



**Public consultation feedback
Intermediate Price Cap & Fichtner study**

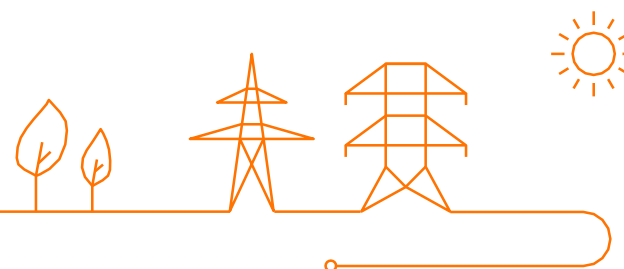
TF CRM #14

Task Force CRM Design – 09/07/2020

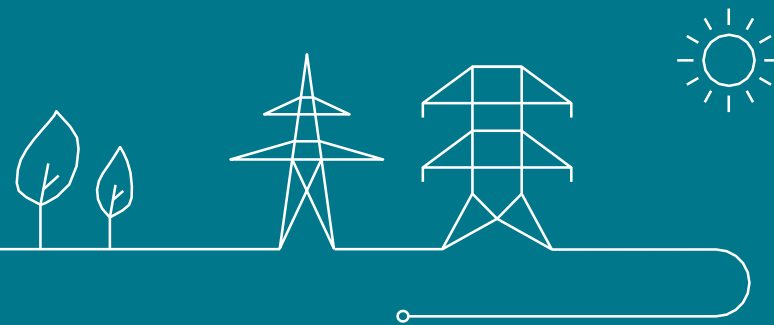
Agenda

TF 09/07/2020

- Context and further planning
- Public consultation feedback
 - General messages
 - Detailed feedback and answers



Context and further planning



Proposed Royal Decree Context – Scope of public consultation

Art. 6. § 1er. Le gestionnaire de réseau organise une ou plusieurs consultations publiques conformément à l'article 7undecies, § 2, alinéa 1er de la loi du 29 avril 1999 durant une période de minimum un mois.

Le gestionnaire du réseau informe les acteurs de marché de la tenue de cette (ces) consultation(s).

§ 2. Les sujets suivants au moins sont soumis à une consultation publique:

1° la mise à jour des données et des hypothèses du scénario ou des scénarios, ainsi que des sensibilités éventuellement sélectionnées, telles que visées à l'article 4, § 3 ;

2° la pertinence des sensibilités visées à l'article 4, §4, en ce compris les données et hypothèses à partir desquelles elles ont été établies ;

3° le type de capacité supplémentaire visé à l'article 7, § 1er ;

4° les sources publiques des scénarios pour les années postérieures à l'année de livraison à partir desquelles les données d'entrée sont utilisées pour le calcul des rentes inframarginales visées à l'article 10, §6 ;

5° la liste réduite des technologies existantes qui seront raisonnablement disponibles et qui sont éligibles pour la détermination du prix maximal intermédiaire visé à l'article 18, §1er.

Art 6. § 1. De netbeheerder organiseert een of meerdere openbare raadpleging(en) in overeenstemming met artikel 7undecies, § 2, lid 1, van de wet van 29 april 1999, gedurende een periode van ten minste één maand.

De netbeheerder informeert de marktdeelnemers over het houden van deze raadpleging(en).

§ 2. Ten minste de volgende onderwerpen worden openbaar geraadpleegd:

1° de actualisatie van de gegevens en hypothesen van het scenario of de scenario's en de eventueel geselecteerde gevoeligheden zoals bedoeld in artikel 4, §3;

2° de relevantie van de gevoeligheden bedoeld in artikel 4, § 4, inclusief de gegevens en hypothesen waaruit ze zijn opgebouwd;

3° het type bijkomende capaciteit bedoeld in artikel 7, § 1;

4° de publieke bronnen van de scenario's voor de jaren na het leveringsjaar waaruit de invoergegevens gebruikt worden voor de berekening van de inframarginale inkomsten, bedoeld in artikel 10, § 6;

5° de beperkte lijst van bestaande technologieën die redelijkerwijs beschikbaar zullen zijn, en die in aanmerking komen voor de bepaling van de intermediaire maximumprijs, bedoeld in artikel 18, §1.

Voluntary extension of scope of public consultation regarding IPC

- **Cost components** of each short-listed technology
 - Fixed O&M costs (in €/MW/year)
→ *Based on study by Fichtner, who has been appointed as independent expert, cf. Art. 17 §1 of the Proposed Royal Decree:*

Art 17. § 1er. En concertation avec la commission, le gestionnaire du réseau fait réaliser par un expert indépendant une étude qui a comme objectif la détermination des coûts des technologies qu'ils jugent pertinentes pour la détermination du prix maximal intermédiaire. ...

Art 17. § 1. De netbeheerder laat in overleg met de commissie een onafhankelijke deskundige een studie uitvoeren die tot doel heeft de kosten te bepalen van de technologieën die zij relevant achten voor de bepaling van de intermediaire maximumprijs. ...

- Activation costs for availability testing (in €/MW/year)
- Consideration of **net revenues from the provision of frequency-related balancing services**
 - Note: only reasoning was consulted upon, no concrete numbers



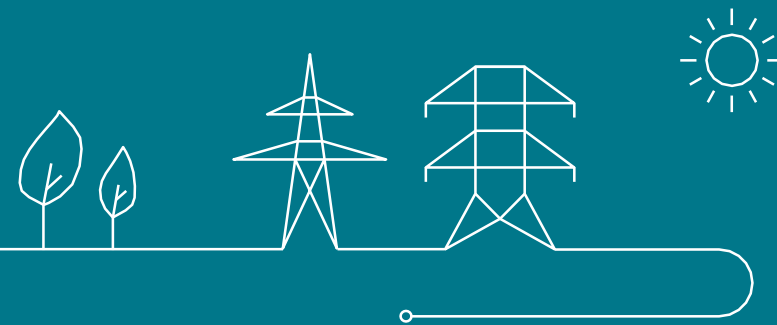
Proposed Royal Decree Context – Further planning towards IPC proposal

<p>Art 7.</p> <p>...</p> <p>§ 2. Sur la base du scénario de référence sélectionné en vertu de l'article 4, §7, dont l'application est adaptée en vertu de l'article 7, §1er, et en application de la méthodologie telle que visée à l'article 23 (5) du Règlement (UE) 2019/943 pour autant que d'application, le gestionnaire du réseau établit les rapports visés à l'article 7undecies, § 2 de la loi du 29 avril 1999 au plus tard le 15 novembre de l'année précédant les enchères. Ceux-ci contiennent au moins les informations et propositions suivantes :</p> <p>...</p> <p>9° une proposition pour le prix maximum intermédiaire conformément au Chapitre 6;</p>	<p>Art 7.</p> <p>...</p> <p>§ 2. Op basis van het volgens artikel 4 §7 geselecteerde referentiescenario, waar van toepassing aangepast volgens artikel 7 §1, en met toepassing van de methodologie zoals bedoeld in artikel 23 (5) van Verordening (EU) 2019/943 voor zover van toepassing, maakt de netbeheerder de in artikel 7undecies, § 2 van de wet van 29 april 1999 bedoelde verslagen op tegen ten laatste 15 november van het jaar voorafgaand aan de veiling. Deze bevatten minstens de volgende informatie en voorstellen: Ten minste de volgende onderwerpen worden openbaar geraadpleegd:</p> <p>...</p> <p>9° een voorstel voor de intermediaire maximumprijs overeenkomstig Hoofdstuk 6;</p>
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Public consultation feedback

General messages



Elia welcomes all feedback received in the framework of the public consultation

- 10 answers received

- 6 public

- Febeliec

- ODE-EDORA-BOP

- Ecolo-Groen

- IEW-Greenpeace

- CBS

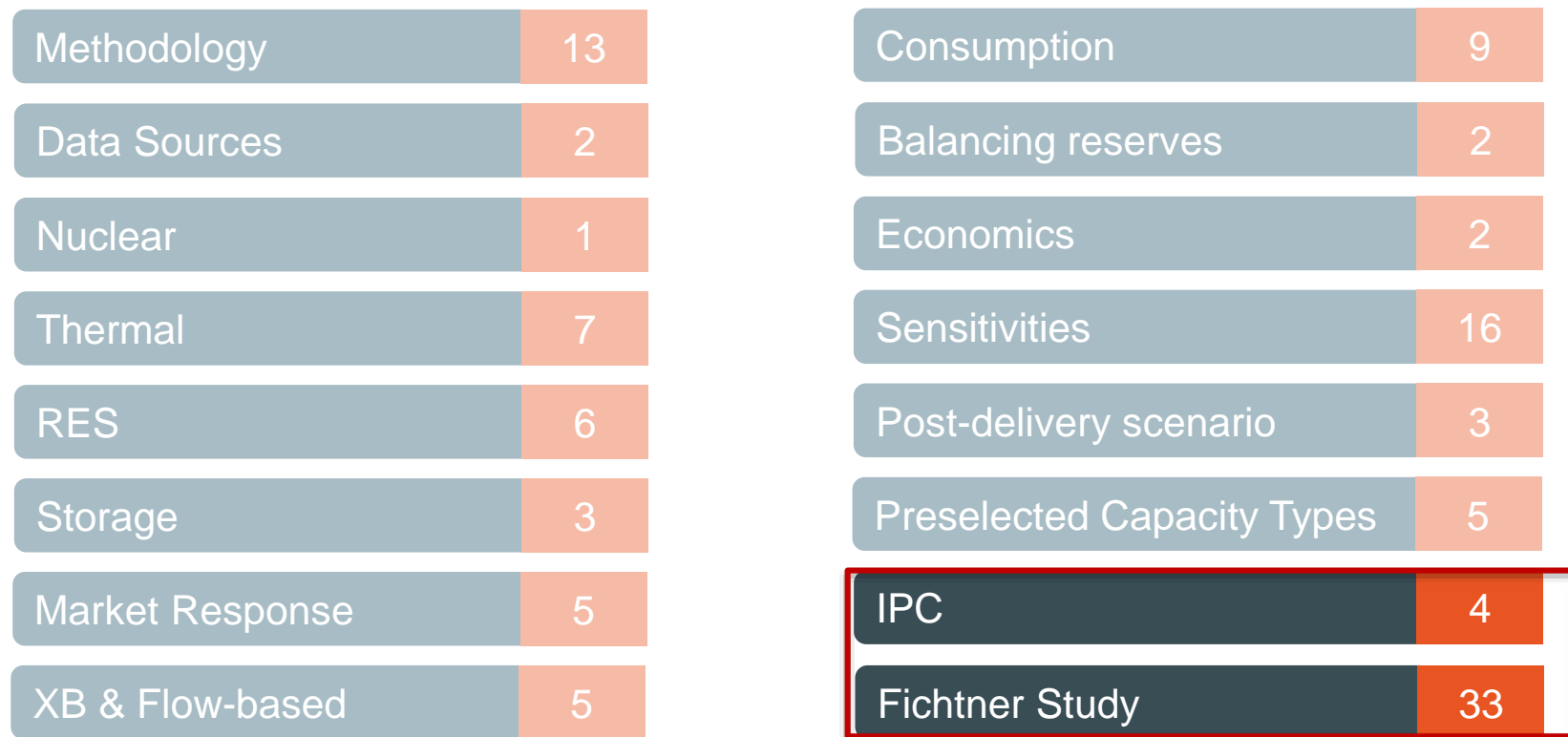
- Febeg

- 4 confidential

Provided feedback on IPC
and/or Fichtner study
(including 1 confidential reply)



Overview of feedback received in the framework of the public consultation



Focus of this presentation
and public consultation report



General message 1 regarding feedback received

On the scope of the Fichtner study

- Feedback has been received on various elements of the Fichtner study, which has been commissioned by Elia in close collaboration with CREG.
- However, the scope of the Fichtner study \neq the scope for which Elia is responsible following the proposed Royal Decree in the context of the calibration of CRM parameters
 - For instance, cost of new capacity rather concerns CREG's responsibilities (towards net CONE and x-factor)
- Nevertheless, Elia does provide an (at least general) answer to all feedback received regarding the Fichtner study in the public consultation report
 - In order to be complete and consistent
 - Since cost estimations in the Fichtner study are to be seen as a complete package and underlying hypotheses are often related



General message 2 regarding the feedback received

Elia generally sees no reason to consider the Fichtner results as unreliable

- Some stakeholders have expressed general criticism regarding the numbers provided in the Fichtner study.
- However, Elia generally sees no reason to consider the Fichtner results as unreliable
 - Fichtner has been selected to perform the cost of capacity study as independent external third party consultant with relevant experience on the matter
 - No alternative numbers from publicly referenced other sources have been provided by stakeholders (except for reference to PWC document by Febeg, cf. next slide)
 - For several aspects the numbers of Fichtner appear in line with results in other studies (The Brattle Group, 2018, Pöyry Management Consulting, 2018)
- Nevertheless, to further ensure robustness of the obtained results in the Fichtner study, Elia is considering launching a limited peer review of a number of aspect of the Fichtner study



Febeg believes PWC study provides a better representation of the market realities

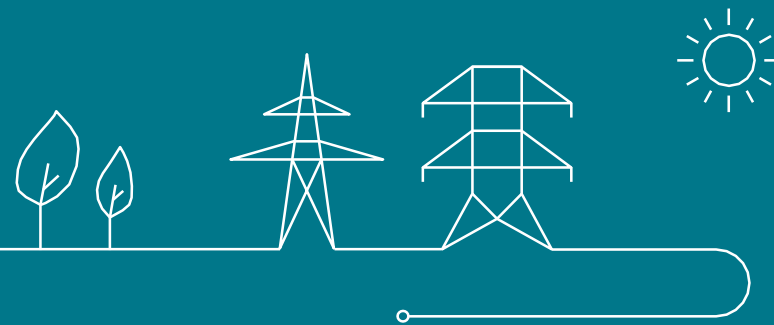
Febeg believes that the figures mentioned in the PWC document “Observations relatives au document de consultation publique de la CREG (19/11/2019)” ordered by the FPS Economy are a better representation of the market realities. Febeg considers that these figures should be used for the determination of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

- Elia would like to convey the following observations
 - Like Fichtner, PWC also refers to the Gas Turbine Handbook for the EPC cost for both OCGT and CCGT
 - However, starting point of both studies is different:
 - PWC attempts to calculate the **‘eligible’ parts** of the investments, as the purpose is to provide feedback on the **investment thresholds**
 - Fichtner considers **all costs**, as the purpose is to provide relevant input for **gross CONE**



Public consultation feedback

Detailed feedback and answers



Outline

Note that not each remark will be discussed in detail in this presentation. Rather, the purpose of this presentation is to identify the main points of feedback and discuss Elia's general reply to this feedback. An exhaustive overview of all remarks and Elia's detailed answers are included in the public consultation report.

The identified topics are:

- Intermediate Price Cap calibration methodology
- Fichtner study – Major overhauls & cost for lifetime extension
- Fichtner study – WACC
- Fichtner study – Short-list of technologies for Gross CONE
- Fichtner study – Gross CONE – Capital costs
- Fichtner study – Short-term variable operating costs



Feedback regarding the Intermediate Price Cap calibration methodology

Note that Elia follows the methodology as set out in the Proposed Royal Decree and that the current exercise upon which aspects have been consulted upon is one of calibration (not overall principles or methodology).

- Centrica Business Solutions

*CBS finally renews its concerns regarding the **risk of exclusion of certain market response MWs**. ... In order to solve these issues and remove the blind spot, CBS believes at least two options are available. ... Option 1: include the fixed O&M costs in the list of costs that are eligible for the multi-year contract threshold ... Option 2 (preferred option): exempt capacities from the intermediate price cap, if they are able to justify that their level of expected missing money (based on documented fixed O&M) is higher than the proposed intermediate cap*

- Elia takes note of this viewpoint from CBS which as such goes beyond the scope of the public consultation as it touches upon the overall principles and methodology of the intermediate price cap. However, Elia has informed the members of the Comité de Suivi, i.e. FPS and CREG, about all answers received for this public consultation.

- Febeliec

*With respect to the **net revenues from the provision of balancing services**, Febeliec continues to be surprised that Elia does not yet include these ...*

- Elia would like to point out that net revenues from the provision of balancing services are taken into account. In the context of the public consultation, the rationale regarding the consideration of net revenues from balancing services has been included in scope, although not strictly required following the Proposed Royal Decree Article 6, §2, regarding the elements to be publicly consulted upon. However, no concrete numbers are consulted upon.



Feedback regarding the Intermediate Price Cap calibration methodology

Note that Elia follows the methodology as set out in the Proposed Royal Decree and that the current exercise upon which aspects have been consulted upon is one of calibration (not overall principles or methodology).

- Febeg

*Febeg is surprised that the **activation cost for availability testing** is only considered for technologies with a high short-run marginal cost. ... 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.*

- In line with the Proposed Royal Decree Art. 20, §1, 3°, activation costs for availability tests are only considered for technologies with high short-run marginal costs. Elia translates this stipulation from the Royal Decree by its proposal submitted for public consultation to only consider activation costs different from zero for the market response technology.
- Elia also considers this viewpoint in line with the philosophy put forward for the functioning rules where it is made clear that testing is proposed as a last resort measure for checking on availability, particularly targeting capacities whose ‘visibility’ in the market is less. This visibility is obviously highly correlated to the activation price. The higher the activation price, the fewer activations, the more limited the visibility.



Febeg requests clarification regarding the definition and consistency of the major overhaul and cost for lifetime extension

- Elia can confirm that the definition and calculation of the costs for major overhauls and the costs for lifetime extension are **consistent and without overlap**.
- In the context of the CRM, Elia confirms that is important and ensured within the Fichtner study that there is consistency between on the one hand the **calibration of the IPC** (Elia responsibility) and on the other hand the **eligible costs for the investment thresholds** (CREG responsibility).
 - **Major overhauls** are considered as relevant going-forward costs and are therefore **included in the Fixed O&M costs towards the calibration of the Intermediate Price Cap**
 - However, major overhauls should not be considered as eligible costs towards the **evaluation of investment files in the context of the investment thresholds**, as these should only consist of initial and one-time investment costs relevant for the provision of additional electric capacity, such as the **costs for lifetime extension**. → Costs for lifetime extension are relevant as without this investment, the capacity would have disappeared.



Febeliec is of the opinion that CRM-covered assets should be reflected by lower WACC components than industry averages

- Febeliec is of the opinion that the following WACC components should be set at a lower level than industry averages :
 - Equity beta
 - Equity risk premium
 - Cost of debt

- Elia understands Febeliec's comment, but underlines that CRM-covered assets remain subject to some important risks:
 - The CRM does not eliminate the volatility of revenues in the electricity market.
 - Participation to the CRM implies risk on its own in terms of respecting a.o. availability obligations, which can result in penalties in case of non-compliance.



Febeliec is of the opinion that several WACC components should be adapted as a result of the covid-19 impact

- Febeliec states that the **nominal risk-free rate** should be decreased in line with the market evolutions :
 - Elia notes that the risk-free rate in the study is not directly based on the forecasts of the Federal Planning Bureau, but that these values have been used as a benchmark against the calculations in the study.
 - However, in order to take into account a forward-looking value, Elia understands that it might be needed to set the risk-free rate at a slightly lower level post covid-19.
- Febeliec is of the opinion that the **inflation rate** should be lowered, in line with recent evolutions:
 - Based on the most recent outlook of the IMF, the inflation rate for 2021 is set at 1,1% (compared to 1,58% in the study).
 - As the inflation rate does not impact the nominal interest rate and given that the updated value for 2021 does not significantly differ from the value in the study, Elia proposes to keep the value unchanged.
- Febeliec argues that **the cost of debt** should be lower given the increased liquidity in the market :
 - Covid-19 does not necessarily imply a decrease of the cost of debt levels in the energy sector as the debt premium might increase as a result of the uncertainties in the market.



Febeliec expresses its concerns regarding the determination of the shortlist for Gross CONE

- Febeliec

Febeliec is very surprised to see that for the shortlist, “the technology should not strongly depend on changes in the current National Energy Policy”.

- Firstly, Elia would like to point out that the choice of reference technology does not inhibit other technologies from participating to the CRM. Innovative technologies can still offer into the CRM and get selected if they are indeed very cost-competitive.
- Secondly, Fichtner proposes – and Elia tends to agree with this proposal – that the choice of reference should not be a technology that is conditional on Belgium to implement a certain support scheme or policy that is currently not in place.
- Thirdly, it is not to be overlooked that the initial calibration of the CRM has to address the first delivery period 2025-26. From that respect it is important to target technologies whose maturity-to-market is deemed sufficiently realistic for this time period.

Febeliec is very negatively surprised to see that Fichtner concludes that “since it is impossible to identify a “reference” DSM technology [...], DSM is not suited to be the “Best New Entrant Reference Technology”. It is therefore not considered in the shortlist”.

- Elia would like to reiterate that the choice of reference technology does not inhibit other technologies from participating to the CRM. To the contrary, demand side response can still offer into the CRM at competitive prices even if they are not the reference technology.
- The thesis of the study is that Demand Side Response is inherently a diverse product (as Fichtner illustrates by the quoted source). Therefore, any choice of DSR reference technology, absent full knowledge of the 2025 market for DSR and the complete outcome of both CRM auctions, would be arbitrary and risks excluding technologies, including DSR.



Febeliec expresses its concerns regarding the estimations of the various cost components that make up the capital costs

- Firstly, Elia sees no reason to consider the Fichtner results, including the quoted capital costs, as unreliable. Fichtner made use of various reputable sources and when necessary fell back on its expert opinion as independent expert in the subject.
- Secondly, absent publicly referenced counterproposals, Elia disposes of no alternative numbers to consider.
- Thirdly, and to the extent Elia can judge on this, Elia deems the results of the Fichtner study generally in line with similar studies (e.g. (The Brattle Group, 2018, Pöyry Management Consulting, 2018)).
- Finally, to further ensure robustness of the results, Elia is considering launching a limited peer review on a number of aspects of the Fichtner study.



Febeliec expresses its concerns regarding the validity of the inputs that make up the short-term VOM, in particular in light of the COVID-19 crisis

- Febeliec

On at the least the fuel (3.3.4.1) and CO2 certificates (3.3.4.2) costs, Febeliec reiterates its comments about the impact of the covid-19 crisis and asks for an update of the data used, in order to avoid unduly increasing the overall costs for consumers, which would not be in line with the legal obligations.

On 4.2.2, Febeliec wants to reiterate its comments on fuel prices, as a natural gas price of 23,6 €/MW seems steep, even in pre-covid-19 times but definitely in post-covid-19 times. The same applies for the CO2 certificate costs.

- Elia appreciates the completeness of the Fichtner study, but proposes to continue to use (latest) CO2 price sources as for past studies, stemming from reputable sources (as listed in the information released for the public consultation).



Thank you.

