

TF CRM #9 – Minutes

Thursday 21 November 2019
10h00 – 16h00

Agenda

Welcome & Agenda

Minutes of meeting TF CRM #7 – 22.10.2019 – comments Febeliec

Minutes of meeting TF CRM #8 – 12.11.2019

Feedback from Stakeholders

- Febeg: Reaction to ELIA's amended proposal regarding Payback Obligation
- Centrica Business Solutions: Intermediate Price Cap and Demand Response technology class

Further feedback on consultation design notes part 1 & 2 [ELIA]

- Prequalification & pre-delivery monitoring: unproven capacity, delay by 3rd parties (Thibaut Gérard)
- Derating factors (Louis Magein)
- Incentives for declared market prices, following new strike price design (Elmo Van Thielen)
- Auction Process: pricing rule, grid constraints, opt-out (Glenn Plancke – Pieter-Jan Marsboom)

Present

Name	Organisation/Company
Baudhuin Serge	Eneco
Baugnet Christophe	Engie
Bayart Pierre	Rent-A-Port Green Energy N.V.
Benquey Romain	Centrica Business Solutions (CBS)
Bobula Adrian	Dils Energie
Boury Jonas	Yuso
Bruninx Jolien	BASF
Claeys Bram	Ode
De Waele Bart	CREG
Decrop Jehan	EDORA
Desimpel Lara	Eneco
Ferlito Davide	Fluxys
Forrez Ilse	Essenscia
Gourlay Vincent	Total Direct Energie
Haaker Nick	BRUGEL
Harlem Steven	Luminus
Meynckens Geert	Centrica Business Solutions (CBS)
Myingheer Silvie	ENGIE
Poismans René-Pascal	PWC
Schjelderup Ina	RWE
Sijssens Yannick	Tessengerlo Group
Van Bossuyt Michaël	Febeliec
Van De Keer Lieven	T-Power
Van den Kerckhove Olivier	ENGIE
Van der Biest Piet	Siemens
Van Dyck Sara	Bond Beter Leefmilieu
Vandersmissen Michel	Janson Baugniet

Vandersyppe Hans	COGEN Vlaanderen
Vermeiren Christian	Varioza bvba
Verrydt Eric	BASF
Wagnier Jean-François	FEBEG
Willemot Guy	EM GB

Minutes

Welcome & Agenda

James Matthys-Donnadieu welcomes the audience and goes through the agenda of today's meeting.

Minutes of meeting TF CRM #7 – 22.10.2019 – comments Febeliec

Clarification remarks were received from Febeliec on the minutes of meeting of TF CRM #7 of October 22nd 2019. These updated minutes were sent around by email.

Minutes of meeting TF CRM #8 – 12.11.2019

The draft minute were circulated by email yesterday. Comments may be provided until Friday November 29th 2019.

Minutes of the TF meeting of September 5th will be made available as soon as possible.

Feedback from Stakeholders

Febeg: Reaction to ELIA's amended proposal regarding Payback Obligation

The written position from Febeg regarding their amended proposal on payback obligation has been sent around by email. The position is not presented during the meeting. No questions are asked during the meeting. However at the end of the meeting Febeliec states that they formally do not agree with the content of the reaction from FEBEG.

Centrica Business Solutions (CBS): Intermediate Price Cap and Demand Response technology class

COGEN Vlaanderen asks why the focus for the intermediate price cap is on 1-year contracts and why no multi-year contracts are requested for DSR. CBS answers that this could be a possibility however the problem is that currently the CMU falls under the intermediate price cap as long as the CAPEX costs are not too high.

COGEN Vlaanderen wonders if it would be a good idea to write off investment costs over only one year in case they are significantly high and if a multi-year contract should not be requested in such case. CBS confirms but questions however if the money will be invested if the system is only in need of the capacity for only one year.

COGEN Vlaanderen believes it is up to the candidate to decide if he wants to ask for a one year contract even he has the authorization from the CREG to ask for a multi-year contract. CBS agrees that this issue can be secured by a multi-year contract but it is wondered if it is legitimate to allow these costs to be covered by multi-year contracts.

RWE says they recognize the issue, facing the same challenge with thermal units. RWE states that IPC should not prohibit any capacity from participating, and should be fixed high enough. RWE wonders why a possible derogation could not be allowed for all technologies, instead of only for demand response. Febeliec replies that the difference lies in the fact that thermal units could go for a multi-year contract, while demand response with low CAPEX cannot. RWE reacts that this is not necessarily the case because of the current proposed investment thresholds. CBS replies that demand response is the technology they know best and that the proposal should be considered in general, considering all types of costs (not only CAPEX but also OPEX).

Febeliec understands the issue of RWE, however it is stated that a difference should be made between the investment threshold and the length of the contracts. RWE answers that demand response can always chose a one-year contract if they are not willing to take the risk for multi-year contracts. CBS replies that demand response will always be subject to an intermediate price cap since CAPEX costs are small, but higher OPEX costs are not eligible. Febeliec agrees. RWE answers that the intermediate price cap limits the bids; the bid should cover the missing money which results from CAPEX and OPEX costs. CBS is not convinced about this. Elia adds that the CAPEX side is to be considered in case of e.g. major overhauls.

Elia asks for some clarifications on slide 6 and wonders if the derogation should be repeated every year. CBS answers that this should be further discussed and it will highly depend on the concerned capacity. CBS adds that this is a key attention point in other mechanisms. If OPEX costs are not covered, the capacity will leave the market.

Further feedback on consultation design notes part 1 & 2 [ELIA]

Prequalification & pre-delivery monitoring: unproven capacity, delay by 3rd parties (Thibaut Gérard)

Unproven capacity

On slide 4 Elia clarifies that the 400 MW of unproven capacity takes into account the derating factors, which means that these 400 MW should be considered available at 100% of the time.

Febeliec asks what a Candidate project plan is. Elia answers that it is not yet fixed but it will be included in the contract. Febeliec wonders if it is a kind of business plan. Elia confirms; it will have the same level of information.

Febeliec asks what is meant that design is not changed for Y-4 auctions in 2022, 2023. Elia replies that the volume of unproven capacity will not be increased by those Y-4 auctions, as we will not yet have an idea about the materialization of these volumes.

Febeliec asks if a capacity of for ex. 30MW which is not available before the volume calculation, can still prequalify and participate to the auction. Elia confirms. Elia adds however that penalties will apply and that a shift of a delivery point will not be accepted in order to comply with the unproven requirements; proven capacity may not be transferred to unproven capacity.

ENGIE wonders what happens if in the end the candidate is not able to provide what was determined. Elia answers that the candidate is still responsible for the remaining 25% and liable through the penalties.

RWE asks why there is a difference between the pre-delivery rules for unproven capacity and thermal capacity. Elia replies that conditions are different: a thermal unit is more advanced in terms of prequalification, while unproven capacity is less mature; the risk is higher.

RWE asks if a penalty can be avoided by unproven capacity doing a secondary market deal before the volume calculation for the Y-1 auction. Elia confirms. RWE wonders if the 75% and 25% are chosen arbitrary. Elia confirms it is just for managing the risks.

Febeliec adds on the risks that unproven capacity might also be a lower risk, a certain percentage might and will presumably be there. A gas plant on the other hand is a 1/0 risk, it will either be there or not at all. Therefore, risk is different, but by definition not bigger for unproven capacity than for thermal capacity (for the same volume).

Febeliec asks if the capacity becomes proven when 75% is reached and that secondary market is allowed from that moment on. Elia confirms. Febeliec however remarks that there can still be a problem in case the unproven capacity is missing in Y-1. Elia agrees but adds that this is the same for thermal units. Febeliec states that the maximum volume of 400 MW of unproven capacity seems to be comparable to the risk of not having a gas plant of 400MW. Elia includes more checks for unproven DSR, however the risk is lower since a certain percentage might and presumably will be there. The risks for a thermal plant is 1/0; it either be there, or it will not be there at all. The proposal will increase the liquidity in the Y-4 auction. Elia answers the idea behind the proposal is to reduce the risk and to increase competition. Febeliec adds that the probability in ending up with 0MW out of 400MW is reduced due to the multiple providers and with all the foreseen checks. CBS also states that the proposal looks good and appreciates the effort realised on such short term. Febeliec adds that the volume of 400MW is an arbitrary value chosen by Elia (presumably

related to the size of the last gas plants built in Belgium), but that this volume could also be higher (and at least the size of the largest unit to be offered in the CRM).

CREG asks how missing-money can be known when delivery points are not known. Elia answers that penalties are set such that a candidate will not opt for the unproven track if there is no serious business plan behind. CREG replies that this capacity can participate from the moment it is ready, a future Y-4 auction or Y-1 auction. CREG does not understand the reason to complexify the design. Febeliec replies that the point is understandable from a theoretical point of view. However, those projects might require more than one year to be developed (and need certainty of income already). Febeliec is not convinced that the necessary volume will be available in the next auctions if there is not granted sufficient lead time as is done for some generation technologies. Elia adds that the need for new capacity and hence the need for competitive pressure is probably the biggest in the first Y-4 auction, which is why this mechanism should be there already for the first Y-4 auction.

Pre-delivery monitoring

Febeliec asks why society has to pay for something which is not available. If there is a delay in the delivery of for example a part of the 380kV grid, the capacity will be remunerated while there can be no delivery of energy. While Febeliec understands that permitting risk is another issue, it wonders if there should not be any penalties for Elia/DSO/Fluxys when they are the cause of the delay. Elia replies that Elia has no interest to delay due to its incentives. Elia is looking for a way to accommodate the tail risks; investors also have down payments to make. Febeliec believes this has to be managed between Elia and the investors. Elia reacts that the goal is to reduce the overall cost of the mechanism. Uncertainty for an investor in this process has a cost and with this proposal Elia tries to take away that uncertainty. Febeliec reacts that this proposal indeed takes away the risks for the participants, but puts it all at the side of society.

RWE replies that permitting is the biggest risk. RWE is in favour of applying a general rule that the initial contract obligation is delayed. It is logic that there is no remuneration in case a project is delayed by the project owner. In case of permitting delay, the contract is shifted by one-year and this rule should apply to all permitting risks, also for Elia/DSO/Fluxys. Alternatively, only the difference in NPV values should be compensated. Elia adds that Elia/DSO/Fluxys do their business in the best interest of society, and the regulators exist to control this. However it is to be avoided to unnecessarily complexify mechanisms for a probably very rarely occurring issue.

COGEN Vlaanderen wonders about the 2nd bullet of slide 11 that the obligation and the penalties start immediately from the moment the service can be delivered during the delivery year. Elia confirms.

Febeliec requests a modification in case this would be implemented anyhow notwithstanding Febeliec's previous comments: there should still be a check on whether the capacity provider has built everything from his side before the remuneration is started. Elia agrees that will be managed during the availability monitoring.

CREG asks some clarification related to the last bullet on slide 10. Elia answers that this is a risk to be borne by the capacity provider.

RWE indicates there might be a problem in case the initial contract obligation is delayed for one year. This could mean that a capacity provider has costs for 15 years, but has only income during 14 years.

ENGIE wonders what happens if there are 2 years of delay. Elia believes this is a very theoretical case. COGEN Vlaanderen states that wind turbines have already face 2 year of delay in case of appeal. Elia answers that the most important risk happens before the T-1 volume determination.

Febeliec asks if an updated proposal will be provided or this proposal will remain unchanged. Elia answers that the final proposal will be provided.

Derating factors (Louis Magein)

Febeliec wonders on slide 6 how DSR will be modelled (only pump-storage is mentioned). Elia answers that the same mechanism will be used. Febeliec states that storage is explicitly available in the system and DSR is both explicitly and implicitly in the system. Therefore Febeliec wonders how the average contribution to adequacy from Demand Response as a whole will be taken into account. ELIA replies that an assumption will be made on the participation of DSR to the CRM. Elia adds that DSR will be considered at the offer side with some characteristics. All MWs are modelled in order to assess the contribution of them in the system (by looking eg. at the SLA for energy constrained assets). In the CRM, only the contracted DSR is considered.

Febeliec wonders how an average contribution of Demand Response will be calculated in near-scarcity hours when the price is close to the price cap: an average value over a year or an average value for near-scarcity hours. ELIA answers that derating factors are irrespective of the character of demand response. Elia adds that there is no scarcity yet in case the margin is null; this is called near scarcity. These scarcity hours are included in the near-scarcity hours. Furthermore, the system is modelled in the most optimal way.

Febeliec understands that non-scarcity hours are still taken into account. Febeliec states that the impact is big based on the considered number of hours (as the number of selected hours will greatly influence the average impact) and that it has

an impact on many aspects. Elia explains that by considering near-scarcity, Elia considers situations for which assets are activated and therefore avoid scarcity hours.

Febeliec remarks that CRM is about adequacy, which means scarcity hours where energy cannot be provided. Febeliec states that Elia is here considering near-scarcity hours, where energy is still delivered and thus adequacy maintained. Elia replies that the purpose of this methodology is to calculate correctly derating factors. For example, capacities having an SLA of 1 hour will be taken into account to avoid scarcity (hence provide energy in order to avoid 'scarcity') but won't be available for the next hours when scarcity happens. Without taking near-scarcity hours into account, derating factors would end up being close to 0%.

COGEN Vlaanderen questions if the derating factor will be equal to zero if the load is switched every time the DAM price is reaching 3000 €/MWh. Elia explains that the volume to be covered by the CRM and the derating factors are linked scenario-wise but the methodology to calculate them are different.

ODE replies that this could be solved by calculating derating factors in scarcity hours and near-scarcity hours. ODE shares Febeliec's view that the non-viable gap might be influenced by the derating.

Elia repeats this is linked to the volume, not to the derating factors. Febeliec states that these two issues are linked since volumes are calculated based on prices that are not above 1000 €/MWh.

COGEN Vlaanderen wonders if DSR is taken into account for the demand curve. Following Elia's view, the demand is driven by load assumptions; participation of DSR is considered at the offer side for CRM. ENTSO-E assumptions are taken into account to determine the load. Febeliec replies that explicit DSR is considered in the demand curve while implicit DSR in the offer curve; it is very relevant how the split is made.

ELIA refers to CREG's proposal on volume determination and an example is given. In case of 4 hours during which the capacity is contributing for 2 hours only : these 2 hours are scarcity hours while the other 2 hours are near-scarcity hours. If only scarcity or near-scarcity hours are considered, the contribution of the SLA varies. In case of only scarcity (without near-scarcity), derating of energy-limited CMUs would be 0%. The model is built to have 3 hours of scarcity on average, somewhat higher because of near-scarcity.

T-Power refers to proposal of the previous task force when the possibility was considered to have a Declared Market Price for DSR. T-Power wonders if the DMP intervenes with the derating factor. Elia replies that the derating is not price-based and that consequently there is no link.

Centrica asks if the derating does not just depend on number of near scarcity hours and then a capacity holder determines how many hours it can contribute. Elia answers that the contribution of each technology during those near scarcity hours is modelled.

CBS wonders if storage providers decide when they can be available. Elia answers that this is no storage provider decision; this will be determined based on the SLA.

Febeliec states that the derating factor crucially depends on the occurrence and hence definition of near scarcity hours.

ENGIE asks what if technology is not “eligible for SLA category”. Elia replies that this is not a question, as it is always eligible for an SLA category as long as those are non-full-scheduled technology.

BBL wonders if coal can participate to the CRM because of CEP CO₂ limitations, and consequently states that it does not make sense to calculate derating factors for this technology. Elia replies that it is not known if a coal plant could in some way maybe make itself eligible to participate, so in any case it remains useful to determine a derating factor. However, if the CEP stipulations are not met, the power plant will not be able to participate to the CRM.

Elia explains that a consultation report will be drafted in which it will be explained what has been changed. Updated design notes are expected in the beginning of 2020; the consultation report by end of November. Market Rules will be published as well end of November.

Incentives for declared market prices, following new strike price design (Elmo Van Thielen)

Febeliec wonders on slide 4 if Nominal Reference Power is considered or Reference Power. Elia replies that Nominal Reference Power is considered.

Elia clarifies that the goal is to have a correct DMP, not an incentive to avoid payback obligation. If the energy is activated too early (according to DMP), the capacity provider is subject to penalties.

Febeliec asks if the 100MW is by definition equal to the unsheddable margin. Elia answers this is not the case and it is just a coincidence in this numerical example.

ENGIE wonders if the DMP should not be 300€/MWh instead of 3000 €/MWh. Elia replies that the 300 €/MWh relates to a partial DMP. A partial DMP is not obligated to declare, but if he is, it is binding when a payback obligation applies.

ENGIE requests what happens if the DMP in the day-ahead market is higher than in intraday or balancing markets. Elia answers that discussions are ongoing if limits for DMPs should be imposed (e.g. market cap, order between different markets). However the market cap should be respected. Any capacity should react to a clearing at the day-ahead market price cap. More generally, it should be avoided that distorting incentives are given which can influence the energy market.

ENGIE asks what happens if the DMP in the day-ahead market is above the Strike Price but under the intraday or balancing price. ELIA wonders what would be the rationale to have a lower price in intraday or balancing than in the day-ahead market. ENGIE replies that this could happen in case the capacity provider does not want to be subject to the payback obligation. BASF confirms that prices can change over time for a cogeneration. ELIA replies that of course prices can change but intraday or balancing prices will need to be updated. RWE wonders how it can be avoided that someone is putting a very high DMP in the day-ahead market and a low price in the intraday or balancing market in order to avoid the payback obligation. Febeliec agrees with Febeg that this needs to be solved and that it needs to be bullet-proof regarding gaming.

Febeliec asks if there will be a deadline for DMP announcement. Elia replies that DMP has to be declared before the day-ahead market clearing.

T-Power wonders since when the payback obligation is related to the intraday market and balancing. Elia replies that it has to be monitored if the energy is delivered, therefore these markets are considered too. Elia adds that the end result of activated power has to be known. However, the payback obligation will still reflect earnings relative to the Day-Ahead market.

Elia replies that general market monitoring process will be put in place to observe suspicious behaviour, e.g. if a lower DMP in intra-day than in day-ahead market. Market monitoring is ELIA and CREG's responsibility.

RWE asks how DSR will be monitored. Elia refers to the left side of the graph on slide 6 and notes that the CRM should not create an incentive to consume. RWE wonders if the baseline will be adjusted. Elia answers that the baseline is not determined on moments when there was a reaction to a signal. RWE asks what happens if consumption is lowered before the DMP. Elia replies this is allowed, but information should be provided to Elia. The DMP is just facilitating the monitoring, not impacting normal market behaviour.

CBS asks about the rules when a pool is considered. Elia replies that the Available Capacity is established at delivery point level and that the values are added, leading to the total pool Available Capacity. The obligation is imposed on the pool. CBS states that it can demonstrate when an activation is done, however is more difficult to show that there is no activation. Elia states that the design looks at pool-level, and thus only verifies that in total enough energy was delivered and enough margin was

retained (according to the DMP). This has a flipside for aggregators since they have the responsibility to manage their pool(s); they need to communicate about prices, volumes, ...

Febeliec states at the end of the presentation that it thanks Elia for looking into a better design related to the Declared Market Price which also facilitates demand.

Auction Process: pricing rule, grid constraints, opt-out (Glenn Plancke – Pieter-Jan Marsboom)

Febeliec mentions that their position on PAB is known. There is one problem left : imagine the case where for the delivery period of 2025 there is still a lot missing capacity, it will be included in the Y-1 auction of 2025 for 2026 which is under PAB. In case the capacity is still missing, it will then be included in the next Y-1 auction which will be under PAC. The comment from Febeliec relates to the fact that subsequent auctions relating to the same delivery period should follow the same clearing approach. Elia answers that to solve this issue, a KPI should be put in place in order to verify if there is still new capacity to be auctioned; such control would become very complex. The current proposal is a simple rule: there can be a spill-over to one Y-1 auction in case the capacity is missing, and still have a Y-4 auction to clear the new capacity. Febeliec had a slightly different proposal where all the auctions to which new, but still missing capacity from the Y-4 auctions should be cleared under the same PAB mechanism.

ELIA understands the reasoning. That is why a PAB applies for two auction "cycles" but this is also why remaining too long in PAB should not be targeted. The drawbacks of a PAB come in the longer run when a CRM is used. The risk exists that many auctions remain with a PAB: this is why ELIA suggests to switch not too soon and not too late to a PAC.

Febeliec states that not only two Y-1 auctions should be organised via a PAB, but all Y-1 auctions were you have to fix issues from the Y-4 auction.

Elia understands but states it has to be put in balance with the advantages and disadvantages. Febeliec states it has a different point of view on this proposal compared to the previous proposal.

Grid constraints

Febeliec wonders if the 50MW from the example is relevant. Elia answers that this 50MW concern existing capacities, which will not be considered; it will only apply to additional capacities. The grid user has two options before the freeze period: or he signs a connection contract and consequently he obtains the capacity (the CRM clearing will not affect the obtained capacity), or he does not sign this connection contract. In this last case he participates to the CRM and he is subject to the grid

constraints during the clearing. If he does not participate to CRM, he is subject to the CRM outcome.

Febeliec requests whether a DSO-connected assets will also be subject to a freeze period. Elia answers that DSO are not considering such freeze period. Elia adds that any consumption related request will be analysed during the freeze period and might not be subject to a freeze period. This adaptation will be foreseen in the Federal Grid Code modifications.

Febeliec states that treating demand for freeze period for a CRM, when it is even not participating in the CRM, is not acceptable.

Luminus wonders if there is a link between additional capacity in the investment thresholds and the definition of substantial modernisation in the Federal Grid Code. Elia answers it has to be checked in order to match those definitions.

Febeliec does not like the answer provided on the Febeg remark on slide 9 since it will lead to a least cost for the CRM auction but not for society. Elia answers that other grid investments may still occur outside of the CRM. The overall transmission development plan is broader than the CRM. The interface between the two should be managed. This is not an overall system planning with optimises both grids and other capacities. Febeliec regrets this approach.

RWE asks if the cheapest bid is always chosen in case of grid constraints. Elia answers that in case there are no grid constraints that the merit order will be followed. If grid constraints apply, the optimisation will search for the overall optimal welfare. RWE had previously understood that first the cheapest bid was retained on a high voltage substation with grid constraints and afterwards the clearing was performed in a two-steps approach. Elia states that it is an optimisation subject to constraints in 1 step.

Any other business

Febeliec wonders why availability monitoring is foreseen during non-winter months. Elia answers by referring to the law that adequacy should be guaranteed all-year. The CRM is designed in such a way that it will show when adequacy issues occur. In the current proposal, if a problem would pop up in July, a monitoring will be applied in July. Elia adds that testing for some technologies could cost more money than for others. However testing is part of the regime.

Febeliec mentions that it prefers an obligatory participation to the secondary market of all available capacity providers, otherwise liquidity might be very low. Elia wonders how DSR can be obliged to participate to the secondary market.

Elia summarizes that at the end of the month of November Elia will publish its deliverables: a draft version of the Royal Decree methodology, a draft version of the market rules and the consultation report.

By the end of the week Elia will send around a small survey on the working of the TF CRM this year, to see how the organisation can be improved towards next year.