stakeholders are not involved or consulted as regards the benchmarking methodology. Stakeholders should have been involved in the definition of the scope and the methodology of the benchmarking.

Elia has performed a benchmark that consists of a comparison with all countries being part of the North-West European Day-Ahead Market Coupling. FEBEG and ODE are of the opinion that this proposal is not compliant with article 12, §5, 17° of the Electricity Law: '*(…)These tariffs are set taking into account every criterion considered relevant by the Commission, such as a benchmarking with the neighboring countries in order not to endanger the security of supply of the country by decreasing competitiveness of the concerned generation units (…)*'. According to any dictionary 'neighboring' means 'adjacent to', which limits to scope of the benchmark to the Netherlands, Germany, Luxemburg and France. It is not because there are energy transfers between different countries' borders (e.g. Belgium with Sweden via Germany and Denmark) that they have to be considered as 'neighboring countries'. Elia seems to be aware that the benchmark is not completely compliant with the Belgian Electricity Law as its states that the benchmark is '*in line with the intention of the article 12, §5, 17° of the Electricity Law'*. FEBEG and ODE are of the opinion that it is not up to Elia to interpret the Belgian Electricity Law and that the benchmark should be executing according to the dispositions in the law limiting the benchmark to adjacent countries, i.e. Netherlands, Germany, Luxemburg and France.

The EU Regulation 838/2010 addresses the concern that differences in the charges for access to the transmission system could undermine the internal market (level field playing): the regulation therefore imposes a maximum range of 0 to 0,5 EUR/MWh for transmission charges paid by generators. Important to mention is that this Regulation 838/2010 foresees in a special treatment of countries like United Kingdom, Norway, Denmark, Sweden, Finland, allowing higher transmission charges, reflecting their specific situation:

- Most of the these countries are in direct competition with one another but with the limited cross border transmission capacities towards the Belgian market, these countries are little relevant for benchmarking the Belgian tariffs.
- Moreover, those countries received an exemption as regards to the maximum range of 0 to 0,5 EUR/MWh for transmission charges paid by generators as defined by this Regulation. So, even if they would have been neighboring countries, these exempted countries should not have been integrated in a benchmark to define the normal level.
- The benchmarking methodology proposed by Elia compares a tariff for ancillary services in Belgium with the transmission charges for access in these countries in order to substantiate that the competitiveness of the Belgian generating units is not harmed. This approach seems not coherent, nor equitable, and therefore cannot be applied as such.

Tariff for substantial modernization (page 22)

Elia is proposing a tariff for substantial modernization that will be 50 % higher than the tariff for a detailed study. First of all, FEBEG and ODE don't see any reason why the tariff for the substantial modernization study should be more costly than the tariff for the detailed study. Could Elia elaborate on the additional costs and/or workload that this type of study would generate?

As described in the consultation document, the CREG will ultimately decide on the substantial modernization. On top of that, the subsequent decisions of the CREG will create transparency on which modernizations will be considered as substantial and which not: one would expect that this approach would reduce the costs and workload for Elia.

Connection tariffs for offshore (page 24)

Elia justifies the differentiation between connection tariffs for onshore and offshore connections with the '*specific characteristics of the developed offshore infrastructure*'. The lack of more precise information raises some questions.

Which additional investment costs – compared to onshore connections – is Elia exactly referring too? FEBEG and ODE assume that only CAPEX costs are taken into account? How will the infrastructure costs be spread over the existing, new and future grid users connected to the offshore infrastructure?

Tariff for the yearly peak for the offtake – yearly peak period (page 28)

FEBEG and ODE support the tariff structure for yearly peak for offtake, but want to point out that operational errors causing an exceptional peak for a very short period are penalized in a disproportionate manner: all the efforts during the rest of the yearly peak period are voided which can be perceived as discouraging and counterproductive.

FEBEG and ODE therefore propose that peak values which are higher than 4 times the average power during the yearly peak period are not taken into account for the yearly peak, with a limitation to the 4 highest peaks. This proposition will allow to exclude very exceptional events from the computation of the yearly peak.

FEBEG and ODE also want to point out that the consultation document outlines that no exception is applied for official holidays, but in the tariff matrix document the official holidays are excluded as in the current tariff.

Imbalance price (page 30)

Link with design note on offshore integration

In 2018 and beginning 2019, Elia has been discussing proposals for a better offshore integration with the involved stakeholders. FEBEG and ODE have welcomed the initiative and have actively participated in these discussions. In this context it became clear that Elia considers incentivizing the offshore BRP's as one of the main drivers for the introduction of an alpha component in the imbalance price.

FEBEG and ODE consider it important to express their full support for the complete package of adjusted proposals for a better offshore integration as presented in the Elia workshop on the topic on the 12th of March, 2019, with the sole exception of the proposal for an alpha component.

Insufficient justification and transparency

As was also pointed out in the Elia Working Group 'Balancing' on the 16th of October, 2018 Elia has not sufficiently demonstrated that the drop in the system imbalance was caused by the imbalance price reaching 600 EUR/MWh. It is not clear for FEBEG and ODE if Elia has investigated other coincidental reasons or events for the decreasing system imbalance so that other clarifications could be excluded. As a result it is also not demonstrated that BRP's will be able to react faster when the proposed incentive is put in place.

In the consultation document, Elia mentions that the proposed changes to the alpha component would allow to maintain a 99percentile imbalance risk coverage while avoiding to contract more reserves (for which risk coverage was decreased to the 90 percentile). According to FEBEG and ODE, this statement is not proven at all. Moreover it could imply that balance responsible parties would keep reserves in their portfolio in a larger extent than what they do now.

In fact, in case of substantial system imbalances, Elia will activate their balancing means in a merit order approach, which means that the larger the imbalance, the higher the cost of the activated mean and the higher the cost that is transferred to BRP's that are not balanced. Since recently the imbalance price can go as high as 13.500€/MWh. BRP's have all the incentive they need to ensure their balance, and an alpha component of 200€/MWh (compared to the 13.500€/MWh) will not change the incentive. Therefore FEBEG and ODE don't understand how this measure will help Elia reaching the 99 percentile, if not already reached with current incentives.

In addition, FEBEG and ODE would like to remind that the recent imbalance price cap of 13.5000 €/MWh has only been introduced three months ago, which means that Elia has limited experience with this high tariff. According to FEBEG, it is in any case premature to make a change in the alpha component at this stage.

According to Elia, the proposed change would also allow them to better cope with substantial and long lasting system imbalances. However, as explained above, it seems that the long lasting system imbalances Elia is targeting are based on a limited reference. Still, in the proposed formula, the alpha component is only calculated based on the current Qh and Qh-1. Elia justifies this by saying that from

historical analysis it seems that a formula based on a larger number of Qhs makes that the alpha reacts 'too slow'. According to FEBEG and ODE, this simply means that in historical data, there are very limited occurrences of substantial and long lasting system imbalances (in fact, in examples Elia gave in the past, they only refer to a few days in the winter 2017-18). According to our comprehension, if Elia wants to reach the objective they are actually targeting, the alpha should then be based on more Qhs.

In any case, the change in the alpha parameter at this stage is too early: FEBEG and ODE propose that Elia first makes an assessment of the impact of the recently modified balancing rules. Finally, FEBEG and ODE believe the TSO has other means through the BRP contract to encourage BRP's to shoulder their responsibility (e.g. a warning letter). FEBEG and ODE are also of the opinion that the publication of the balancing position of the BRP in near-real time could contribute significantly to a faster reaction of the BRP's. This implementation is therefore considered as far more useful than the introduction of an alpha component.

<u>FEBEG and ODE support the unique price per Qh for all imbalances in this Qh</u>

Elia proposes to introduce a unique price per Qh for all imbalances in this Qh: FEBEG and ODE support the evolution to one price for the compensation of all individual imbalances.

<u>FEBEG prefers the alpha component to be put at '0'</u>

The sole function of the imbalance price is to reflect the real-time supply/demand equilibrium of the system. The formation of real time energy prices should only be market based. Hence, FEBEG opposes to any regulated administrative 'incentivizing components' such as the 'alpha component' being used in imbalance pricing.

Therefore, FEBEG and ODE prefer the alpha component to be put at '0' for the following reasons:

Distortion of the price signal

Indeed, article 44.1(b) Electricity Balancing Guideline (EBGL) states that the imbalance settlement price should reflect the 'real time value of energy'. The real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EBGL principles, the imbalance settlement price mechanism should *de facto* provide an adequate price in situations of scarcity. As a result, adding an administrative component would be distortive since it would reduce the ability of imbalance prices to effectively reflect the real time value of the energy and would jeopardize the proper signaling function of an efficient imbalance settlement price. It would create counter-incentives and thus trigger inefficient behavior by BRPs.

Distortion of the level playing field between countries

In addition, since the imbalance settlement harmonization proposal recently proposed by ENTSO-E did not provide any harmonized methodology for such an administrative scarcity component, FEBEG and ODE are concerned to see national uncoordinated adders to be developed. The EBGL foresees an integrated balancing market. Implementing such administrative component in a non-coordinated way

would lead to different imbalance price behavior with similar imbalance volumes in the different control areas. This would be a threat to level playing field in the European electricity markets.

Contradictory to measures to reduce the occurrence of price spikes

The Pricing Proposal currently under consultation by ENTSO-E introduces the new concept of a Balancing Energy Pricing Period (BEPP). One of the objectives to introduce the BEPP is to reduce the occurrence of price spikes. FEBEG and ODE question why on the one hand measures are being formulated to suppress the real-time value of energy, while on the other hand 'incentivizing components' such as the alpha component are necessary to artificially increase the imbalance settlement price. It would be more efficient, more market-based and more transparent to avoid all such artificial interventions into the balancing prices and instead allow the market to function properly.

Tariff for the offtake or injection of additional reactive energy (page 32)

Elia proposes to apply the MVAR tariff also to the injection of additional reactive energy, even if a generation unit behind the access point is participating to the MVAR ancillary service. Elia will correct the MVAR measurement at the access point with the required theoretical value for the MVAR generation or absorption by this unit. Discrepancies between the required theoretical value and the realized value (above a certain tolerance margin) will thus be subject to the MVAR tariff.

Example:

At a certain moment a power plant should theoretically produce 100 MVAR for the MVAR ancillary service (requested by Elia), but for any reason generates 0 MVAR. Although no MVAR are injected/offtaken at the access point, Elia will correct the value at the access point to -100 MVAR and apply the MVAR tariff.
Discrepancies due to the MVAR ancillary service are hence penalized according to the contract for the MVAR ancillary service and should not be subject to a second penalization through the MVAR tariff.

Such penalization is not at all acceptable in the context of the ongoing discussions around an obligatory MVAR ancillary service with regulated prices, as proposed in the new design of the MVAR ancillary service. In a market based mechanism, the MVAR supplier could assess the risks and take them into account in its offer.

The return of experience of the past years shows the difficult and cumbersome nature of the settlement processes of the MVAR ancillary service. The application of the MVAR tariff to the injection of units participating to the MVAR ancillary service, with the proposed correction, will even be more difficult to implement and to verify (a.o.: reference value of the voltage, start/stop of the MVAR ancillary service, set point change,…).

FEBEG and ODE therefore requests that the MVAR tariff is not applied to generation units participating to the MVAR ancillary service.

Grid losses (page 33)

FEBEG and ODE support the shift to tendering of grid losses instead of the existing mechanism of compensation in kind. Such a change in the mechanism for compensation of grid losses requires a modification of the Federal Grid Code – ongoing process – and a modification of the tariff proposal.

FEBEG and ODE understand that – if Elia would be obliged to shift to a tendering process - a reasonable transition period is necessary (IT-implementation, contractual changes, …), but will not support an underdetermined or unreasonable delay, e.g. shift to the next tariff period.
