



ELIA System Operator NV/SA  
Boulevard de l'Empereur 20, 1000 Brussels, Belgium

Friday, 30 October 2020

Dear Sir/Madam,

Nemo Link Limited (NLL) welcomes the opportunity to respond to the consultation on 'Elia's findings regarding the design of a scarcity pricing mechanism for implementation in Belgium'.<sup>1</sup>

The implementation of a scarcity pricing mechanism could – depending on the design – have a significant impact on the Belgian electricity market by affecting price behaviour, the risk exposure of BRPs and the relative competitiveness of market players. NLL believes that for such a complex matter, it is very important that market parties are duly consulted before an implementation decision is made.

NLL welcomes Elia's analysis of the CORE study. We agree with several of the concerns that Elia raises with respect to the recommendations of the CORE study, specifically regarding the challenges around a unique real-time energy price and the introduction of a real-time market for reserve capacity.

The report also includes Elia's proposal to a scarcity mechanism under the form of the Omega Factor. NLL has several concerns with the Omega:

### **1/ There is currently not a strong case for implementing an Omega factor**

Elia's position<sup>2</sup> is that scarcity pricing (and by extension its proposal for an Omega factor) is not able to eliminate the 'missing money' problem and, therefore, does not serve the purpose of ensuring a minimum reliability standard. In our view, this limits the use case of the Omega factor to providing an additional balancing incentive to Balancing Responsible Parties (BRPs) to improve the efficiency of balancing. However, Elia's report does not provide any evidence that the current market design does not already offer sufficient to balance. Because the potential drawbacks and risks of an implementation of the Omega factor (as also described below), NLL's view is that there should be a clear rationale for the Omega before Elia implements this.

### **2/ The Omega factor as proposed would reduce balancing market liquidity**

In its report, Elia argues that the Omega factor can only apply to BRPs and not Balancing Service Providers (BSPs) for various legal and practical reasons. Therefore, BRPs would pay/receive the Omega factor when they are short/long during a scarcity event, whereas this would not be the case for BSPs. Nemo Link views this as a market distortion as it will incentivise BRPs to withhold their flexibility instead of offering this flexibility to Elia as BSP (or to sell this flexibility to other market parties). This will result in less visibility on the available flexibility in the balancing market and could reduce the efficiency of dispatch of balancing reserves.

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– <sup>1</sup> See report: <https://www.elia.be/en/public-consultation/20200930-public-consultation-on-elia-is-findings-regarding-the-design>

– <sup>2</sup> See Elia report section 2.5

### **3/ The Omega factor could decrease overall welfare**

Elia argues that the Omega factor will reduce Elia's need to take balancing actions, thereby reducing costs and increasing overall social welfare. However, this argument does not consider the costs that BRPs incur to manage the increase imbalance exposure that the Omega would bring.

Whereas the Omega factor could incentivise some BRPs to positively contribute to balancing by going long in case of a significant shortage and vice versa, this flexibility from BRPs is neither proven nor will it be transparent to the market. This lack of transparency will make it difficult for BRPs to assess their imbalance exposure. Eventually, BRPs without sufficient flexibility in their portfolio may need to start contracting reserve capacity on a bilateral basis, which is likely to be less efficient than the pooling of flexibility in Elia's balancing mechanism.

### **4/ The Omega factor is a technical (non-market-based) factor and per definition arbitrary**

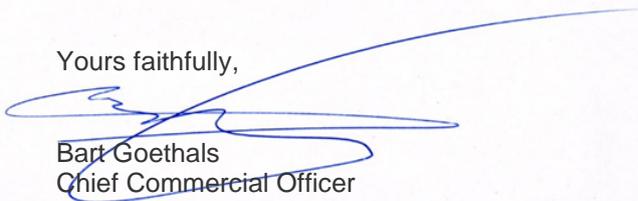
The Omega factor is a technical, non-market-based mechanism and the parameters used to calculate it are exposed to a high degree of judgement by both Elia and CREG. We fear that it will be difficult to calibrate the mechanism to ensure a correct balance between adequate balancing incentive on the one hand and undue penalisation on the other. In any case, NLL's position is that no change of the scarcity factor mechanism or its parameters should happen without first consulting the market.

### **5/ Barriers to entry**

The increased risk exposure in the Belgian balancing may discourage market parties (e.g. renewable energy generators) from taking up the role of BRP and therefore effectively represent a barrier to entry.

Finally, NLL agrees with Elia that the implementation of Omega (or an alternative scarcity mechanism) should only happen until after the go-live of MARI and PICASSO, to avoid delays to the implementation of these important platforms.

Yours faithfully,



Bart Goethals  
Chief Commercial Officer  
For and on behalf of Nemo Link Limited