



Overview of Belgian CRM Design: introduction note

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1 Introduction

This introduction note aims to provide a global overview on the different aspects of the Belgian Capacity Remuneration Mechanism (CRM) design that are being developed in line with the CRM Law¹ that has been voted on April 4th 2019. This law includes clauses about the general working of the mechanism and the yearly process that is to be followed by the involved parties to organize a capacity auction. As such this note can serve as a more general guide for the reader of the more detailed design notes which are being (or going to be) consulted upon.

This note provides a **global overview of the different design elements** and thereby focuses on the general principles of the different CRM components, as well as the relations between them, given that the different design concepts interact fundamentally with each other.

It is important to bear in mind that this note captures the design elements as currently being proposed and consulted upon. Although several elements have been discussed within the so-called Follow-up Committee, consisting of representatives of the CREG and Elia, under the presidency of the FPS Economy, the views expressed in this document and design notes do not bind the Follow-up Committee or any of its members. The proposal can still evolve further and should, of course, be adopted by the relevant authority (typically through a Royal Decree or by an approval of CREG). Also, approval is required from the European Commission in the context of the State Aid Guidelines.

Although the note aims to provide a global overview, the main focus lays on those aspects for which in the CRM Law Elia is given the role to propose the design, modalities, etc. Besides this document, that serves to provide the reader with a global overview of the Belgian CRM mechanism, a **detailed design note for every design aspect** of the CRM mechanism will provide a much more profound analysis of the different topics and will give further insight in the different design concepts.

Therefore, it is important to keep in mind that this introduction note may provide a sometimes simplified view on design elements. Consequently, in case of doubt on an interpretation, the detailed design notes prevail over this document.

This document is written for information purposes only and is as such not part of the public consultation. Of course, market parties are invited to provide feedback on the more detailed design notes.

¹ The Belgian law of 04/04/2019 modifying the Federal Electricity Law of 29 April 1999 on the organisation of the Belgian electricity market : *“Wet tot wijziging van de wet van 29 april 1999 betreffende de organisatie van de elektriciteitsmarkt teneinde een capaciteitsvergoedings- mechanisme in te stellen”*;
<http://www.ejustice.just.fgov.be/eli/wet/2019/04/22/2019012267/staatsblad>

2 Objectives and guiding principles

The CRM Law defines the objective of the Belgian CRM design as to ensure a level of security of supply at the lowest cost possible. Also, the Clean Energy Package (CEP)² imposes additional requirements such as (i) technology-neutrality of the mechanism, (ii) level playing field for all participants and (iii) limit the market distortions caused by the support mechanism. Finally, State Aid Guidelines (EEAG) also require that the aid provided by means of the CRM is appropriate and proportionate, has a proper incentive effect and is not to detriment the functioning of the energy market. These conditions will be the basis for all further design choices.

3 Schematic Overview & Link to Design notes

In this section a schematic overview of the CRM process is given, as well as how its determining components link to the different design elements as proposed in the design notes publically consulted upon.

The CRM process mainly consists of 4 stages:

- Firstly, in the pre-auction phase, auction parameters are set based on the methodologies defined in the CRM Market Rules and Royal Decrees and decided upon by the relevant authority. Additionally, in this pre-auction phase Capacity Holders have to pre-qualify their CMUs.
- Secondly, the Auction is organized both 4 years and 1 year before the Delivery Period (so-called Y-4 and Y-1 Auctions). Pre-qualified capacities can participate in this auction process, including cross-border participation.
- Thirdly, between the Auction and the start of the Delivery Period, investments are being monitored, to ensure that these capacities will be available and enter the market to actually contribute to the security of supply during the Delivery Period.
- Finally, during the Delivery Period, the Capacity Providers receive a Capacity Remuneration for being available, subject to the terms and conditions of the Capacity Contract and set out in the Market Rules.

The CRM Law (and its explanatory documents) aims for a first auction in October 2021 with first delivery of capacity as from November 2025.

² Clean Energy Package (CEP): This package entered into force under the Juncker Commission (2014 – 2019) and were launched in November 2016 as a follow-up of the third energy package that entered into force in 2009. It revised 8 pieces of legislation, of which 3 Directives (energy efficiency, energy performance of buildings, renewable energy, electricity market design) and 3 Regulations (electricity market design, ACER, Risk preparedness) and introduced one new regulation (Governance).

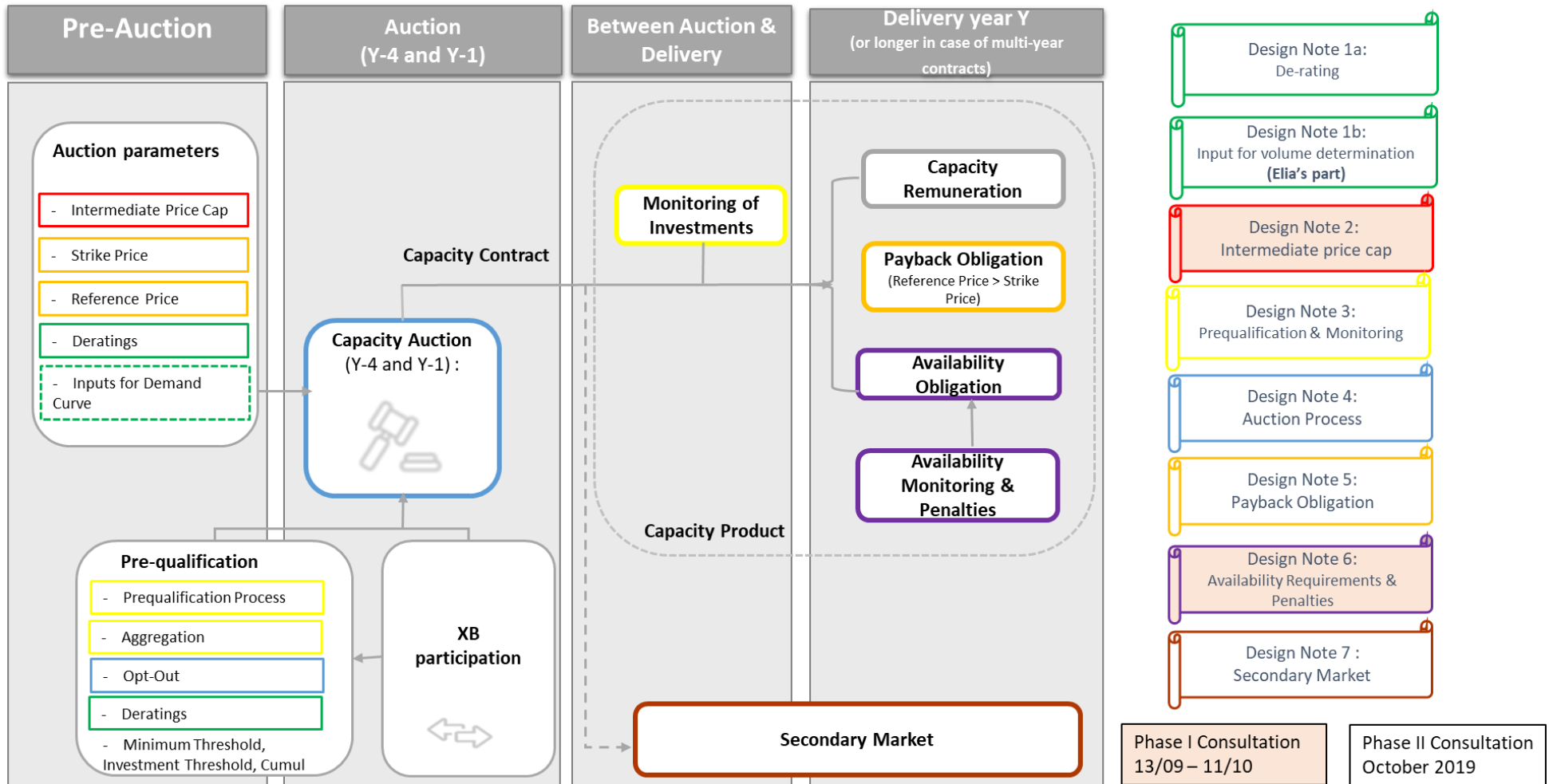


Figure 1 : Overview of the CRM process



The scheme above gives an overview of the different CRM stages and the relevant design components, as well as the **link to the different design notes** that will be published and publically consulted upon.

In addition to the design notes, a single detailed **list of definitions** will be provided and publically consulted upon. As several concepts are relevant for different design options, a centralized approach via a single list is opted for.

Note that the CRM Law identifies a number of design elements that are not in scope of any of the design notes proposed by Elia. The FPS Economy (e.g. Cross-border participation and Minimum participation threshold) or the CREG (e.g. Investment Threshold and Cost Eligibility criteria) are in the lead for these aspects.

The figure below aims to provide a schematic overview of the legal framework as defined in the CRM Law. It shows the different rules and regulations that will determine the functioning of the CRM. Note that the CRM Law foresees for each Royal Decree or set of rules clear, specific governance rules in terms of who shall make a proposal (e.g. Elia, CREG, FPS Economy), who has to provide an advice on the proposal, which rules are subject to public consultation and who shall finally adopt the rules and in which format (Royal or Ministerial Decree, approval by CREG).

As shown in the figure, the different design notes are translated into Royal Decrees and Market Rules. Based on the methodologies determined in these Royal Decrees and Market Rules, several CRM parameters (e.g. Derating Factors, Demand Curve parameters, Strike and Reference Price, intermediate price cap) **are yearly calibrated and fixed in a yearly Ministerial Decree**.

Finally, also the European legislation is relevant. Not only is it important to bear in mind that an overall approval of the CRM is required from the European Commission (DG Competition) in the context of the State Aid Guidelines, but also the recently adopted Clean Energy Package provides a legal framework setting rules and principles for the design of Capacity Remuneration Mechanisms.

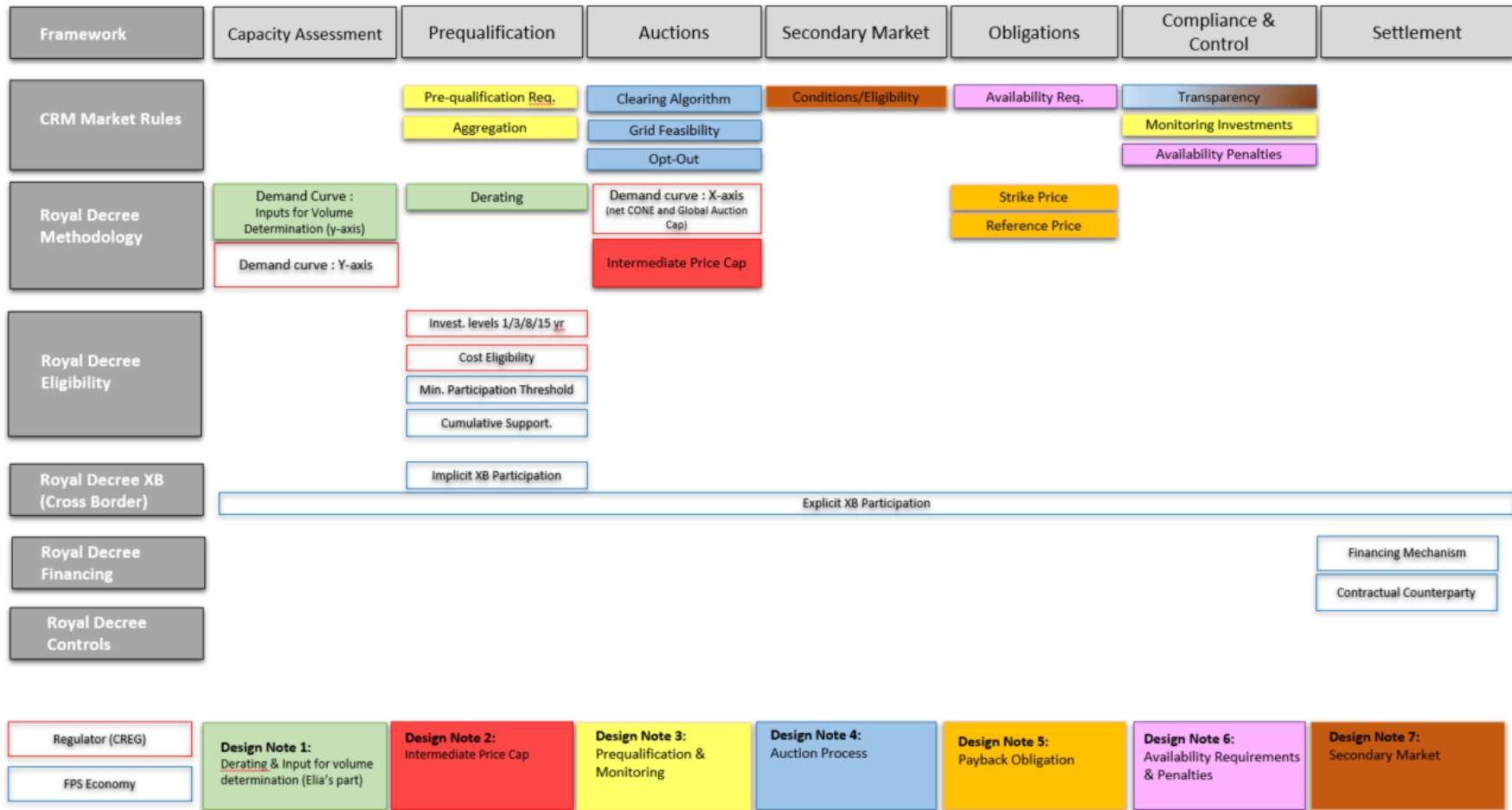


Figure 2 : Mapping of the different CRM design notes of Elia to the Royal Decrees and Market Rules.

4 Description of design elements of the CRM

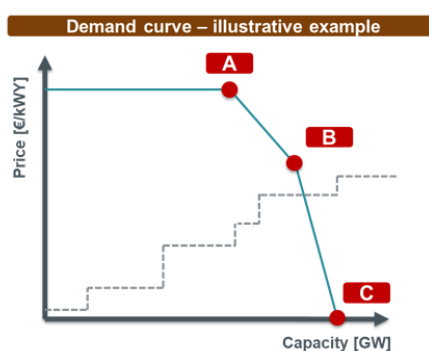
In section 3, a schematic overview of the CRM design was given. The remainder of this note provides more insight in the main design components building further on that schematic overview.

4.1 Capacity Assessment

A Demand Curve, reflecting society's willingness to pay for different levels of security of supply, is set in an administrative way and will serve as a crucial input in the auction process.

The two axes of the Demand Curve reflect the volume of capacity to be contracted on the one hand (X-axis) and the price that society is willing to pay for this level of security on the other hand (Y-axis).

A Demand Curve is typically defined by at least three points (see Figure 3 below for illustrative purposes):



- ❖ A: represents the absolute minimum volume to be contracted at a maximum global price cap (see section 4.3.3)
- ❖ B: represents the target capacity level that is required to fulfill the reliability criteria.
- ❖ C: represents the maximum capacity that can be contracted (at a price of EUR 0/MWh).

Figure 3: Illustrative example of a demand curve

The precise shape of the Demand Curve is yet to be determined and could range from a sloped curve (as in the figure) to a (partial or complete) inelastic (i.e. vertical) curve. The shape could be different for both Y-4 and Y-1 Auctions.

Note that following the Clean Energy Package, CREG will have an important role in proposing the Demand Curve leading to the volume that would be procured.

Elia will make yearly calculations serving as input for the determination of the volume to be contracted (reflected in point B – X-axis) based on one or more scenarios and sensitivities.

It is to be noted that, part of the capacity volume is to be reserved for the Y-1 auction. More specifically, the CRM law stipulates *“that the minimum volume to be reserved for the Y-1 auction should at least equal the capacity with on average less than 200 load*

hours per year to cover the total peak load.“ Also a number of other elements have to be taken into account, such as: Non-Eligible Capacity, Opt-Out Volumes and Already contracted volumes. Additionally, per border, the maximal entry capacity for cross-border participation is also to be determined, i.e. the volume that could maximally be procured in a neighboring country to meet Belgian adequacy needs.

4.2 Prequalification procedure

CRM Candidates can only offer a Capacity Market Unit (CMU) that meets the prequalification requirements in the auction process.

In general the Prequalification Process aims to verify upfront whether the offered capacity is likely to be capable to deliver the Service that would be contracted. This can relate to various aspects such as administrative aspects (permits, production license,...), financial aspects (bank guarantee, ...) and technical aspects (communication means, installation requirements, emission standards, ...).

In what follows, a number of specific aspects of the CRM Prequalification Process are further explained.

4.2.1 Fast track pre-qualification

A Capacity Holder has a legal obligation to submit a prequalification file to the Transmission System Operator from the moment its production unit exceeds the minimal threshold. To facilitate the obligation for the Capacity Holder to respect the law and considering the costs, time and effort of a full Pre-qualification Process, the possibility of a fast track procedure is foreseen in case they would prefer not to participate in the CRM. This fast track procedure is limited to the identification of the Capacity Holder and its CMU.

4.2.2 Aggregation

CRM Candidates can offer CMUs in the auction process on an individual basis or via an aggregated portfolio through which different Delivery Points are combined into one aggregated CMU. Although all technologies could be aggregated in a single portfolio, some limitations will apply relate to the size (in MW) of an individual Delivery Point. This will be further elaborated in design note 3 “Pre-qualification and Monitoring” (see Figure 2). Of course, an aggregator can have more than one portfolio. Note that a specific Delivery Point can only participate in a single portfolio.

4.2.3 Minimum threshold

A minimum threshold (expressed in MW) will be determined by Royal Decree, above which:

- (i) A Delivery Point can participate in the auction process on a stand-alone basis
- (ii) Generators are obliged to participate in the Pre-qualification Process

(for DSR/storage facilities, pre-qualification is not mandatory).

The FPS Economy has already provided their first insights in their proposal via a presentation in the Task Force CRM of 9 July 2019.

4.2.4 Investment threshold and Eligibility Criteria

As a standard rule, a Capacity Contract is awarded for 1 year. However, New Capacities or Existing Capacities, i.e. capacities requiring (significant) investments are entitled to apply for multi-year contracts, subject to the condition to meet a pre-defined Investment Threshold per MW and that the investments are deemed eligible to be taken into account. In the CRM Law different Capacity Categories are defined corresponding to different maximum Capacity Contract Durations, i.e. 1, 3, 8 or 15 years. The Investment Thresholds distinguishes between those categories.

CREG is responsible for proposing the Investment Thresholds and the relevant rules concerning the eligible costs. It is also CREG that will assess whether a specific capacity can be entitled to a multi-year contract.

CREG has already provided their first insights in their proposal via a presentation in the Task Force CRM of 13 June 2019.

4.2.5 Cumulative support

Rules are to be set to determine whether or not CMUs that are or have been benefiting from other forms of support (e.g. investment aid, operating aid, ...) are allowed to participate in the auction process and under which conditions.

The FPS Economy has already provided their first insights in their proposal via a presentation in the Task Force CRM of 9 July 2019.

4.2.6 Deratings

CMUs (both generation, DSR and storage facilities) are not available 100% of the time at 100% of their Reference Power (due to e.g. weather conditions, maintenance cycles, break downs, ...). Therefore a Derating Factor is applied in order to reflect the contribution to the security of supply of each asset. A CMU that is more likely to be available during moments that are relevant for security of supply is assigned a more favorable Derating Factor than a CMU that is expected to be less available during these moments.

For thermal TSO connected installations, Derating Factors can be calculated based on historical forced outage rates, whereas for all other technologies (weather dependent, energy-limited, DSO-connected) Derating Factors are based on a modelling approach where their contribution to the security of supply during scarcity and near-scarcity periods is simulated.

More specifically, the Derating Factor of Energy Constrained Assets is based on a Service Level Agreement, selected by the CMU itself during the Prequalification Process

in function of its energy constraints³. For each category, a given duration limit is defined (see table below). The more constraining the energy limits, the lower the Derating Factor.

"Aggregation category"	Duration	De-rating
SLA #1	1h	X ₁ %
SLA #2	2h	X ₂ %
SLA #3	3h	X ₃ %
SLA #4	4h	X ₄ %
SLA #5	8h	X ₅ %
SLA #6	No limit	X ₆ %

Figure 4: Illustrative example of Derating Factors for Energy Constrained Assets based on SLAs

The maximum capacity that a CRM Candidate can offer in the auction is the CMU's Eligible Volume, defined as the asset's Reference Power multiplied by the Derating Factor.

4.2.7 Opt-out

Even though there is an obligation to enter the Prequalification Process for production capacity, any Capacity Holder has the choice not to participate in the CRM via an opt-out procedure. Capacity Holders have to formally opt-out as part of the PreQualification Process. In case the Opt-out Volume is nevertheless assumed to be available during the Delivery Period and assumed to actually contribute to security of supply, the capacity to be procured in the CRM is to be lowered. However, if the Opt-out Volume is assumed to be "out-of-market" during the Delivery Period or insufficiently available to contribute to security of supply, the capacity to be procured in the CRM remains unchanged.

The treatment of these Opt-out Volumes can for instance depend on the timing of the Auction (Y-4 versus Y-1) or whether or not the opt-out is backed by a formal closure notification.

4.3 Auction

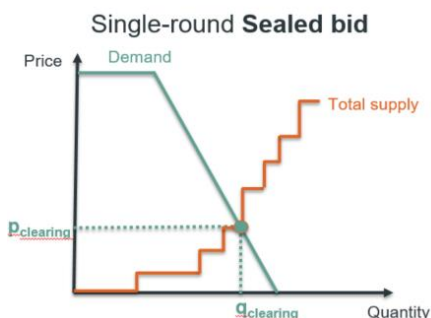
Pre-qualified CMUs can participate in the Y-4 and Y-1 Auctions. The selected bidders are awarded a Capacity Contract for a period of maximum 1, 3, 8 or 15 years, depending on the Investment Threshold.

4.3.1 Auction Format

Given the Belgian context characterized by a concentrated market, the single round

³ 1 activation/day is assumed in the Derating calculation.

sealed bid auction format is considered the most appropriate choice in order to ensure a level playing field among market parties and limit the potential for market power abuse.



As illustrated by the figure to the left, under this format, market participants have to submit their bid(s) without knowing other participants' bids, after which the auctioneer clears the market in one round.

Figure 5: Single-round Sealed bid auction format

4.3.2 Auction Pricing

Generally two pricing regimes exist: pay-as-bid and pay-as-cleared. Under pay-as-cleared, all selected bidders receive the same market clearing price (price of the most expensive accepted bid), while under pay-as bid, selected bidders are remunerated according to their individual Bid (as represented by the red lines in Figure 6 below).

It is proposed to apply a pay-as-bid pricing rule for the first two Auctions (Y-4 Auctions for the first two Delivery Periods) and switch towards a pay-as-cleared pricing rule afterwards as this allows to limit windfall profits, particularly in the early Auctions of the CRM, while profiting from the price revelation benefits in later Auctions. Also a pay-as-clear regime also allows more easily to clear at zero €/MW/yr, which greatly facilitates a potential phasing-out of the CRM.



Figure 6: Pay-as-Bid vs Pay-as-Cleared

4.3.3 Price Caps

Two different Price Caps are included to avoid windfall profits and to limit market power abuse, being (i) the global auction price cap and (ii) the intermediate price cap.

First of all, the **global auction price cap** determines the maximum remuneration that can be bid and received by a Bid in the CRM and is applicable to all Capacity Categories, hence also for CMUs eligible for multi-year contracts.

Additionally, **an intermediate price cap** is proposed to apply to CMUs that are awarded 1-year contracts, representing the maximum remuneration that they can bid and the maximum remuneration that they can receive. Calibration of the intermediate price cap is proposed to be done on the estimated missing money of the worst performing technology class currently in the market, calculated as its fixed operating & maintenance costs (FOM) and recurring maintenance, minus its expected revenues from the energy market. Figure 7 below gives an illustrative, conceptual example of how the intermediate price cap can limit the potential for inframarginal rents in the CRM.

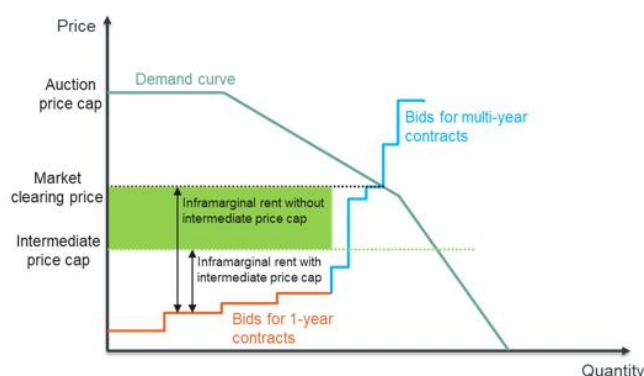


Figure 7: Illustration of Global Auction Price Cap and intermediate price cap

4.3.4 Bidding Requirements

A set of general bidding requirements is proposed to apply to a.o. the offered volumes (a bid volume cannot be lower than the minimum threshold and not higher than the Eligible Volume of the corresponding CMU, ...) and the bid format. In addition, only indivisible Bids are allowed (meaning that each Bid corresponds with a fixed volume and price that is to be accepted in its entirety or not at all), but CRM Candidates may submit a (limited) set of mutually exclusive Bids, comprising Bids that relate to one or more CMUs. From a set of mutually exclusive Bids, maximally one Bid shall be selected.

4.3.5 Clearing Point

The Auctions shall be cleared by selecting the most cost-efficient CRM outcome that is technically feasible, based on the Bids received from the CRM Candidates and the administratively determined Demand Curve. In maximizing welfare, the algorithm makes a trade-off between willingness-to-pay and costs for additional capacity - as indicated in the figure below:

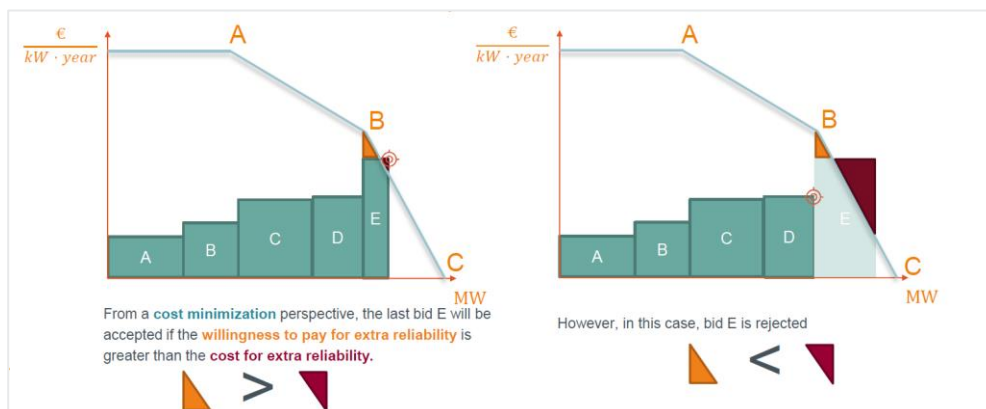


Figure 8: Clearing mechanism based on selecting the most cost-efficient CRM outcome

In case of equivalent CRM outcomes, tie-breaking rules will ensure that the capacity with the least carbon emissions is selected.

4.3.6 Grid Constraints

A grid constraint is a limitation that potentially has to be imposed on a combination of certain offers for new capacity in the Auction, which is linked to one or more technical constraint(s) that limit the grid hosting capacity resulting from certain boundary conditions that apply on the target horizon for connection of new projects.

Application of such grid constraints in the Auction ensures the technical feasibility from a grid perspective of any CRM auction outcome for any specific combinations of CMUs and is the mathematical translation of grid hosting capacity limitations inherent to the electrical system on the horizon of 2025 for inclusion into the CRM selection algorithm.

4.4 Capacity Product

The capacity product is defined as the functioning of a Capacity Provider after it is awarded a Capacity Contract in the CRM.

The figure below provides an overview of the obligations of a Capacity Provider.

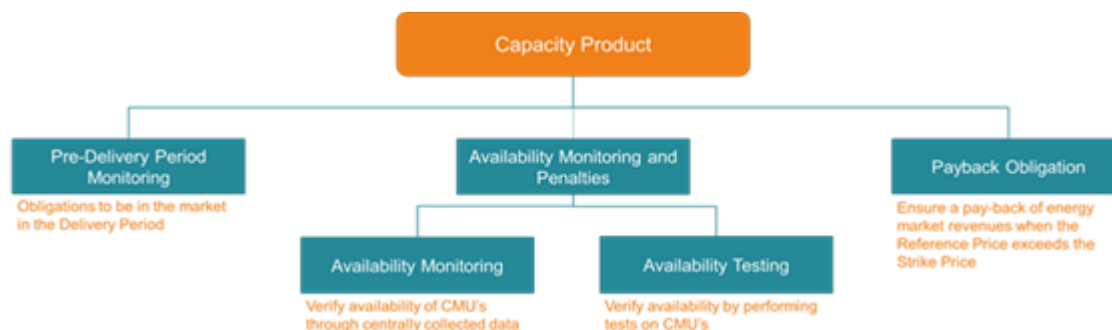


Figure 9: Overview of the Capacity Product Obligations

If a Capacity Provider meets these obligations, it receives a Capacity Remuneration in return, subject to the terms and conditions defined in the Capacity Contract.

4.4.1 Between Auction and Delivery Period

4.4.1.1 Entry into market obligation – monitoring process

The monitoring of new investments starts from signing the Capacity Contract and ends with the start of the Delivery Period. It proposes a set of rules to cover the uncertainty inherent to new projects (e.g: delay in construction works or in obtaining permits). For both Existing and New capacities, it will be verified whether the CMU can actually deliver its Obligated Capacity. This monitoring mechanism therefore encourages a timely entry into the market of the CMUs so these will actually contribute to security of supply during the relevant Delivery Period.

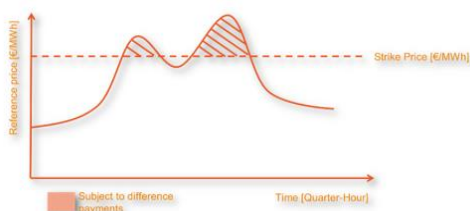
Three possibilities to penalize a project owner that is not able to deliver the contracted obligation as foreseen are proposed. In particular, the proposed penalties include a claim under a bank guarantee (with a penalty in % of the bank guarantee) or a penalty via the contractual obligation, either by a reduction of the initial contractual obligation (volume based penalty) or the reduction of the initial contractual duration.

The monitoring principles and the related penalties will be defined in function of the monitoring phase and will take into account whether the Capacity Provider could control the risk. In case the CMU is not in the position to mitigate the risk (e.g. permit risk), the related consequences will be lower.

In addition, two different monitoring phases will be defined, being monitoring phase 1 (prior to the determination of volume of Y-1 auction for the same Delivery Period) and monitoring phase 2 (from determination of volume of Y-1 Auction to the start of the Delivery Period). Before the determination of volume of Y-1 Auction, Elia still has the opportunity to compensate a possible difference between initially contracted obligation (in Y-4) and effectively observed capacity with an increase of the volume to procured in Y-1, which is not the case anymore in monitoring phase 2 (reflected in higher penalties in phase 2).

4.4.2 Start Delivery Period

4.4.2.1 Payback Obligation



As illustrated by the figure to the left, in a Reliability Option mechanism, the Capacity Provider receives a Capacity Remuneration from the CRM mechanism, but is obliged to payback money (the so-called “**payback obligation**”) whenever the Reference Price exceeds a pre-determined Strike Price.

Figure 10: Overview of the Reliability Option

The Strike Price is the pre-defined limit above which the Capacity Provider for its CMU has to payback the difference between the Reference Price and Strike price, for the

capacity that was contracted. To be noted that this payback obligation only relates to revenues that are actually earned, so planned and unplanned outages are exempted from this this payback obligation as Capacity Providers cannot capture the higher electricity revenues in this case.

The Belgian Day-Ahead Market price (EUR/MWh) is proposed as Reference Price and will apply uniformly as a benchmark to calculate the payback obligation. It represents the most pertinent market signal related to adequacy issues, has a strong signaling function and represents the strongest, most liquid spot market.

4.4.2.2 Availability Requirements and Penalties

Elia shall monitor the availability of all CMUs according to the Market Rules.

Elia will verify if the Available Capacity meets the contracted level of availability (the so-called Obligated Capacity) during critical moments (AMT Moments). In case the Available Capacity does not meet the Obligated Capacity, the CMU is liable to Availability Penalties, unless the difference is covered in the Secondary Market.

The market rules also foresee Availability Testing, where the monitoring mechanism is insufficient. The objective of this testing process is to create equal degrees of monitoring for all CMU's.

4.4.2.3 Availability Monitoring

In this section a short description of the different concepts is given, whereas more details can be found in design note 6 "Availability Requirements and Penalties" (see Figure 2).

As stated previously, the monitoring moments are to be relevant for security of supply, so a trigger is defined to identify these moments, the so-called Availability Monitoring Trigger (AMT). The Day-Ahead Market price is selected as trigger as it represents the most predictable and most transparent market price and as it also functions as Reference Price. It is also considered the most relevant in an adequacy context.

However, due to high short run marginal activation costs, some categories of CMUs will only be willing to delivery energy at market prices that could even exceed the AMT Price. Therefore, the CMU can select its own "**Declared Market Price**", being the Day-Ahead Market Price above which they commit to deliver energy.

During these AMT Moments, Elia will compare the Available Capacity against the Obligated Capacity of the CMU. The Obligated Capacity is defined in function of the CMU's technology (Non-Energy Constrained versus Energy Constrained Assets).

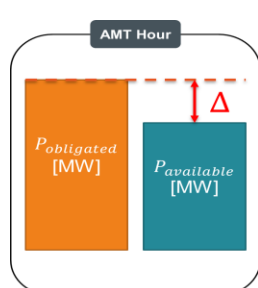
The monitoring mechanism of contracted capacity defines how the Available Capacity will be assessed at each AMT Hour in function of availability (<> delivery of energy) whereby data already collected in the energy market is re-used as much as possible.

4.4.2.4 Availability Testing

In case the standard monitoring rules would result in limited visibility on certain CMU's,

provisions for Availability Testing as a last resort are included in the Capacity Contract.

4.4.2.5 Penalties



As described above, any positive difference between the Obligated Capacity and the Available Capacity (as a result of the monitoring or testing process), is liable to a Penalty. In the monitoring process, the difference can be covered in the Secondary Market to avoid a Penalty (this is not allowed in the testing process).

Figure 11: Overview of volume subject to a Penalty

The penalty scales with (i) the positive difference between Obligated and Available Capacity and (ii) the value of the contract.

4.5 Secondary Market

The Secondary Market provides a way to cover volumes otherwise exposed to a Penalty with capacity available in the market but not yet subject to an obligation for the concerned period. All CMUs on the Secondary Market have to be pre-qualified (see section 4.2). After a transfer on the Secondary Market, the capacity obligation is fully transferred to the other CMU.

Transactions on the Secondary Market will also be allowed ex-post an AMT event up to a few working days, so that CMUs can cover their difference between Obligated Capacity and Available Capacity after an AMT event.

However, to avoid double-counting, participation is only allowed for CMUs that have not opted-out for the related period (see section 4.2.7).

4.6 Other aspects

4.6.1 Cross-border participation

The CRM will be open to so-called Indirect Cross-Border Participation of foreign CMUs in countries neighboring the Belgian control zone (located in France, The Netherlands, UK or Germany) as from the first Delivery Period. So-called Direct Cross-Border Participation, i.e. the CMU is directly connected to the Belgian control zone, should be facilitated as from the first Auction, to the extent the overall legal and regulatory framework accommodates it. A Royal Decree will specify the modalities for such direct and indirect participation, as also indicated in Figure 2.

4.6.2 Financing

As shown in Figure 2 and in line with the CRM Law a specific Royal Decree for the financing of the CRM will be adopted, after advice from the regulator and the Transmission System Operator. This financing mechanism will be applied at the earliest 3 years before the first Delivery Period, based on the CRM's estimated cost (taking into account the first auction results).

4.6.3 Control

As shown in Figure 2 and in line with the CRM Law a specific Royal Decree for controlling the overall functioning of the CRM will be adopted, so that the regulator has the appropriate means and guidance for this controlling task.