Subject: Public consultation on the CRM Functioning Rules

Feedback from Tessenderlo Group – Business Unit T-Power on the Elia consultation on the CRM functioning rules.

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Dear Elia team,

First, T-Power wants to address its appreciation for the impressive work delivered by Elia and for the professionalism and dedication of all contributors.

Please find below some important questions from the BU T-Power of Tessenderlo Group on the functioning rules of the CRM and on the interpretation of some important aspects for the CRM process.

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[redacted] Only the chapter 3. on the secondary market can be handled as non-confidential.

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3. Secondary Market

T-Power has always raised concerns regarding the design, the liquidity the need of a secondary market during the task forces and believes these concerns have never been addressed in the current design and invites Elia and the CRM working group to reconsider the CRM design.

A secondary market is discriminatory at the detriment of new entrants: First, incumbents rely on a portfolio, in which some statistical derating can be internalized. Second, in times of system stress, the market power of bigger parties increases, with the risk of dry-up or extremely high prices, making the secondary market only a theoretical solution, of zero value compared with the existing possibilities of DAM-intraday-balancing.

T-Power also considers that in the current design, no penalty should be applied when a capacity holder can prove that it was not able to find capacities in the secondary market.

Furthermore, we believe that the complexity of the CRM framework is also at the detriment of the proposed secondary market as it is designed. In fact, there is no market organiser, no obligation to bid in secondary market capacities. The only thing that will be elaborated is a platform where bi-later agreements between capacity holders will be registered.

A few examples to highlight this:

- In the pre-delivery monitoring, when a delay is caused by the party responsible for the grid infrastructure, there is a possibility that the CRM contract is shifted in its entirity to overcome this delay for reasons not attributable to the capacity holder. In the example where this happens for a 15 year CRM contract, this poses a practical issue based on the fact that the CRM law limits the CRM framework to 15 year. This means that for the shifted period, no framework is in place anymore. So if you would be the only one with a CRM contract in year 16, and you would need to go to secondary market, you would not find any counterparts.
- Theoretically, the existence of eligible secondary market capacities would be based on the derated part of the capacities and on the capacities that have been categorized as opt-out "out". As for the derated part of the capacities, one could falsely argument that if one sums up all these derated parts of capacity, it is possible to find the necessary capacity in the market. T-Power wants to highlight that this is not that manageable in practice:
    - When wanting to find ex-ante eligible secondary market volumes in the market, because of the concentrated market in Belgium, the incumbents will never be inclined to offer this in the secondary market. You will see that this will exactly be their argumentation when imposing them to bid in their eligible secondary market capacities. Furthermore, because also capacities from other technologies will be required, it will be in practice a challenge to find energy constrained assets and determine with them a "sequence of dispatch" to cover your full availability obligation. Next to that, after a few delivery periods, one will see eligible capacities resulting out of different auctions, with different
    - When wanting to find ex-post eligible secondary market volumes in the market, either this will not be necessary per definition (there was no stress in the market) either it was (and there was stress in the market). If the reference price was considerately higher than the strike price, the party offering the capacity in the secondary market will want to recover the "lost" opportunity revenues and hence the secondary market will materialize as very risky. And mitigating the risk is what it should have been designed for.

T-Power has always advocated for a simpler design, without the need for a secondary market and without the need for excessive penalties. According to T-Power this is a key enabler of limiting the cost for society related to the CRM mechanism.

<u>The baseline is that the combination of Capacity Revenues and Pay-back obligation offers sufficient possibilities for adequately incentivizing availability and penalizing unavailability, without recourse to additional mechanisms.</u>

T-Power proposes to award the capacity holders a capacity remuneration based on the proven availability of the units. This is a proven method for all major thermal units because of the transparency regulation (Entso-E) platform and because of the regular market functioning.

We understand the criticism that this will not enable that the capacity will be available in times of stress which can be resolved by setting a multiplicator to the capacity remuneration: a higher remuneration in stress moments and a lower in less critical moments (summer vs winter or others).

It is possible to design this in such a manner that the weighted average achievable CRM remuneration factor for a unit that has always been available in the market equals 1. Furthermore, there is already an implicit availability incentive in the regular energy market itself.

It can even be considered to maintain the principle of availability testing, although with less excessive penalties in case it can be proven that a failure indeed occurred at the worst possible time, to avoid or to check for fraud and misconduct.

We understand the criticism that this is not always possible for demand response units, for energy constrained assets and for smaller assets but according to us technology neutrality should not mean that all CRM functioning rules should be developed technology neutral. T-Power notes that other rules have already been proposed for demand response units (e.g. the declared market prices).

So one could follow the currently foreseen rules for those capacities where the above framework would not be applicable, adapted to specific requirements these might have but with the same principles in mind. Incentivising availability, penalize fraud and misconduct, fairly remunerate available capacity.