

Response to formal public consultation on the CRM design notes (Part II)

By Next Kraftwerke

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In this short response to the formal public consultation on the CRM design notes (part II), Next Kraftwerke wishes to express its general views on the current design proposal for the Belgian CRM. We will repeat the views communicated in the first part of the consultation, altered and complemented based on new insights rising from the latest discussion in the task forces organized by Elia. We refrain from diving into the details of the proposed design elements and instead focus on a number of high-level principles.

1. The need for a CRM

- Given the financial burden on the end consumer and the impact on the energy markets that can be expected as a result of the introduction of a CRM in Belgium, we would like to see a further in-depth analysis and discussion of the need of a CRM.
- We see strong differences between the 2019 adequacy study published by Elia and other analyses by energy experts, study consortia, and the CREG. We think these differences and in particular the points of concerns of CREG should be analysed and addressed carefully.

2. Eligibility criteria

- We are concerned about the fact that renewables that received subsidies are excluded from the CRM mechanism. If the CRM truly aims to avoid stacking of government support, then **all** types of support should be considered. This includes any tax breaks, grid tariff reductions etc. received by fossil and nuclear fuels and technologies, now, in the past, or in the future.
- We understand policy makers and Elia consider a CRM in the light of a nuclear phase-out. We therefore ask to clarify that nuclear plants cannot participate in the CRM.
- We equally ask to clarify that in case of a nuclear prolongation, the auctioned volume in the CRM is reduced accordingly.

3. Demand response

- While the flexibility of demand has the same impact on the power system as flexibility of generation, demand is of course fundamentally different from production capacity. Generation is built with the purpose to meet the demand. In the context of CRM it is important to highlight that demand is always 'in the market' or it leaves the market reducing the need for CRM capacity. Demand has most importantly no missing money problem – it has no must-run costs like production assets. To pay an additional subsidy to flexible capacity that does not have a "missing money" problem seems illogical and would hurt the reputation of demand response.
- It is in fact not entirely clear to Next Kraftwerke how demand response is proposed to be integrated in the CRM. We ask Elia to further clarify this.
 - We understand that Elia considers demand response in the calculation of the peak load to be met by the CRM. We strongly support this approach, but would like to see clarified which demand response is counted in and which not:
 - Demand that currently reacts to intraday and day-ahead prices?
 - Demand that participates or participated in the any reserve power products, in the upward direction?

- Demand that is expected to react in the future at higher price levels? Was this evaluated in Elia's system adequacy study? (It should be!)
- To Next Kraftwerke it seems logical that the demand response volume taken into account on the demand side as described above, cannot be allowed to offer in the CRM:
 - If one did so, this would result in double counting, reducing the peak demand while contributing to meet it.
 - The CRM, in essence, is meant to trigger investments in upward capacity, or to keep upward capacity in the market. It is contradictory to assume that demand response would suddenly stop reacting in moments of scarcity and high prices which is expected and basis for the CRM discussion.
 - As stated above, different from production assets, costs to keep demand processes flexible are small and can be covered in the capacity auctions of the balancing markets. This is in contrast with the must-run costs of production assets. Balancing-wise demand and generation can be equivalent for the system, but from an adequacy point of view they are fundamentally different. Generation is built to meet demand. Paying some demand that is anyway flexible for consuming, which could eventually be turned off, seems non-defendable to all consumers footing the bill for the CRM.
- We want to stress again that demand response that is not yet participating in reserve power or energy markets until the start of the CRM, and that can prove that an investment is needed to trigger the flexibility, should of course be eligible in the CRM. This is indeed in line with what a CRM is aiming for: additional upward capacity to cover peak demand.

4. Intermediate price cap

- The fact that we are discussing intermediate price caps is a sign on the wall that market power is, in fact, expected to occur. It also violates the technology neutrality principle. We think that if an intermediate price cap is deemed necessary by the authorities, the overall CRM design should be reconsidered.

5. Derating factors

- We believe the current proposed resolution of the derating factor for energy-limited technologies, being a full hour, could be reduced to value the contribution of e.g. batteries more accurately.