

Subject: FEBEG comments on the public consultation on the scenarios, sensitivities and data for the CRM parameter calculation for the Y-4 Auction for Delivery Period 2025–2026 related to the CRM

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FEBEG welcomes this consultation and would like to thank Elia for creating this opportunity for all stakeholders to express their comments and suggestions.

Please find hereafter the comments of FEBEG on Elia's public consultation on the scenarios, sensitivities and data for the CRM parameter calculation for the Y-4 Auction for Delivery Period 2025–2026¹. The comments and suggestions of FEBEG are not confidential.

General comments

Considering the on-going discussion in the Climate Commission of the Federal Parliament we invite Elia as well as the other implied stakeholders to continue the work to finalize the framework of the Belgian CRM in order to provide the necessary foundations and visibility for the first Y-4 auction.

Comments on the input data

Regarding battery and market response capacity

FEBEG understands that these assumptions are based on expressed political ambitions that are translated in the PNEC. However, at this stage, there are no guarantees that these ambitions will materialize, in particular in absence of a regulatory and/or economic framework to stimulate the development of these capacities. FEBEG believes that this capacity increase could actually only materialize when an appropriate regulatory and/or economic framework – such as for example a capacity remuneration mechanism – would be implemented in Belgium at that horizon. Therefore, the considered assumptions related to storage and market response should be reviewed: only the capacity that would be developed based on existing market conditions should be used as input in the modelling.

The context of the remark above is the fact that the Elia methodology determines the volume to be auctioned based on the GAP volumes, where the GAP is the result of the structural block reduced with import, CHP, storage and market response. FEBEG is of the opinion that the structural block can only be reduced with imports and CHPs that are already subsidized. By doing so the GAP provides in a more accurate picture of the required volumes to fulfill the adequacy criteria. It does not seem logical to FEBEG that market response and storage are deducted from the structural block to arrive at the GAP unless Elia believes that market response should not be eligible to participate in the auction. In the same logic it would seem strange as well that all existing thermal capacities would be deducted from the structural block.

FEBEG also wants to point out that it is up to the market to decide on an efficient mix of technologies that will constitute the structural block and GAP. Unless specific measures are concretely being put in

¹ https://www.elia.be/en/public-consultation/20200505_Public-consultation-on-the-scenarios-sensitivities-and-data-for-the-CRM

place by the authorities, the market will decide on the technology mix. In other words, the adjusting variable of the structural block should not be limited to gas-fired power plants.

Notwithstanding the above comment, FEBEG is convinced that market response and storage will indeed play a role in helping to secure security of supply insofar as they are in the money and can compete on an equal footing with other technologies.

Regarding renewables

The PNEC objectives as defined for the 2030 horizon could induce a boost at the end of the decade only with a less favorable impact for the year 2025.

The objectives are ambitious, especially for onshore wind and biomass, but the NIMBY-effect – and in particular the delaying effects of the appeal procedures – should unfortunately not be underestimated.

It should also be noted that overall, in the 3 regions, there is a heavy downwards trend in the subsidies while the 2020 objectives are missed or barely reached with the existing subsidies in Brussels and Flanders. In Wallonia, in particular regarding PV, the confidence might be undermined due to the constantly changing regulatory framework. There is a fear that these are indications that policy makers might have abandoned the commitment to reach the objectives of the PNEC. In any case, it would require significant additional efforts to make up for the delay in the roadmap towards the 2030 objectives.

It furthermore should be noted that, for the offshore wind growth ambitions, the execution of these projects will also depend on the timely execution of the Ventilus project. Experience has taught the sector that such large-scale projects will face the necessary challenges before they can be realized.

For the abovementioned reasons, FEBEG recommends a sensitivity with lower figures for the development of renewables.

Regarding foreign capacities

FEBEG also recommends Elia to carefully model the expected available capacity in neighboring countries in the short and medium term considering changing energy policies across Europe. In the case of Germany, it seems that Elia did not consider the latest announcement in Q1 2020 regarding the coal phase-out.

Regarding peak demand and total electricity consumption:

Particular caution should be considered for the forecasts of peak demand (MW) as different plausible assumptions lead to different evolutions of this key driver.

While on one hand some might put forward that the electricity consumption could be reduced post-COVID due to reduced economic activities on one hand, the re-launch plan and the fact that the momentum could be used to accelerate the green-deal objectives with an increased rate for further electrification could on the other hand increase the peak demand and the energy consumption more than expected.

A specific sensitivity in order to address this could be added.

Regarding the sensitivities

Considering the elements above, FEBEG would welcome following additional sensitivities:

- One sensitivity where the PNEC ambitions are not realized and/or grid developments are not timely realized (in particular regarding market response/storage/RES developments)
- One sensitivity on a post-COVID 19 relaunch/rebound effect.

Regarding the preselected capacity types:

It is questionable whether IC engines are relevant technologies to ensure the long-term adequacy in Belgium in (i) a European green deal context and (ii) a context where the additional capacity to ensure the security of supply is expected to replace baseload capacity. Of course, FEBEG acknowledges that IC engines can have a role to play in a capacity open to all technologies if they satisfy the CO₂ emission performance standard set by the Electricity regulation. However, FEBEG also understands that this CO₂ emissions' requirement is an ex-ante control and might lead to an underestimation of the total CO₂ emissions of the concerned asset.

Regarding the post-delivery period scenario

Elia proposes to use the 2020–2030 Federal Development Plan as reference for the proposed post-delivery scenarios for the period 2035 and 2040. FEBEG would like to remind that the 2020–2030 Federal Development Plan has been approved by the Minister in 2019 but some additional interconnections projects with Germany and UK have to be further substantiated by Elia and prove they will effectively bring more benefits to the Belgian consumers than their important cost. FEBEG proposes to only consider the investments that have been fully approved by the Minister.

Conclusion

COVID is an unforeseen factor that will no doubt have an impact on the future evolution of several important parameters for the adequacy and flexibility study. At this stage, it is huge challenge to try to assess the impact of the COVID crisis as every crisis creates opportunities (Green Deal, green relaunch of the economy, ...) and risks (cost reduction, impact on electricity bill, ...). In this context, FEBEG recommends to add some sensitivities to try to capture as much as possible the potential impacts of the COVID crisis: (1) a sensitivity with a higher peak demand and electricity consumption as a result of an accelerated electrification in the context of the Green Deal, and (2) a sensitivity with lower figures for renewables, market response and storage due to the lack of an appropriate regulatory and/or economic framework for budgetary reasons.

Comments on the Cost of Capacity

FEBEG welcomes the Fichtner study attached to the consultation. However, the study – the set-up as well as the presented data – still leaves many ambiguities and questions unanswered. The figures are not always consistent (sometimes reference is made to external data, sometimes to own computations/estimations) which, in our opinion, results in unreliable outcomes. The underlying elements and assumptions for the different estimates and calculations are not clear. Some data seem outdated (cf. capex for new CCGTs and OCGTs) or just not correct (e.g. installed MW or running hours).

Such a study, which contains a lot of possible input data for the further determination of the various parameters of the CRM, must be able to be examined in detail and discussed. In addition, it initially requires a thorough presentation and explanation of the source data and assumptions and valuations applied. FEBEG therefore advocates setting up a specific session to take a closer look at this study and discuss it.

At this stage, FEBEG would like to express strong reservations with regard to the set-up as well as the content of the Fichtner study. FEBEG also wants to preserve its right to submit its comments and suggestions after when a proper dialogue with the stakeholders will be organized.

For the moment, FEBEG can only raise a number of preliminary and non-exhaustive comments and questions in order to illustrate the ambiguities and questions stakeholders are struggling with.

Estimates for the CAPEX costs

FEBEG believes that the figures mentioned in the PWC document "*Observations relatives au document de consultation publique de la CREG (19/11/2019)*" ordered by the FPS Economy are a better representation of the market realities. FEBEG considers that these figures should be used for the determination of the investment thresholds as well as in the frame of the current study.

Estimates for the fixed O&M costs for new assets

Fixed O&M OCGT (table 10)

The fixed operations costs seem to be underestimated for large units and should be substantially increased.

The maintenance cost seems to be rather low and could be considerably higher.

Fixed O&M CCGT (table 10)

On the other hand, the operations cost for large CCGT units seems to be overestimated and should be substantially decreased. At first sight, the benefit of scale does not seem to materialize.

Estimates for fixed O&M for existing plants (table 15 and 16)

First of all, FEBEG wonders the added value to have a table in the report listing the existing assets with the –by Fichtner– estimated O&M cost: on one side, the estimated costs do not correspond with the effective O&M costs of these assets and, on the other side, should Fichtner have the real O&M costs of the existing assets –quod non–, such table with commercial sensitive information would not be acceptable.

Secondly, the figures of fixed O&M for the CCGTs seem slightly high at first sight but could be explained by underlying elements. However, as mentioned in the Fichtner study, the fixed O&M costs of the existing fleet will vary from one asset to another and from one operator to another.

It is currently not clear in the Fichtner study which hypothesis are considered for the major overhauls for existing assets and how these are then annualized.

FEBEG also wonders how does the definition of 'major overhaul' in the Fichtner study relates to the definition in the previous Elia adequacy and flexibility study and to the definition in the Royal Decree on 'Investment thresholds and eligibility criteria'? Are these exactly the same concepts? What are the differences?

The figures of fixed O&M for OCGTs are on the other hand underestimated.

Estimation of the cost for lifetime extension

The costs for lifetime extension seem to be far stretched and FEBEG is of the opinion that the cost could be substantially decreased.

How does the definition of 'lifetime extension' in the Fichtner study relates to the definition in the previous Elia adequacy and flexibility study and to the definition in the Royal Decree on 'Investment thresholds and eligibility criteria'? Are these the same concepts? What are the differences?

Estimates for the availability testing

FEBEG is surprised that the activation cost for availability testing is only considered for technologies with a high short-run marginal cost. In the proposed Royal Decree (art. 18, §2, 6°), the requirements for the availability testing are not specified contrary to what is mentioned by Elia in the explanatory note joined to this consultation: "*6° les coûts d'activation liés aux tests de disponibilité (en €/MWh) prévus dans les règles de fonctionnement visées par l'article 7undecies, § 8 de la loi du 29 avril 1999*". In the current functioning rules, it is not explicit that only these unproven technologies, for which Elia has no continuous mean to verify the availability, would be subject to this availability testing. If all technologies are subject to the availability test (even at a lower risk), the estimated associated cost for each technology should also be considered in the determination of the intermediate price cap.

Conclusion

FEBEG considers that an ad-hoc meeting with the authors of the study should be organized in order to have an exchange on these elements and to provide sufficient understanding of the different elements of the report. In absence of such a dialogue, FEBEG expresses its strong reservations with regard to the study and only points to some preliminary ambiguities and questions.