POSITION

Subject:	FEBEG position on the public consultation on CRM Design Note: Secondary Market
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Please find hereafter the comments of FEBEG on Elia's public consultation on the CRM Design Note – Secondary Market.

Disclaimer

The present position is based solely on the document submitted to consultation. The comments on specific elements are thus based on available information on this specific topic. It should be noted that the comments on the present consultations are linked to elements defined in other documents/consultations which are not yet definitive. Obviously, the availability of all elements in a pre-final stage is required in order to provide a global overview allowing the stakeholders to take a final position on the matter.

Main comments

FEBEG supports the suggested objectives and considerations of a secondary market in the Belgian CRM framework, amongst others i) technology openness, ii) limitation of the overall CRM cost via liquidity, and iii) overall complexity avoidance and feasibility.

On the three options proposed by Elia on the Secondary Market design FEBEG support Elia's choice for option 2.

FEBEG is of the opinion that the strike price should be the strike price that originates from the original obligation as contracted by Market Party A.

FEBEG is of the opinion that by means of a proportional bank guarantee, unreliable participants would be discouraged from participating to the secondary market. Furthermore Elia would be able to make penalties mechanism less complex and avoid overall complexity, which is one of the three objectives of the design elements.

FEBEG understands the proposed methodology for the conversion of an availability obligation from an non-energy constrained to an energy constrained CMU, but questions on how full-schedule capacity can be equated with energy-constrained capacity? How can lumping of capacity in some hours but without obligation in other hours assure the overall Security of Supply during the entire year?

Remarks

1. Introduction

1.3 Concept of a Secondary Market in a CRM

FEBEG supports the suggested objectives and considerations of a secondary market in the Belgian CRM framework, amongst others i) technology openness, ii) limitation of the overall CRM cost via liquidity, and iii) overall complexity avoidance and feasibility.

That in turn it "allows participants to the Auctions to better (and less costly) manage their risk which should be reflected in lower bid prices and, ultimately, reduce the overall CRM cost." A principle that also has its application in all other design notes of the CRM framework. Where it is essential to reach in the overall CRM design a fair balance between "both a global minimal CRM overall cost, rather than targeting local optimums of parts of the design."

2. Secondary Market design

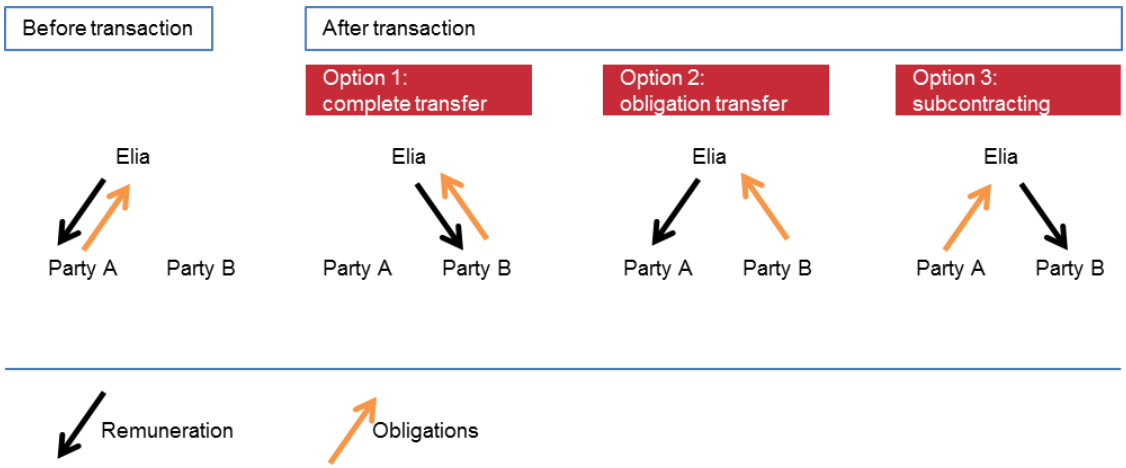
2.1 General contours of the Secondary Market: A Title Transfer Facility

Elia is, in this section, proposing three options regarding the organization of a transfer of obligation within the Secondary Market design.

Option 3
The 3rd option is quickly deemed inappropriate as FEBEG questions whether such a market would reach its goal as referred to in 1.3 as 1) liquidity will be hampered as there is no incentive to pay a counterparty while still not transferring the risk and 2) the costs could not go down as the risk premium still will need to be priced in into this option. As highlighted by Elia itself, this Option 3 is not a full transfer of the capacity contract and cannot be considered as in line with the requirements to have an effective secondary market in place.

Option 1 and 2
Provided pay-as-clear auctions, FEBEG could support both the options regarding transfer of obligations. For the temporary solution of pay-as-bid, only option 2 would properly incentivize liquidity on the Secondary market as option 1 would be revealing sensitive information about the capacity contract and the cost structure of the underlying assets. For these reasons, FEBEG supports Elia's choice for option 2.

A language remark: "transfer" of obligations is not the correct description as the availability obligations are not transferred from party A to party B. The obligations of party A are cancelled and party B get new (converted) obligations suited to the applicable CRM capacity determined during prequalification as a result of the transaction (Cfr chapter 2.4.2 general rule on the determination of the volume eligible for a Secondary Market Transaction). The transactions should therefore not be described as a (complete) transfer of obligation.



2.2 Design of the Secondary Market

The step (between step 2 and 3,4) where Elia is processing the notification needs to be added to the Value Chain of a transfer notification (figure 11 page 17). FEBEG understands that Elia will receive the transaction request, will acknowledge receipt, will than need to perform several checks before the transaction can be validated towards Market Party A and Market Party B . FEBEG would like more information on how this procedure will work and how much time this will take?

2.3 Secondary Market Transactions requirements

2.3.1 CONTRACTUAL REQUIREMENTS

FEBEG supports the contractual requirement and understands that a Capacity Contract needs to be signed in order to enter the Secondary Market. FEBEG would like to suggest to include the drafting of the Capacity Contract in the deliverables for the 2020 schedule, in order to have the necessary contracts available in time.

2.3.2 PREQUALIFICATION OF THE PARTICIPATING CMU'S

FEBEG supports obligatory prequalification for participation in the Secondary Market in order to make sure that the CMU's can meet their obligations.

2.3.5 NOTIFICATION TIMING

FEBEG supports the ex-post notification timing, which is key for a well-functioning, liquid Secondary Market as it is basically a risk-free transaction for an obligation buyer on the Secondary Market.

Furthermore, FEBEG questions how the availability checks will be performed on ex-post transactions, especially for CMU's that have no further obligations for the periods covered by the transaction and for non-full-schedule capacity. Are CMU's only active on the secondary (not primary market) subject to availability tests, and when can these tests take place? Is an ex-post transaction also possible after an Availability test?

What in case of a Title Transfer inside the portfolio of a Capacity Provider: does it follows the same process as a Title Transfer to a third party on the secondary market? Or which process would there be foreseen to inform Elia?

2.3.6 Transaction Period

Elia states that "It means that a Transaction either covers a set of consecutive days, either it covers a set of consecutive hours, but not a combination of both." FEBEG wonders a granularity in hours can exceed 24 hours, or does it then have to be split in a combination of (multiple of) days and (multiple consecutive) hours?

2.3.7 Notification content

FEBEG is of the strong opinion that in the necessary notification information towards the Title Transfer Facility the strike price is missing. For reasons mentioned later in this document, FEBEG would like to ask Elia to consider this option.

2.3.8 Notification of an hourly transfer on non-SLA hours of Energy constrained CMU's

"The Availability Requirements and Penalties design note allows the Capacity Provider to deliver its SLA at its discretion within the AMT Hours of the day": this should be more clearly explained in the mentioned design note (in the Design Proposal #9, it seems there is a chronological order : "until…", "after that…").

2.3.9 Transactions technical possibilities

"Further practical arrangements (communication channel and process) will be described in the Capacity Contract." FEBEG refers to earlier comment in 2.3.1.

2.3.10 Strike price associated to a Secondary Market Transaction

Elia states that "The Strike Price that applies on the CMU taking over an obligation for its Payback Obligation (cf. Design Note Strike & Reference price) will be the latest Calibrated Strike Price applicable at the Transaction Date of the Transaction towards the Contractual Counterparty and ELIA."

FEBEG disagrees that the date of the transaction will be used to identify the applicable strike price level. Changing the strike price of an obligation after selling the obligation will have several unintended effects;

1) parties buying and selling extensively during times of high strike prices purely for the sake of increasing the strike price of their contracts.
2) this would take up great resources at Elia, having to process all the (unnecessary) transaction requests.
3) this proposal would indeed increase liquidity during times of high strike prices, but at times where the strike price decreases, the liquidity would be more limited than in a situation of an inherited strike price.
4) this would remove an opportunity to reduce the cost of the CRM system

FEBEG is of the opinion that the strike price should be the strike price that originates from the original obligation as contracted by Market Party A. Indeed, the value of the capacity contract is necessarily linked to the reliability option priced for a given level of strike price (this is a key principle underlying the Belgian capacity market). This is

also the reason why large variations in strike price could have a detrimental impact on the secondary market.

2.3.12 CONTRACT ESCALATION IN CASE OF RECURRING NON-DELIVERY ON THE OBLIGATIONS FOLLOWING A SECONDARY MARKET OBLIGATION

Elia states that "Whereas a bank guarantee could fulfill a similar role as collateral like withholding the Capacity Remuneration, a bank guarantee – even if proportional to the participating volume (MW) – could still be perceived as a barrier for entry, particularly for smaller players whose access to financial means could be more challenging."

FEBEG asks whether this is indeed the case. Why would a proportional bank guarantee be a barrier for entry? If the capacity holder cannot obtain a bank guarantee (or this would impose too large of a financial burden), is it then not questionable whether the capacity holder is sufficiently financially robust to face the penalties?

FEBEG would strongly advise and is of the opinion that by means of a bank guarantee Elia would be able to make penalties mechanism less complex and avoid overall complexity by doing so. Which is one of the three objectives of the design elements.

Moreover, and as seen in other CRMs, it is crucial for the correctly functioning of the CRM to avoid having many unserious participants. As the goal of the CRM is reliability, the parties participating must be reliable. If a party simply can walk away without paying the penalties than this could create unwanted behavior in the Secondary Market. One consequence could be many small participants entering with a new business model: participating in the Secondary market solely to get paid for avoiding penalties for others. What would prevent them from starting a new company and prequalifying under a different name after "the right to act on the Secondary Market" has been removed?

FEBEG also recommends to thoroughly check the robustness of the proposal of Elia to choose for a different treatment of the CMU's participating on the secondary market, especially as this different treatment is based on grounds not related to the participation to the Secondary Market. In this perspective, it seems to be more sound to choose for an equal treatment of all participants to the secondary market by imposing a proportional bank guarantee instead of imposing netting for some CMU's

Type 2: CMUs with only having contractual obligations following Transactions on the Secondary Market:

"If the CMU Capacity Provider fails to recover the Contracted Capacity level via its intrinsic portfolio modification or via a Secondary Market Transaction,".

- "Contracted" should be replaced by "Obligated" (also for Type 3 and in Design Proposal #10)
- "… a Termination clause is activated": Termination clause is not defined in the definitions. Termination of which contract? What is the effect of this Termination clause?

"…possible suspension of further Transactions for the Capacity Provider (or from other subsidiaries of the mother company) on the remainder of the current Delivery

Period, FEBEG questions whether this suspension should be extended to other subsidiaries of the mother company in case a bank guarantee would be fixed?

2.4 Secondary Market Eligible Volumes

2.4.1 SOURCES FOR LIQUIDITY IN THE SECONDARY MARKET

Newly prequalified capacities that haven't participated in the Primary Market Auction

Elia states that newly prequalified capacities "have to be prequalified and monitored at the same level as all the selected Auction CMUs". FEBEG agrees to this, but would like to receive further explanation on how Elia sees practically the "monitored at the same level" for capacity only (potentially) participating to the Secondary Market.

2.4.2 GENERAL RULE ON THE DETERMINATION OF THE VOLUME ELIGIBLE FOR A SECONDARY MARKET TRANSACTION

"MAX(0 ;Nominal Reference Power (CMU,t) – Obligated Capacity (CMU, t) – Opt-Out Volume(CMU, t))" The formula for the maximal authorized volumes of Transaction gives in fact the maximal variation of Obligated Capacity following the transaction. The Transaction Volume is then given by the variation of the Obligated Capacity times the Derating Factor (as explained in 2.4.3.1).

2.4.3 SPECIFIC RULES ON THE ELIGIBLE VOLUME FOR A SECONDARY MARKET TRANSACTION FOR ENERGY-CONSTRAINED CMUS

FEBEG understands the proposed methodology for the conversion of an availability obligation from a non-energy constrained to an energy constrained CMU, but questions on how full-schedule capacity can be equated with energy-constrained capacity? How can lumping of capacity in some hours but without obligation in other hours assure the overall Security of Supply during the entire year?

FEBEG is also wondering whether this design rule for the secondary market – keeping in mind the objective of creating a level playing field between all technologies – is not favoring Energy-constrained CMU's. Indeed, the penalty paid by a primary market capacity can be very significant in case of unavailability during only 1 AMT-hour. An energy constrained CMU – by coincidence available during 1 AMT-hour outside its SLA – can be remunerated up to the level of the penalty paid by the primary capacity. FEBEG proposes to restore the balance by downwards reviewing the penalty schemes.

2.4.3.1 The Energy-Constrained Transactions during SLA hours

Figures 27 and 28 should indicate the 24 hours on the X-axes for clarity.

For a Transaction with an Energy Constrained CMU, "the latest published Derating Factors for the concerned SLA" will be applied. In case of an increase of the derating factor, for a given desired decrease of the Obligated Capacity of the Energy Constrained CMU as seller, the Transaction Capacity will increase and so the cost for the Seller. This uncertainty undermines one of the objectives of the Secondary Market that is to allow the Providers to manage their risks better, and so avoid the existence of risk premiums in the auction bids. The change in the derating factors should not be detrimental to CMU's under contract and thus fixed in the pre-qualification. This applies for a type 2 and type 4 specifics.

2.4.3.2 The Energy Constrained Transactions on non-SLA hours

Design Proposal #13: Energy Constrained Transactions on non-SLA hours: the reference to Design Proposal #9 is not correct.

Furthermore, as the ex-post transaction is based on Proven Availability, the transaction capacity should be allowed up to the available capacity, without derating.
