POSITION

Subject:	FEBEG's position regarding the public consultation on the scenarios, sensitivities and data for the CRM parameter calculation for the Y-4 Auction for Delivery Period 2027-2028
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Overall remarks

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

We welcome that ELIA made comparison between the data used for the DY 26-27 and those for DY 27-28 in slides that have been presented in the WG Adequacy on 06/05/2022. We would welcome that such comparison is added in the XLS sheet. Additionally as a matter of information the actuals of these values would also be welcome. This information is useful in order to assess whether the hypotheses seem to be plausible or not.

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 2027-2028[1]. The comments and suggestions of FEBEG are not confidential.

Executive Summary

Regarding the proposed input data, FEBEG considers that these are much too ambitious and in particular that:

- **The figures regarding renewables** are optimistic and not in line with the actual evolution of these capacities. In addition the societal acceptance is not considered at all and the impacts of the various and long appeal procedures against these kind of projects are simply ignored
- **The hypotheses regarding batteries** are not based on any factual market evolution but are derived from arbitrary assumptions.
- **The market response capacity** are very high and overly optimistic when comparing with the potential of DSR in other countries.

FEBEG considers that these figures should be reviewed downwards.

[1] https://www.elia.be/en/public-consultation/20220506_public-consultation-on-crm

FEBEG also insists on the need to consider important risks in the determination of the final reference scenario. In particular:

- **The unavailability of nuclear units in France should be increased to at least 8** when considering the historical observations where the French nuclear availability was systematically below the forecast and the recent corrosion defects which are expected to have lasting effects on the availability of the French nuclear fleet.
- **A MinRAM of 70% may not be reached for all countries** taking a country-per-country approach could be applied to better capture the uncertainty.
- **The closure of some existing thermal capacity in Belgium should be considered** due to the recent and upcoming review of the CO2 emission threshold to participate in the CRM

Using overly optimistic hypothesis will put the Security of Supply at risk (especially if the non-eligible capacity and the contribution from neighbouring countries is overestimated) and will impact the outcome of the calibration report and should therefore be absolutely avoided.

Comments on the input data

Regarding renewables

The objectives for the coming years are very ambitious, especially for onshore, photovoltaics and biomass where the distrust created by the changing regulatory environment for the photovoltaics and the NIMBY-effect with the delaying effects of the appeal procedures – should unfortunately not be underestimated.

We welcome the adaptation for the offshore wind growth ambitions – i.e. the second offshore zone-, where both the timing of the execution of the project as of the infrastructure projects are indeed not compatible with an effective contribution to the Security of Supply in the 2027-2028 period. In our opinion, the scenario where only the 2261 MW of the first zone are present is a realistic one and should be considered in the base-case.

Regarding thermal generation capacities

While we have no particular comments on the hypothesis put forward by ELIA regarding the thermal generation capacities, we would like to underline that the recent and upcoming review of the CO2 emission threshold to participate in the CRM puts at risk a series of existing thermal capacities which will be at higher risk of closing if they cannot recuperate their missing money (as they will not be able to participate to the CRM anymore).

Changes in relation to the CRM functioning rules and the CRM contract can impact the contractual balance (and hence cause additional costs/risks/obligations for the capacity provider) and have an (financial) impact on the capacity provider to the detriment of the investment climate, especially in the case where the Capacity Provider expected to obtain several yearly contracts in order to recover its initial investment.

Regarding Profiled non-thermal capacities

Could ELIA explain what type of projects are behind this increase of capacity?
Only official projects which are still on track should be considered in the reference scenario.

Regarding the forced outage rate

FEBEG is surprised to see such an important variation in the forced outage rate. Could ELIA provide, just for information, the yearly FO from the dataset.?

Regarding batteries

FEBEG notes that the figures in this consultation are much higher than those used for the delivery year 2026-2027. We considered these figures much too optimistic, **we still believe that the assumptions used by ELIA are overestimated both in terms of small and large-scale storage and V2G.**

Regarding the potential of small & large-scale storage: we believe it is unlikely that this capacity would enter the market, outside of the CRM, with uncertain future market conditions and regulatory framework, without additional visibility on their business cases in the coming years. Furthermore, we assume that the market depth does not permit for the figure proposed in the study (cf. ancillary markets' potential). Regarding the uptake of small scale batteries, it is unclear to which extend such increase will materialize even with the subsidies in Flanders..

Regarding the potential of V2G: the volume not only highly depends on the number of electric vehicles in Belgium but also on the roll-out of the available technology to make them active market participants in the electricity market (smart meters roll-out but also compatibility of cars to being smartly charged). FEBEG has strong doubts that the deployment of smart/bi-directional charges will be generally available by 2027 as it is unlikely that the chargers that will be deployed with the increasing amount of electrical cars will be bi-directional or will be replaced by bi-directional chargers by 2027 (note that V2G charging infrastructure is also more expensive than normal "smart" charging infrastructure). Next to the availability/compatibility issue, it should be noted that the (financial) added value for the consumer remains very marginal and will probably not be impacting enough to drive a behavioral change.
Considering all the above uncertainties and hurdles, we think the figure of 242 MW of V2G by 2027 is overly optimistic.

Regarding peak demand and total electricity consumption:

ELIA does not provide any information regarding the total electricity consumption yet as it will be updated with the latest Climact calculations based on Plan Bureau economic estimates to be published in June 2022. We invite ELIA to transparently inform and to ask feedback from the stakeholders once these figures are known.

While on one hand some might put forward that the electricity consumption could be reduced due to the possible high electricity prices and collateral effects of the war in Ukraine, the fact that the momentum is being used to accelerate the energy transition (eg RePowerEU) with an increased rate for further electrification will without any doubt increase the total electricity consumption and peak demand more than currently anticipated. FEBEG therefore strongly recommends ELIA to consider these evolutions in the determination of the demand (and peak demand).

Regarding market response capacity

Shedding capacity: While FEBEG is convinced about that the potential of Demand Side Response identified by ELIA will effectively contribute to the SoS and will play a real big role the market in the coming years. We estimate that the strong increase observed in the last few years may not necessarily continue to materialize in the following decade – pending the full roll-out of the smart meters especially in Wallonia and Brussels – as the additional DSM potential for certain types of grid users will be limited.

FEBEG doubts that the DSM potential expected by ELIA would become effective outside of the CRM at the 2027 horizon: very high ambitions regarding DSM are expressed in the framework of the CRM given the significant volume that is left open for the T-1 auction.

Shifting capacity: FEBEG considers that the figures presented are also very ambitious.

Regarding the Fuel and CO2 prices

Considering the announced European ambition to reduce its significantly (if not to suppress) the dependence of Europe to Russian's gas and oil it might be useful to base the determination of fuel prices on those of LNG.

Regarding the flow-based domains

FEBEG considers that there remain uncertainties on whether the ambition of minRAM 70% will really be achieved by 2027. For instance, we observe that derogations are still claimed by some countries, while for others action plans are put in place to reach the minRAM (e.g.: Germany). FEBEG considers that the risk of non-achievement of this rule should be included in the reference scenario (see comment below on the sensitivity).

Comments on the proposed the sensitivities

ELIA proposes ten different sensitivities proposal for the Y-4 auction of 2027-28 Delivery Period:

- 4 sensitivities on the French nuclear availability;
- 1 sensitivity on the non/strict achievements of the FB CEP rules for 2027;
- 2 sensitivities related to the impact of a possible CO 2 threshold;
- 2 sensitivities on prices;
- 1 sensitivity on the electricity consumption he following sensitivities.

These are summarized hereafter:

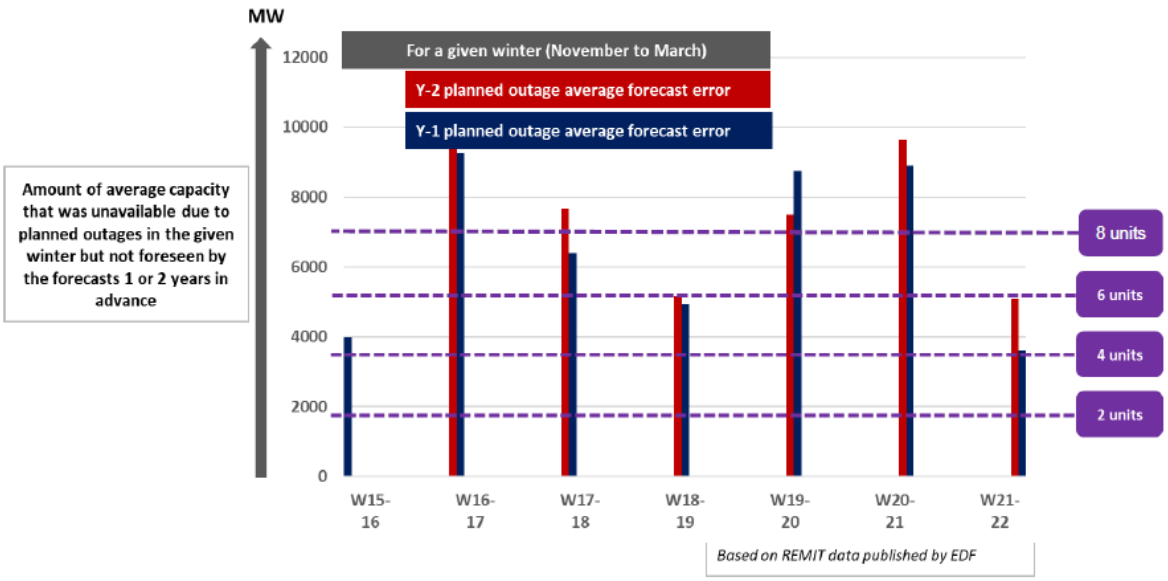
French nuclear availability 1	**Decreased French nuclear availability in continuity of last year's reference scenario** Lower availability by 2 units on average during winter
French nuclear availability 2	**Decreased French nuclear availability based on historical figures** Lower availability by 4 units on average during winter
French nuclear availability 3	**Decreased French nuclear availability based on historical figures** Lower availability by 6 units on average during winter
French nuclear availability 4	**Decreased French nuclear availability based on historical figures** Lower availability by 8 units on average during winter
FB CEP rules	**Non achievements of the CEP rules for 2027 to reflect the uncertainty on capacity calculation.** Fixed RAM 70% instead of 70% minRAM
TJ closure	**Closure of turbojets due to possible CO2 threshold** -158 MW
OCGT closure	**Closure of both turbojets and old OCGT due to possible CO2 threshold** -511 MW
High prices	**Maintain high prices in Europe** Higher fuel costs (35,4 €2020/MWh for gas and 17,1 €2020/MWh for coal)
Low prices	**Back to low prices in Europe** Lower fuel costs (19,8 € 2020/MWh for gas and 8,6 €2020/MWh for coal)
Lower demand	**Lower demand in Belgium due to high prices** Lower yearly consumption due to high electricity prices

Regarding the French nuclear availability

FEBEG firmly supports the need to include a sensitivity regarding the French nuclear availability in the reference scenario: in fact, based on past unavailability of the French nuclear these last years, it is clear that for SoS reasons and as a matter of precaution principle for Belgium, at least 8 units should be considered as unavailable. As stated at numerous occasions, FEBEG considers that **the French nuclear availability constitutes a major risk for the Belgian Security of Supply.** The current low availability of the French nuclear due to abnormal corrosion phenomena and its possible impact on the upcoming winter clearly demonstrates that this risk should be taken very seriously.

Considering the historical observations where the French nuclear availability was systematically below the forecast and the recent corrosion defects which is expected to have lasting effects on the availability of the French nuclear fleet, FEBEG recommends to consider

at least the unavailability of 8 units. This is also supported by the analysis of the amount of average capacity unavailable but not foreseen by the forecasts 1 or 2 years in advance.



Regarding the Flow-based CEP rules

As mentioned in the section regarding the assumptions, FEBEG considers that there remain high uncertainties on whether the ambition of minRAM 70% will really be achieved by 2027 in all countries. For instance, we observe that derogations are still claimed by some countries, while for others action plans are put in place to reach the minRAM70% target(e.g.: Germany). However, there are important risks on their achievement in due time.
We therefore consider it prudent to embed this risk in the reference scenario, also because the assumption that the transmission grid will be fully available in the winter period is ambitious as mentioned by ELIA in the report ("*in determining the flow-based domains for winter periods, the optimistic assumption is taken in this study that the transmission grid is always fully available)*".

These elements show that even a fixed RAM70% will be optimistic for some countries. A country-per-country approach could be applied to better capture the uncertainty.

Regarding the uncertainties on Belgian thermal units

FEBEG is convinced that the impact of the new CO2 threshold for the participation in the CRM that will be further be strengthened may cause the closure of several units.

Conclusion

In conclusion FEBEG considers that at least following sensitivity should be selected for the CRM parameter calculation for the Y-4 Auction for Delivery Period 2027-2028:

- **An additional unavailability of at least 8 nuclear units in France**
- **MinRAM 70% rule not reached**
- **The closure of some existing thermal capacity in Belgium**

Comments on the other parameters

Regarding the preselected capacity types:

As mentioned last year, 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.

While we welcome the increase of CAPEX for batteries, we still consider that the used value are at the lower end (a figure of 400€/kW seems to be a good ballpark value).

Intermediate Price Cap parameters

Considering the significant market evolutions we consider that results of the expert study delivered by Fichtner (2020) followed by a peer review realized by AFRY (2020) are outdated and require an update.

Contrary to what ELIA states in its explanatory note, we are persuaded that an update of the studies realized by Fichtner and AFRY are justified (impact of the inflation, staff costs, ensuring that all the costs are included in the analysis,…) We therefore invite ELIA to start the necessary action in order to perform an update of these studies without any delays for which the results should be integrated in the IPC computation for the delivery year 2027-28

Indeed, it is not only important that the IPC is correctly computed for the existing capacities. But, the impact of the cost components used for the IPC computation seems to impact other CRM-related elements, and in particular the IPC derogation procedure.

This has been confirmed in the CREG decision B2356 of 31/03/2022:

" CREG confirme que les catégories de coûts reprises dans la demande de dérogation doivent correspondre aux catégories prises en compte dans l'étude d'AFRY "Peer Review of « Cost of Capacity for Calibration of Belgian CRM » Study" sur laquelle ELIA s'est basée pour sa proposition du prix maximum intermédiaire dans son rapport de calibration".

In this respect, FEBEG is particularly concerned by a statement of the CREG in this decision:

"La CREG considère donc que ces coûts (les frais généraux, les taxes locales, les frais de location et les coûts fixes d'achat d'électricité), exclus lors du calcul de l'IPC, ne doivent pas être pris en compte lors de l'analyse des demandes de dérogation à l'IPC".

If it is true that these costs (overheads, local taxes, rental fees and fixed electricity offtake costs) were not considered in the AFRY study, they should be in any case added as they need to be included for the "missing money" in the IPC derogation.

FEBEG however remains convinced that the reasoning of the CREG is incorrect: to ensure the level playing field among all capacities (incl. capacities eligible for long-term contract and those who have a "missing money" below the IPC), all relevant and real costs for the CRM Candidates for the concerned capacities should be integrated in both the IPC computation but also in the missing money computation for the derogation files.

Finally, as mentioned in FEBEG's comments on CREG's public consultation on the formal requirements for a request for a derogation from the IPC (dd 17/03/2022), FEBEG calls for a broad review of the IPC derogation mechanism and in the short term, for a sound and manageable derogation procedure allowing market parties to correctly reflect their business cases in the CRM bids.

- **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 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. Some thermal units with low running hours could also be subject to 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.

- **Payback obligation:**

According to FEBEG, and looking at today's situation, the current strike price of 300 €/MWh is too low and creates significant risks for capacity providers as special market conditions arise.
If the strike price methodology and indexation formula for the strike price is not updated to consider the risk of important changing market evolutions (sudden increase of CO2 price, gas price, … which are still possible in the future), ELIA should consider a cost linked to the payback obligation for the IPC as some market participants may have to repay revenues they have not earned (n.b. a payback obligation could occur while the unit would even not be "in the money").

FEBEG has already formulated several proposals to correct this anomaly: a better definition of the strike price (for example, as in other countries where the strike price is the highest option between (1) fuel cost plus CO2 cost or (2) demand management cost), a more dynamic indexation formula that takes into account the unexpected and structural changes in the market and the Clean Spark Spread (CCS), a stop loss on a weekly or monthly basis, a force majeure clause, etc.

- **Revenues (provision of balancing services):**

FEBEG would like to highlight that historical costs per technology are not representative of future revenues for the concerned technologies. It is of upmost importance that:

1) ELIA considers the expected market shares of each technology in the delivery period and the increase of new technologies participating in the balancing services' markets at the 2027-28 horizon. This is even more relevant as new technologies and capacities (batteries, DSM,…) are entering the market and will continue to do in the context of the CRM (cf. large volume reserved in T-1 auctions for such technologies).
2) ELIA corrects for the non-representative historical values linked to special events and market circumstances.