

# Intermediate Price Cap (IPC)

Feedback public consultation

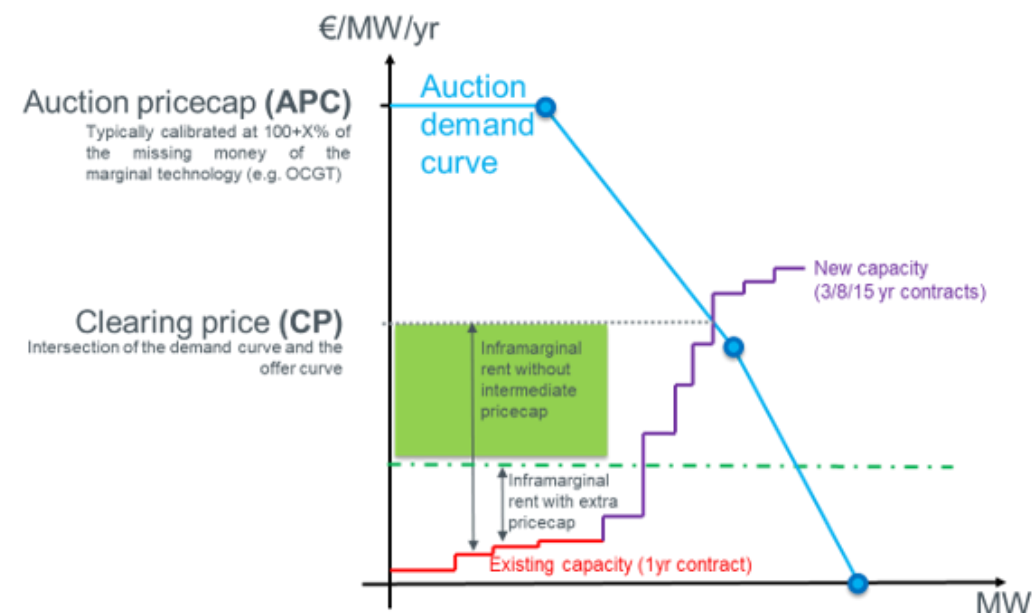
12/11/2019 | Glenn Plancke

## Feedback on the public consultation w.r.t. Intermediate Price Cap (IPC)

We have received feedback on the design note Intermediate Price Cap from **CREG, Febeliec, FEBEG, Next Kraftwerke, Actility and Centrica Business Solutions**

In what follows, the feedback received is structured according to whether the feedback relates to:

1. Governance of the IPC
2. Scope of the IPC
3. Calibration of the IPC



The objective of this presentation is to present on **Elia's reaction to the received feedback**

## 1. Governance of the intermediate price cap

Topic	Comment	Elia's initial proposal	Elia's reaction wrt comment
Yearly public consultation towards proposal of IPC	<b>Febeliec</b> asks Elia to clarify the <b>yearly public consultation process</b> . Which elements will be subject to a public consultation? How will stakeholders be involved in this process?	In the design note, it was not yet specified which elements would be publicly consulted upon	Elia agrees to clarify (cf. proposal at the end of this presentation)

## 2. Scope of the intermediate price cap

Topic	Comment	Elia's initial proposal	Elia's reaction wrt comment
Application of IPC	<b>CREG</b> asks to apply an <b>exemption</b> wrt the application of the IPC for CMUs who are assigned to a multi-year capacity category but deliberately opt for a one-year capacity contract	The IPC applies to all CMUs applying for a one-year contract	Elia is willing to agree to exempt CMUs (both consisting of 1 or multiple delivery points) applying for a 1-year contract but assigned to a multi-year capacity category from the IPC
Number of IPC	<b>Febeliec</b> asks for multiple IPC, e.g. per technology	One IPC	Elia deems this proposal not feasible for the reasons explained in the design note.
	<b>FEBEG</b> asks for no IPC	One IPC	Elia remains convinced of its proposal to define an IPC for the reasons explained in the design note.

### 3. Calibration methodology of IPC – Elia initial proposal



### 3. Calibration of the intermediate price cap (1/3)

Topic	Comment	Elia's initial proposal	Elia's reaction wrt comment
Calibration methodology - shortlist	<b>Centrica</b> asks to take into account two demand response categories in the shortlist		Elia is prepared to consider these two categories in the longlist, but not already by definition in the shortlist as this depends on an analysis.
Calibration methodology - costs	<b>Centrica</b> argues that also costs for activation tests should be considered for the IPC	No mentioning/taking into account costs of activation tests	Elia agrees to take the cost for one such activation test into account for technologies with higher SRMC.
	<b>FEBEG</b> argues that investment costs that are non-eligible towards investment thresholds but considered for the IPC, should be taken into account in a "skewed" levelized way	Routine investments taken into account in a levelized way	Elia is not convinced that the IPC should include the routine investments in a "skewed" levelized way, as this would increase the IPC each year and for each auction.
Calibration methodology – revenues	<b>FEBEG</b> argues that balancing revenues do not correspond with procurement cost of balancing services. <b>FEBEG</b> argues that black start service should not be considered	Balancing and ancillary service revenues not yet detailed	Elia will consider frequency-related balancing services. Elia agrees and will further specify that procurement cost is not equal to revenues (e.g. must-run cost, opportunity cost,...).

### 3. Calibration of the intermediate price cap (2/3)

Topic	Comment	Elia's initial proposal	Elia's reaction wrt comment
Calibration methodology – missing-money	<b>FEPEG</b> argues that a risk premium should be considered when calibrating the IPC to account for risks related to payback obligation, penalties and operational risks	No risk premium considered for CRM related risks	Elia does take into account other CRM design elements to calibrate the IPC, but sees no arguments why a further risk premium should be included as well.
Calibration methodology	<b>FEPEG</b> proposes an alternative way to calibrate the IPC: 50% of CONE for OCGT		Elia has explained its reasons for not retaining this proposal in the TF CRM (no 1-1 link between netCONE tech and tech for IPC + CONE would not account for market

**Because of the general uncertainty related to the estimation of the IPC as also indicated via some comments received in the public consultation and the need to avoid that technologies would be excluded as a consequence of this, Elia proposes to apply an uncertainty margin on the estimated IPC:**

→  $IPC = (\text{costs} - \text{revenues}) * (1 + \text{uncertainty margin (e.g. 5\%-10\%)})$

(Note that a similar reasoning is typically applied in setting a global auction cap for the auction by adding a margin to value of netCONE.)

### 3. Calibration of the intermediate price cap (3/3)

Topic	Comment	Elia's initial proposal	Elia's reaction wrt comment
Calibration methodology – scenario	<b>CREG</b> argues that the scenario for the calibration of the IPC should be identical to and not only coherent with the scenario we will use for volume determination		The calibration of the IPC should be based on a CENTRAL scenario with a realistic and complete set of capacities
	<b>CREG</b> and <b>Febeliec</b> argue that average instead of P50 revenues should be considered		Plausible anticipated revenues should be considered for the calibration of the IPC. In Elia's view a P50 approach is deemed appropriate.



### 3. Calibration methodology of IPC – Elia initial proposal



### 3. Calibration methodology of IPC – Elia updated/clarified proposal

## Yearly calibration process

## Yearly public consultation + update frequency

#### 1. Cost estimation for short-list of existing technologies

- Who? TSO, based on input from Expert study
- Update? Every few years, when deemed appropriate and at least every 3 years

#### 2. Revenue estimation

- Who? TSO
- Update? Yearly, for each considered delivery period

#### 3. Missing-money estimation

- Who? TSO
- Update? Yearly, for each considered delivery period

#### 4. Proposal of intermediate price cap

- Who? TSO
- Update? Yearly

#### 5. Advice from CREG and FPS towards Minister

#### 6. Determination of intermediate price cap by means of Ministerial Decree

- **Shortlist (including costs) subject to yearly public consultation**
- Update of shortlist when deemed necessary and at least every 3 years
- Cost estimation itself updated on yearly basis (e.g. fixed O&M cost may be expressed as a formula of which several elements should be updated on a yearly basis)
- **Scenario used for revenue estimation subject to yearly public consultation (but included in overall public consultation on scenario)**
- Revenue estimation updated on yearly basis
- Missing-money estimation updated on yearly basis
- Intermediate price cap proposal updated on yearly basis