

Subject: FEBEG's concerns regarding the grid losses
 Date: 30 September 2022
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Context

Following the recent publication by ELIA of its “*Analysis on the possible optimizations to the estimations and compensations of grid losses*”¹ as well as the announcement during the *Plenary meeting of the Elia Users’ Group of the Coefficients of compensation in kind for 2023*, FEBEG wishes to share its concerns regarding the topic of grid losses.

During the Plenary meeting of 09/06/2022, Elia has communicated to market parties that the coefficient of compensation in kind for the grid losses will increase from 1,45% to 1,8% in 2023. The significant increase for the year 2023 also includes a compensation for the accumulated deficit (0,15%).

Coefficients of compensation in kind 2023

	2020	2021	2022	2023
Losses EHV in GWh (*)	717	920	972	1027
Compensation in-kind in GWh (*) (non accumulated)	809	837	898	1122
Peak coefficient %	1,45%	1,35%	1,45%	1,8%
Offpeak coefficient %	1,35%	1,35%	1,45%	1,8%

→ Elia aligns coefficient upwards :

- Coefficient of 1,65% required in order to cover the federal losses of the current year
- Additional increase of 0,15% in order to cover (already a part of) the deficit
 → Final coefficient for 2023 is 1,8%

*partially (2022) or fully (2023) forecasted

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During the meeting, Elia explained that there federal losses are increasing since 2020 and will continue so in the future, mainly due to recent network developments and in particular the increasing international flows.

FEBEG would welcome an indication by ELIA of the future estimated grid losses beyond 2023.

¹ <https://www.elia.be/en/electricity-market-and-system/studies/balancing-incentive-study-on-the-estimation-and-the-compensation-of-the-grid-losses>

FEBEG concerns

As expressed in the past² FEBEG considers that the compensation in kind entails several downsides:

- Limited transparency of grid costs towards customers
- Operational and contractual burden for BRP's/suppliers (it's not always possible to immediately pass all costs to customers when percentages change, e.g. contract restrictions, ...)
- Belgian supply market becomes less attractive
- Asymmetry between central and decentralized generation
- No netting of grid losses (when two BRP's are active on an access point or when several access points on one site)

On the short term

FEBEG members note that the current procedure, with a communication to the market parties in June, is far from optimal since it is not possible to pass on all the additional costs and burdens of the increased grid losses towards already contracted customers. Indeed, BRPs and suppliers have no choice but to comply with all legal and contractual provisions which has a strong negative impact. When the percentage is stable over time, the impact is less problematic but in case of significant increase such as the one presented for 2023, the negative impact can be significant, note that some BRPs/Suppliers have already gone out of the market due to the unprecedented volatility and turbulence in the energy markets.

Indeed this increased cost in already very challenging times for the BRPs and suppliers are very worrisome, in particular as the BRPs are unable to influence this cost.

Concretely, FEBEG asks Elia to smooth the increase of the grid losses over time in order to help BRPs absorbing it in their portfolio and therefore limit the negative impact. For 2023, FEBEG expressly asks Elia to keep the grid losses at the same level as 2022 (1.45%).

In the future, and pending a thorough reflexion on the current methodology of procuring grid losses, FEBEG also asks Elia to communicate sooner on important changes so that these can be better integrated by the concerned market parties.

On the long term

Compensation of network losses by BRPs in kind entails both an economic and a regulatory risk for BRPs. However, they have no influence on the grid losses and can therefore not take actions to limit the potential negative impacts. Therefore, FEBEG considers that the actual method to compensate for the federal losses, a compensation in-kind by the BRPs, should be thoroughly assessed in comparison to a procurement of the losses by ELIA (as is already the case at Regional level). FEBEG has been underlining that a procurement of the

² We refer amongst others to FEBEG's presentation in ELIA's Belgian Grid Working Group of 21/04/2017.

federal grid losses by Elia entails benefits, for example, the fact that a procurement, and consequently an additional element in the tariffs, would provide an additional incentive to Elia to limit the grid losses.

FEBEG therefore supports Art. 105 in the (soon to be implemented) Code of Conduct of the CREG (see below) which clearly opens the door for the possibility to, based on an in-depth analysis of all pro's and con's, shift from compensation in kind by a BRP to a tendering of the grid losses.

<p>Art. 105 [art. 202]. Si le contrat type des responsables d'équilibre visé à l'article 119 [art. 219], § 4, ne contient pas d'obligation pour le responsable d'équilibre de compenser les pertes d'énergie actives, le gestionnaire du réseau de transport compense les pertes d'énergie dans le réseau de transport pour chaque utilisateur de son réseau.</p>	<p>Art. 105 [art. 202]. Indien de type-overeenkomst voor balanceringsverantwoordelijken bedoeld in artikel 119 [art. 219], §4, geen verplichting tot compensatie van actieve energieverliezen bevat in hoofde van de balanceringsverantwoordelijke, compenseert de transmissienetbeheerder de energieverliezen in het transmissienet voor elke gebruiker van zijn net.</p>
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To conclude, FEBEG and its members welcome the report on the balancing incentive related to “Analysis on the possible optimizations to the estimations and compensations of grid losses” as this provides a first analysis of potential options to move away from the current “compensation in kind” approach.

However, we like to share the following observations and concerns:

- One high level concern is that FEBEG is questioning if the study has been conducted in an objective manner, indeed, as Elia is impacted by the choice to compensate grid losses (procurement or “in kind”) there is a risk that the study is not as objective as it should be. To avoid potential conflict of interest, a more independent study should be foreseen in the future
- FEBEG agrees that it will require more than 1 or 2 years to change the current approach, however, referring to 2028 seems exaggerated
- PROs and CONs of various options are compared, however, the fact that, in case of a procurement by Elia, there is an increased incentive for Elia to limit the grid Losses, is not mentioned as a potential benefit
- For FEBEG, at least the fact that the same approach would be applied at all levels (Regional and Federal) is an important PRO for the procurement approach
- Finally, in the case of a procurement, FEBEG would like to underline the need to spread procurement over time, or in different lots, to avoid a too big concentration of volumes and risks for the BRP/Suppliers concerned, which is to be avoided.

It's clear from the above that further discussions on these topics are required and even essential. We therefore invite Elia and the CREG to continue the discussion in order to end up with the best possible approach for Belgium.