Febeliec answer to the Elia CRM Design Note on Prequalification and Pre-delivery Monitoring

Febeliec wants to strongly indicate that the answer on this consultation is at best partial as it has currently **no** view on **all** the different pieces of the puzzle concerning the introduction of a Capacity Remuneration Mechanism in Belgium based on reliability options as described in the Electricity Law. Febeliec reserves the right to come back on any of the comments made in this answer, as it has at this point no complete overview and as such can under no circumstance be asked to provide a thorough and complete position.

Febeliec urges Elia but also CREG and the Federal Public Service Economy as well as the Cabinet of the Minister of Energy to provide as soon as possible and in any case before the introduction of the final design for a CRM in Belgium a complete overview of all the intertwined components of the CRM design, including the legal texts such as Royal Decrees and modifications of the Electricity Law to bring it in line with amongst others European legislation, in order to be able to get an overall view on the implications and modalities of the introduction of the CRM to Belgian consumers and the overall energy markets.

With respect to the current proposed design note on only the topic of Prequalification and Pre-delivery Monitoring, Febeliec wants to provide these first preliminary remarks, within the scope described above:

- Febeliec takes note of the statement by Elia that the related tools, interfaces and operational organisation are not discussed at this point with market parties in the framework of prequalification and pre-delivery monitoring, but insists that these aspects are very important and hopes they will be discussed in due time and in sufficient detail. Febeliec refers for example to the information on types of communication provided in the document, which list is not exhaustive nor sufficient for any related (IT) developments.
- Febeliec has a specific comment related to the unit-related terminology where Elia makes reference to the "physical localization of the certified metering device" as corresponding element for the delivery point, whereas a different approach is currently already in use for a.o. ancillary services, where for example also calculated values, based on certified meters, can be used for determining delivery points. Febeliec asks Elia to apply the same approach in the context of the CRM. In general, and with reference to the comments made by Febeliec on the list of definitions (e.g. CMU, Delivery Point, Access Point, etc), the unit-related terminology and the two examples and related drawings inserted in the design note do not provide for a clear guidance on how in practice the exact scope of a CMU, whether individual or aggregated, will be determined (e.g. in the drawing on top of p. 9, the reference to submeter level and delivery points is rather confusing, giving the fact that there is also written Access point = Delivery Point 1). This lack of clear guidance is even more disturbing when considering how this terminology has to be applied in a CDS-context.
- On the volume-related terminology, Febeliec asks Elia to provide more clarity with respect to demand and demand side response, in particular towards nominal reference power and reference power, where it should be clarified whether these relate to the demand of a site/facility or the demand side response volumes.
- On the prequalification of DSO-connected capacities as well as TSO-connected capacities, Febeliec refers to the specific situation of CDSOs, which is currently under discussion with Elia

in a parallel track, but also for those (industrial) sites with generation assets (not necessarily owned by the owner of the site). Febeliec refers in this context to the approach used for ancillary services or strategic reserve as a basis for the development of an approach for CRM.

- With regard to the threshold for submitting a prequalification file, no reference is made in the design note to the 1MW threshold as mentioned and confirmed several times during the TF CRM on September 5th, nor is any information given with respect to the monitoring of this obligation and the sanction if somebody would fail to comply with this prequalification obligation. Is it according to Elia still the intention to apply a threshold for obligatory prequalification of 1MW or will another threshold be applied? How and by whom will compliance with this obligation be monitored and which sanction(s) will be applied in case of non-compliance?
- Since Elia requires the official commitment from each CRM Candidate willing to prequalify that the proposed capacities respect all eligibility criteria set forth in a Royal Decree, a clear list should exist of these eligibility criteria (whereby it is confusing that the term "eligibility criteria" as defined by Elia in its definition list, has another, far more limited scope, than the eligibility criteria targeted here and being subject of a separate Royal Decree). Febeliec wonders how compliance with these eligibility criteria (e.g. the CO2 limits referred to in the Electricity Regulation as part of the Clean Energy Package) will be monitored and what will be the sanction if e.g. a Capacity Provider shortly before the start of the Delivery Period would appear not be compliant (anymore) with one of these eligibility criteria (creating an import adequacy risk).
- On timing and specifically the freeze period related to capacity reservation, Febeliec refers to its comments on that topic with respect to demand and demand side response in answer to other design notes within the scope of the CRM as well as the on-going discussion in the working group Belgian Grid. In the framework of the timing, Febeliec also wants to stress that the specific situation of CDS (or in general even any demand facility with generation assets owned/operated by another actor) where clarity should be brought on the flow of events and information, in order to ensure that the owners of those sites are aware, involved and informed of any and all activations and other obligations related to the CRM in which they could be implicated.
- With respect to the bank guarantee, Febeliec strongly appreciates that Elia tries to mitigate the identified significant gaming risk involved in the CRM mechanism with multiple auctions (Y-4, Y-1). Febeliec understands that Elia wants sufficient guarantee, beyond what can be discerned from the Graydon score, in order to limit the gaming risk, yet is not sure whether the proposed solution with a bank guarantee provides the correct balance between limiting this risk and introducing additional barriers. Febeliec does not have at this point a better alternative and will continue its involvement in the on-going discussions. In any case, Febeliec with respect to the design note wonders what level of "proportional" bank guarantee Elia has in mind, especially in relation to demand side response. As a side comment, Febeliec notices that Elia states "*in case no bank guarantee is not provided*" and wonders whether the sentence is correct in respect of the double negation rules in English. Finally, Febeliec notes that in section 3.1.2 of the design note reference is made to a term of 60 days after communication of the auction results for an attestation of a recognized financial institution, where in section 6.1 of this design note reference is made to a term of 60 **working** days.
- With respect to step 2 "Commitment with CRM set of rules" of the prequalification, the exact scope of this commitment is unclear to Febeliec, giving the rather vague reference in the design note to the "*CRM set of rules*" or the *"whole set of requirements (both related to the Service delivery and the Service verification)"*. Febeliec notices in this respect that during the

TF CRM 5 on September 5th, this step 2 of the prequalification was titled "*sign contractual framework*" and based on the discussions during aforementioned workshop, Febeliec assumed that this step 2 would include the signing of the (regulated) Capacity Contract by the CRM Candidate, be it provisional to the results of the auction. Elia is requested to provide some more clarity on the exact scope and purpose of this step 2.

- On the metering/submetering data, Febeliec is not sure why Elia wants to apply 15min-values based on the approach followed for mFRR as all other references are related to the DAM price (hourly basis). Moreover, Febeliec is not sure that all (residential) smart meters are or will be capable of providing (unneeded) 15min values, which could hamper their participation to the CRM and the development of demand side response. Febeliec thus asks Elia to provide a very clear analysis on the need for 15min values, while taking into account also the related cost of the meters and the underlying data infrastructure, and proposes to use per default hourly values. Moreover, Febeliec cannot agree with the reference to balancing requirements not only for being too stringent but also because Elia itself indicates that these requirements evolve over time because of balancing design improvements, which would lead to uncertainty for CRM participants on which requirements will be applicable in the future, especially in case of multi-year contracts or Y-4 auctions for which there are substantial periods covered by the CRM design. Last but not least, this approach could lead to unintended impact on the balancing design, as improvements would have to be aligned with CRM design changes, reducing the flexibility of the balancing design.
- In its design note (p. 28), Elia refers to a technical annex on the Elia website describing the exact metering device requirements for submetering. However, the link does not work, making it impossible for Febeliec to verify whether this annex is acceptable or not (please note in this respect that it will be important that this annex will include at least the 4 options for submetering identified in the past).
- With respect to the prequalification platform, the auction tool and the availability test trigger, Elia refers to specific platforms or exact modalities that will be shared later on, yet Febeliec would have preferred to get more details on those, as the involved costs for participants can be substantial (also for those sites, CDS or not, with generation facilities on-site) and it is at this point impossible to identify whether these could create barriers for entry.
- With respect to the table under 3.4.2.4, Febeliec asks Elia to clarify "*Max consumption (market response)*" as both are different concepts (one relating to the site as a whole, the other to the combination of demand response and other components of market response such as emergency generators). On the NEMO and the payback obligation, also beyond the scope of this design note, Febeliec asks Elia to provide clarity on how this will be handled for cross-border capacities.
- Febeliec is surprised to see that with respect to network constraints of other grid operator (e.g. DSO, Fluxys, ..?), Elia requires signed commitments, while not itself providing any commitments at the same stage of the process. Febeliec believes this could entail additional risks and costs, to the detriment of the cost of the CRM, while Febeliec nevertheless supports the underlying intention of Elia. Febeliec in this context also wants to refer to the specific situation of CDS, where also network constraints could arise, which should also be managed, either via the same approach or an alternative approach. Febeliec asks Elia to provide some more clarity on this point.
- On the nominal reference power calculation Febeliec wants to insist, contrary to the information in the "important remark", that a CRM candidate should also be able to increase its nominal reference power to a higher value (e.g. demand side response). In this context,

Febeliec also wants to indicate that historical data might not always be relevant, as (even existing) flexibility might not have been offered or used in the past, and should in no case be rejected by Elia in the CRM context. Moreover, Febeliec also wonders which party will decide on these requests (Elia?) and which procedure exists in case the CRM candidate does not agree with the decision.

- On the test organization, Febeliec has questions regarding to the test profile which can last maximum 36 hours according to Elia. Febeliec asks Elia to provide more clarity, especially in relation to energy-constrained assets with specific duration SLAs.
- On the test remuneration, while Febeliec has always supported in ancillary services that tests are at the candidates charge and also still supports this approach for prequalification, Febeliec is not necessarily convinced of this approach in the context of monitoring in the CRM, as a clear discrimination arises between assets with low activation costs (which will be activated frequently, showing their availability and thus avoiding specific costly tests) and high activation costs (which will not be activated so frequently and will be much more subject to specific tests; especially in the case of demand side response these could be very costly as they are valued at foregone production of goods and thus entail an opportunity cost, which contrary to assets with low activation costs will have to be included in the bids, thus making these participants yet again less competitive).
- On the fast track prequalification, Febeliec refers to its previous comments related to CDS and industrial sites and also would like Elia to clarify the status of storage in this context.
- Concerning the evolution of a CMU in time, Febeliec takes note that Elia proposes a yearly update of derating factors, yet it is unclear how this will/could impact existing contracts, as Elia states that it will automatically consider the latest available derating factors, especially in case of Y-4 auction results or multi-year contracts. With respect to the evolution of the eligible volume, Febeliec notices that Elia will reduce this volume from the moment a deviation between the initially contracted capacity and the newly observed reaction is measured, but omits that this might also lead to an increase. With respect to point 5.3, Febeliec does not understand how an availability test triggered by Elia can lead to an update of the *nominal* reference power; for Febeliec this could at best say something about the reference power, not the nominal reference power. Moreover, also here Febeliec wonders whether the update could go in both directions.
- On the pre-delivery monitoring, Febeliec is pleased to see that Elia has identified the gaming risk in its design note and intends mitigating measures. Nevertheless, also here Febeliec has questions on the proportional character of the bank guarantee (how decided and by whom, impact for demand side response). On the possibility of partial reimbursement in light of specific milestones (the term “reimbursement” is somewhat strange in relation to a bank guarantee, since there will not be a real reimbursement but a reduction of the amount covered by the bank guarantee), Febeliec hopes that the proposed approach still provides sufficient incentives to finish the project, even with setbacks in a later stage after partial reduction of the bank guarantee. Moreover, Febeliec asks for a clear definition of Force Majeure, as this would lead to a full cancellation of the bank guarantee, yet create a system adequacy concern in case Elia conducted a correct adequacy assessment.
- On the pre-delivery monitoring principles, Febeliec reiterates its comments made during the task force meetings with regard to the risks and costs for society in case contracted capacities are not realised in time. The proposed approach by Elia does solve most of the issues from the viewpoint of the owner of the contracted yet delayed capacity, as it provides a clear framework and limits the risk exposure for that party while maintaining pressure to realize

the project in the agreed timeframe. Nevertheless, society takes over all the risk exposure for any delays not attributed to that party, even possibly endangering system adequacy. Imagine a (very) large new-build CMU of several hundred MWs missing its initial target date for first delivery. The first time, this (very) substantial volume will be added to the Y-1 auction volume, thus significantly increasing the need for capacity, which will however normally only be required for one year (as the contracted yet delayed capacity should become operational one year later as expected). The larger demand in combination with the fact that this capacity will only be needed for one year, will presumably lead to the selection of (much) more expensive capacities in the Y-1 auction (and under pay-as-cleared, will push up even higher the total cost of that auction, as all units will clear at this (much) higher price). Society will not have to pay the cost of the large CMU for one year (although the period of CRM will be extended, maybe even beyond a period where a CRM is required for adequacy reasons, again increasing the overall total cost of the CRM), yet will have to bear this much higher cost of the Y-1 auction. The same applies again in the second year, in case that installation misses yet again its deadline for delivery. Society pays again very high extra costs, while the downside for the owner of the contracted yet not delivered capacity is limited (loss of one year of CRM revenue). And in case this contract yet not delivered capacity misses its third deadline, it is cancelled, but if that volume is then added to a Y-4 auction (for large new-build with long lead times), society continues for a few years to bear substantially higher costs, not compensated whatsoever by the party defaulting on its obligations. While Elia is correct that that party will experience financial impact of its non-realisation of the project as well as the loss of its bank guarantee, society bears a much and much higher cost and this potentially for many years (especially under pay-as-cleared auctions). For Febeliec, the proposal of Elia, even though well-intended, is not balanced from a societal point of view, as it clearly privatises benefits yet socializes risks. And at the same time does not guarantee security of supply, the whole purpose behind the development of the CRM mechanism.

- Without prejudice to what is set forth above in relation to the pre-delivery monitoring principles, Section 8 “Concrete examples and associated penalties” of the design note creates quite a lot of confusion and triggers more questions than it provides answers. Although it is said that scenario 1-3 cover all possible scenarios with respect to Additional Capacities and scenario 4 would only relate to Existing Capacities, this is not the case since scenario 4, as described in section 8.4, also refers to Additional Capacities. In some scenarios reference is made to a financial penalty based on a percentage of the bank guarantee (33%) but there seems to be a lack in consistency in this respect. If a problem occurs during monitoring phase 2, reference is made to an incentive for the Capacity Holder via the availability penalties to cover the Missing Volume by himself via the Secondary Market (which however might not yet exist or at least be illiquid at the time of the first auctions). Finally, it is unclear how and when it will be verified whether or not a Capacity Provider has delivered at least 20% of its Contracted Capacity.