CAPACITY REMUNERATION MECHANISM (CRM)

FUNCTIONING RULES (Version 3)

Cover note for the Public Consultation by Elia

25 November 2022

0 COVER NOTE INTRODUCTION

As of November 25th 2022, a public consultation regarding the third iteration of the Functioning Rules of the Capacity Remuneration Mechanism has been launched. This cover note serves to guide stakeholders through the most notable changes in these rules. It is intended to be used alongside the Functioning Rules, as a supportive compendium. Each chapter corresponds with the epynomous chapters of the Functioning Rules, and lists the major alterations between Version 3 and Version 2, the latter of which was published in May 2022. In case no changes were made to a chapter, or the changes are considered of lower significance, the following symbol is used: "/" .

Please note that the changes in this document are not an exhaustive representation of the changes made to the Functioning Rules, but gather the main design evolutions as presented in previous Adequacy Working groups. The design changes proposed in this document and in the Functioning Rules are the results of extensive bilateral discussions with stakeholders since publishing the previous version of the Functioning Rules in addition to the wider discussions in the Working Groups. The changes themselves aim at reducing the barrier for participation to the CRM and reducing the overall overhead which was perceived by participants.

An initial proposal for design evolutions was first presented in the Working Group of the 13th of September 2022 spanning design changes over 8 different topics, most notably Payback Obligation, NRP determination and Availability Monitoring.

The evolution of the Payback Obligation consists out of three elements. First, Elia proposes a change to the indexation mechanism of the Strike Price. Second, Elia would like to evaluate an exemption for the Payback Obligation mechanism for Demand Side Management. Finally, Elia would like to receive input on the retroactive application of these proposed changes on existing CRM contracts. Given the regulatory context, where large parts of the Payback Obligation mechanisms are either described in the Royal Decree Methodology or are referred to in the Electricity Law, the proposed changes are subject to a broader review. Elia believes the DSM exemption and retroactive application of the new design merits thorough discussion and would like for market parties to express their view through this consultation. More precisely, Elia would like to have input on:

- Q1: Retroactive application of the update of the indexation mechanism for the Strike Price. In a nutshell, Elia proposes, as suggested by the study realized earlier in 2022 (covering among others the Payback Obligation), to index the Strike Price both for multi-year & one year Capacity Contracts and that as of the 1st (and potentially unique) Delivery Period. Next to that, Elia also proposes to amend the indexation mechanism of the Strike Price itself and transform it into an ex-post mechanism that would lead to a monthly indexation of the Strike Price after each month of a Delivery Period. Such an ex-post mechanism would allow to capture shorter market trends while still leaving room for a non-negligible number of Payback Obligation events.
- Q2: DSM exemption, after having repeatedly received feedback from several market parties according to which the application of the Payback Obligation may not lead to the same results for all technologies participating to the CRM, Elia considers proposing an exemption of Payback Obligation for Demand Response.

In the Functioning Rules Version 3, currently put up for consultation, Elia has strived to address as many of the concerns identified by market parties as possible. Nonetheless, Elia remains open for further input and suggestions.

For an exhaustive overview of all changes made in Version 3, please refer to the Track-Changes Version of the CRM Functioning Rules V3.

1 INTRODUCTION

/

2 GENERAL PROVISIONS

/

3 DEFINITIONS

/

4 SERVICE TIME SCHEDULE

All sections related to the Prequalification Process have been adapted to the evolutions of the timings foreseen. The processes have shifted from working with relative deadlines to working with fixed dates and the Functioning Rules have been updated accordingly. **(4.3.1). This change should improve the readability of the Prequalification Process and ease the understandability of the rules for the different applicable processes.**

5 PREQUALIFICATION PROCESSES

The Prequalification chapter has seen major revisions in terms of formatting in addition to a number of content changes.

A first evolution of the Prequalification design is the NRP determination (5.4.1.1.1). Following input from market parties, Elia strived to improve this process by removing the use of the 36 hour period,by evolving to a maximum injection method and by introducing a simplified baseline methodology for injection/offtake and offtake (in line with the baselining methodology used for Availability Monitoring). Elia has taken into consideration the feedback received by market parties on the treatment of units where insufficient historical data would be available.

The second significant design change is the introduction of the degradation parameter for Contracted Capacity over time of multi-year Capacity Contracts (5.2.3.2.1). Although initially conceived as a parameter specifically for battery storage projects, Elia proposed to allow any multi-year project to define this parameter. The degradation parameter (or rather table) indicates the decrease of Contracted Capacity over time. For energy constrained CMUs, the degradation parameter translates into a reduction of Obligated Capacity over time (while maintaining the contracted SLA). Elia believes this approach is the only viable approach, maintaining the Obligated Capacity while reducing the SLA would lead to a set of SLA which cannot be expressed in full market time units, with significant implications on Payback Obligation, Availability Monitoring and the Secondary Market.

Third, in its decision on the Functioning Rules version 2, the CREG requested Elia to further investigate the impact of changing derating factors on the capacity that can still be contracted on energy constrained CMUs. Based on bilateral discussions and as presented during the Working Group Adequacy on 13/09/2022, Elia has included these new principles in its proposal for the Functioning Rules. Besides affecting the definition of Derating Factor, these changes impact the calculation of the Remaining Eligible Volume (REV) (5.4.5), the volume corrections of the Demand Curve (cf. infra) and the Secundary Market REV.

A fourth change concerns the timings related to the Prequalification processes for the Primary Market. These have changed to fixed dates instead of time periods (throughout Chapter 5). This allows for a better planning of the necessary actions in the Prequalification Process, both at the CRM Candidate's side as well as at the DSO/TSO side. For prequalification for the Secondary Market, time periods remain unchanged.

Fifth, the Evolution in Time principles have been clarified (5.6), for instance with respect to the requirement to renew a CMU's prequalification, towards Primary and Secondary Market transactions respectively.The consequences in terms of volume considerations of archived CMUs have also been specified explicitly.

As a final change, the redundant annexes have been removed (18):

- PQ process timings annexes (info in PQ chapter)
- Baseline annex (shifted to Availability Monitoring annex, baseline in PQ to determine NRP is simplified baseline method, cf. section 5.4.1.1.1)
- NRP determination annex (methodology is updated, cf. section 5.4.1.1.1)
- REV annex (calculation reviewed with respect to derating factor changes, cf. section 5.4.5)

6 AUCTION PROCESS

The corrections to the Demand Curve section have been reviewed (6.3.1). To improve clarity, the terminology has been changed (e.g. corrections now grouped under upward/downward corrections instead of dummy bid/reversed dummy bid) and the descriptions of the various corrections have been adapted/further elaborated where deemed not sufficiently clear. Moreover, corrections to the Demand Curve have been added that relate to the consideration of derating factor changes on the volume to be auctioned.

7 CAPACITY CONTRACT SIGNATURE

/

8 PRE-DELIVERY CONTROL

The definition of Total Contracted Capacity was slightly adapted to prevent CMUs with multi-year contracts to still be subject to moments of control, even though their Transaction Period has already started (section 8.3.2).

The methods for determining the Pre-delivery Measured Power have been adapted to be fully aligned with those of the Nominal Reference Power from section 5.4.1. The previous version of the CRM Functioning Rules included two methods to determine the Pre-delivery Measured Power, namely historical data or the organisation of a dedicated Pre-delivery test. These methods were very similar to those listed in the Prequalification Process which were used to determine the NRP, which also consist of either using historical data or organising a Prequalification test. The modalities and specific details of these methods for Pre-delivery and Prequalification were very similar, but differed at some points. The determination of Pre-delivery Measured Power (section 8.4.2.1.1) now follows the exact same methododology as the ones described in Prequalification. This has multiple benefits:

- Results from the volume determination in Prequalification and Pre-delivery Monitoring are identical and do not lead to slightly different outcomes;
- Alignment between the methods avoids confusion and further streamlines the processes;
- The use of fully aligned volume determination methods allows the use of Prequalification volumes determination results for Pre-delivery Measured Power, as explained below.

Previous results from volumes determination in the context of either Prequalification or Pre-delivery Monitoring can be re-used. As of the moment the CRM involves multiple overlapping Pre-delivery Periods, Elia is obligated to determine the Pre-delivery Measured Power of CMUs at multiple occasions during the year. This is especially the case for CMUs that participate in subsequent Delivery Periods with one-year Capacity Contracts, where this accumulation of moments when the volume needs to be determined can become burdensome. To that extent, Elia proposes that if the Pre-delivery Measured Power has been determined less than 1 year ago, the results from this volumes determination remain valid and no new determination is required. (section 8.4.2.1.1)

Moreover, since the modalities of the volume determination has been fully aligned with Prequalification, Elia also proposes that if a volume determination took place no more than 1 year ago in the context of Prequalification, the result of this volume determination remain valid and no new determination is required. This is especially useful for units that are already undergoing Pre-delivery Monitoring but also want to prequalify for a later Delivery Period.

Lastly, to allow for maximum flexibility for Capacity Providers, if the Capacity Provider does not want to re-use the results from previous volume determination, the Capacity Provider still has the liberty to request an updated calculation of his Pre-delivery Measured Power.

Elia has provided more clarifications with regards to the information that needs to be provided in the quarterly report. In the case of Additional and Virtual CMUs, the Missing Volume is determined based on the information that has been provided in the quarterly reports. During discussions with Market Parties, two main issues arose:

- The Functioning Rules foresee that in case of missing/incomplete information, Elia has the right to request more information. However, it was not clear from what moment Elia considers information to be missing/incomplete

- It was not clear on what basis Elia would conclude that a Missing Volume (if any) needs to be determined

In order to resolve these issues, Elia has added the table in annex 18.2.3 to specify to Market Parties which elements need to be included in the quarterly report so that Elia can properly assess the Missing Volume (if any). Not including these elements would result in Elia requesting the Capacity Provider to provide additional information. (section 8.3.4 and annex 18.2.3)

9 AVAILABILITY OBLIGATION

Elia proposes **a review of the testing modalities**, following feedback from market parties, more specifically CMUs that are energy constrained, **,** focusing on reducing the barriers and costs related to the Availability Tests.

- **The probability of a test occurring during non scarcity relevant times (summer) has been greatly reduced.** Based on simulations by Elia, if it appears that there is no risk for security of supply during the summer months, Elia will not carry out Availability Tests during these months.

- **The first test for an SLA unit is limited to a quarter hour instead** of the full duration in order to reduce the impact of such an Availability Test. It should be noted that after a failed first test, Elia will revert back to full duration tests. As already included in the previous version of the Functioning Rules, however, the Capacity Provider always has the possibility to request an Availability Test in order to reinstate a testing regime of only one quarter hour.

Moreover, Elia proposes to **adapt the determination of Available Capacity to also include Ancillary Services as well as Redispatching**. The previous version of the Functioning Rules only foresaw to include Measured Power in the determination of the Available Capacity. Elia fully realises that some Capacity Providers have committed to providing Ancillary Services or Redispatching Services. The method for determining the Available Capacity has been adapted to also include both of those. (section 9.5.2.2)

10 SECONDARY MARKET

An additional condition for energy-constrained CMU's willing to participate as Buyer of an Obligation has been introduced; energy constrained CMU's are only allowed as as Buyer of an Obligation for ex-post transactions if a Capacity Contract already covers the Transaction Period, as Elia needs to be able to calculate the Proven Ability as part of the Secondary Market Remaining Eligible Volume formula. **(10.3.3 & 10.4.8.2)**

Elia has taken the opportunity to further clarify and streamline multiple processes related to the Secondary Market (SM).

- **Freeze period for Secondary Market transactions during the auction process has been introduced:** If a CMU participates to an Auction, SM transactions that cover (part of the) delivery period are blocked between bid submission and contract signing. The transactions are blocked as Elia cannot calculate the Secondary Market Remaining Eligible Volume as long as the contract is not signed. **(10.5)**

- **Transaction processing on the Secondary Market has been updated.** To ensure smoother processing and settlement processes, multiple transactions covering the same CMU and transaction period are only processed in chronological order if these are dependent on each other. In case there are no dependencies, the transactions are processed in parallel. **(10.5.4)**

- **The contract signing process on the Secondary Market has been updated** to ensure a smoother processing and settlement process, proposed timings are shortenend where feasible. **(10.6)**

11 FINANCIAL SECURITIES

The mechanism for the replenishment and release of the Financial Securities has been lightly reviewed to improve the process and to avoid too high Financial Securities being held while at the same time also avoiding that too much Financial Security would be released at some point during the process (11.2 and 11.6). With this in mind, adaptations have been made to clarify that Financial Securities do not need to be replenished when invoked because of unpaid penalties. However, towards every new transaction, the entire Secured Amount needs to be covered by Financial Securities again.

An additional release moment has been introduced, more precisely at the moment of a replacement of the cash payment Financial Security.. The release process timings themselves have also been updated to ensure the deadline for release could be respected if all timings were to be fully used.

Finally, it is now also ensured that the release of the Financial Securities takes into account the fact that a part might have already been invoked, in which case the released amount may be impact to ensure that afterwards still sufficient Financial Security is available.

In addition to the above, minor changes are proposed to further improve the processes related to the Financial Securities:

- **A freeze period to submit or adapt Financial Securities has been introduced** between 2/9 and 31/10. **(11.2.1.1)**

- **New Financial Security templates were added** to amend existing Financial Security templates. **(18.5)**

- **The Financial Securities Fallback procedures have been slightly reviewed**. **(15.8)**

12 PAYBACK OBLIGATION

As presented in the different Adequacy Working Groups preceeding this consultation, Elia would like to propose a novel way for the application of the strike price indexation. In the current regulatory framework, the strike price is only indexed for multi-year contracts starting from the second delivery year of the capacity contract. In order to introduce a more dynamic indexation mechanism, Elia proposes an ex-post indexation based on monthly average day-ahead prices. The modalities of the Payback Obligation and the Payback obligation process have been adapted to be aligned with the foreseen changes on the strike price indexation mechanism. **(12.3 & 12.4)**

In the new proposal, the strike price would be split into a fixed and a variable component as explained during the WG of the 13th of October 2022:

- The **fixed component** is derived from the difference between the calibrated strike price retained by the Minister for the targeted auction in its decision from March 31st of the year of the auction and the average monthly day-ahead prices of the same winter months as the ones used for the calibration of the above mentioned strike price. Such a fixed component will remain with the exact same value for the entire duration of the capacity contract of a capacity provider. This fixed component provides clearinsight to CRM participants on the minimal value that the indexed strike price would take during the delivery period(s) during their capacity contract. Currently, Elia proposes to use all hours when calculating this 2nd component of the fixed component amongst average day-ahead prices of the winter months used for calibration purpose.

- The basis for the determination of the **variable component** would be the monthly average price of the DA market during the ongoing Delivery Period. Elia proposes not to apply a reduction of the observed hours for the calculation of this variable component (due to negative prices or outside of peak hours). The impact of hours when prices are negative is already considered by limiting the variable component to zero (i.e. a negative variable component is not possible).This would also avoid a too strong reduction of the sample set in case a high amount of hours with negative prices is observed.

Elie believes that any evolution to the Payback Obligation indexation should be tested against the basic principles as set out in the regulatory framework. Hence, the mechanism should be technology neutral, avoid windfall profits, limit overall costs and be sufficiently probably to be activated. From this perspective, Elia is convinced the new proposal is in line with these principles and is robust for further evolutions in market prices.

As mentioned in the introduction, other evolutions to the Payback Obligation are being considered (DSM exemption and retroactivity). Despite of the fact that they are not part of the amendments raised in the framework of the functioning rules, Elia would like to collect the views of market parties on these points in the form of general feedback.

13 LIABILITY AND FORCE MAJEURE

/

14 DISPUTE RESOLUTION

/

15 FALLBACK PROCEDURES

/

16 TRANSPARENCY AND MOTIVATION

The timing of Prequalification results reporting have been updated (16.3). The update ensures that there is no confusion between the Prequalification results reporting and an ongoing Prequalification and Auction Process, during which the Prequalification status of a CMU may be subject to change. At the same time, changes to the modalities regarding quarterly reporting should limited to a minimum.

17 DIRECT AND INDIRECT FOREIGN CAPACITY PARTICIPATION

/

18 ANNEXES

Redundant annexes have been (re)moved :

- PQ process timings annexes (info in PQ chapter)
- baseline annex (shifted to availability monitoring annex, baseline in PQ to determine NRP is simplified baseline method)
- NRP determination annex (methodology is updated, info in PQ chapter)

- REV annex (calculation reviewed wrt derating factor changes, info already in PQ chapter) **(18)**

A table to clarify Potential Missing Volume determination of Additional CMUs has been added (18.2.3)

New Financial Security templates were added to amend existing Financial Security templates. **(18.5)**