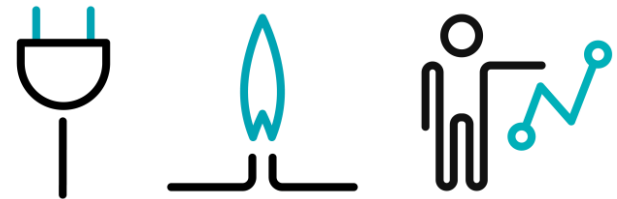


# Investment Thresholds and Eligibility Criteria

**TF CRM**

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# Legal framework

**EUROPE**

**BELGIAN LAW**



# Europe <sup>(1/3)</sup>

## State aid guidelines - aid for generation adequacy

(226) The measure should be open and provide adequate incentives to both existing and future generators and to operators using substitutable technologies, such as demand-side response or storage solutions

EU Commission paper 2015: “Designing a competitive bidding process and ensuring competition between new and existing capacity”

- the contract lengths available may have a significant impact on the extent to which new projects can compete with existing projects
- a longer contract provides additional certainty which can reduce the cost of financing a new project by allowing the investor to spread any debt service costs over the life of the contract

# Europe (2/3)

- *This could reduce the capacity price required per year, and help ensure a new project is competitive against existing projects in the market*
- *The potential for new entry at a competitive price may also be critical for controlling the market power of existing capacity providers*

Longer contracts potentially come with significant downsides, for example:

- *They reduce competition in future bidding processes (since beneficiaries holding long contracts will effectively be out of the market for the duration of their contract)*
- *They transfer risks to the consumer (both the risk that electricity prices will rise in future and capacity prices fall, and – as more contracts are signed – the risk that contracted capacity will not be required in future)*

# Europe (3/3)

- *Careful analysis will be required in any case to demonstrate that the trade-off between reducing the costs of new entry, and increasing the risk transfer to consumers, have been fully considered*

# Belgian law

‘CRM law’ provides for:

- delivery periods of maximum 1, 3, 8 and 15 years (= ‘categories of capacity’)
- each category of capacity has a specific total eligible investment costs threshold
- CREG is entitled to propose eligibility criteria for investment costs and investment thresholds

# Challenges



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# Challenges

- guarantee SoS if needed by incentivizing investments
- avoid distortion of competition in the capacity auction
- limit as much as possible the cost of the CRM

# Capacity delivery period



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# Capacity delivery period

Rule:

1 year

Exception:

maximum 3, 8, 15 years

Free choice of delivery periods IF  $\leq$  max allowed

- in parallel with prequalification process, bidder is allowed to ask CREG for an exception to the one-year capacity delivery period and must prove that he fulfills the required conditions
- if compliant, CREG classifies the offer in a category of capacity and informs the bidder
- before tender, bidder chooses the number of delivery periods (must be  $\leq$  max allowed)

# Investment thresholds

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# Investment thresholds (1/5)

Maximum 3, 8, 15 years only when significant CAPEX needed

## Reason

Goal of CRM: covering the missing money (= part of the fixed costs and investment costs not covered by the revenues on the energy markets)

Taking into account that:

- a part of the investments can already be covered by the revenues from the EOM
- two capacity auctions will be organized each year, giving a visibility on revenues that can be earned on the capacity market for the next years

# Investment thresholds (2/5)

→ Only goals of multiple years contracts:

To allow participation to the auction of projects requesting high CAPEX by :

- allowing them to be spread (avoid capacity price spikes each time a new capacity is needed and avoid related windfall profits for other capacities)
- increasing the visibility on their revenues to facilitate the financing of the investment (reduce investment cost)

# Investment thresholds (3/5)

## Examples abroad

Country	Nb. of delivery	Investment threshold	
	periods		
	(Years)	(currency/MW)	(EUR/MW)
Ireland	1		
	max. 10	300.000 EUR	300.000
UK	1		
	3	135.000 GBP	152.550
	15	270.000 GBP	305.100
		for T-4 auction of 2018	
Italy	1		
	15	186.000 EUR	186.000
		à 232.000 EUR	à 232.000
Poland	1		
	5	500.000 PLN	117.647
	15	3.000.000 PLN	705.882
	(7 et 17 if emissions		
	CO <sub>2</sub> ≤ 450 kg/MWh)		

# Investment thresholds (4/5)

- 15 years threshold in principle based on a % of the CAPEX of BNE
- BNE = best new entrant, i.e. new peaking unit with minimum missing money (to be determined in the auction parameters = CONE)
- 8 & 3 years thresholds = CAPEX corresponding to the same annuity
- Goal: levelize CAPEX charges to have a level playing field between offers requesting significant CAPEX



# Investment thresholds (5/5)

- threshold expressed in €/MW/CMU (capacity market unit)
- neutral: idem for production, DR, storage, new and existing capacities

## To be determined:

- € ?
- MW ?
- CMU ?

# Criteria

**ELIGIBLE COSTS (€)**

**COSTS PER CMU**

**ELIGIBLE VOLUME**



# Eligible costs (€) (1/4)

**Timing:** CAPEX must be linked to CRM

**Not eligible:**

CAPEX of past investments (= sunk costs)

**Eligible:**

CAPEX spent between one year before contract award and first delivery year

# Eligible costs (€) (2/4)

Eligible:

Initial non recurrent CAPEX

for

- new capacity (had never been able to deliver MW before):  
only CAPEX strictly needed to allow availability of additional MW for first delivery year (MW must be measurable)
- existing capacities  
only CAPEX strictly needed to:
  - allow capacity to be prequalified or
  - increase their contribution to adequacy
  - connect the capacity to the Belgian control area

## Eligible costs (€) (3/4)

- Main goal of CAPEX must be to insure availability of capacity, not (e.g.):
    - mobility
    - production of other consumer goods
- to avoid distortion of competition in other sectors

The bidder has to demonstrate that the planned CAPEX fulfill the eligibility criteria

# Eligible costs (€) (4/4)

## Not eligible:

- fixed functioning costs and recurrent maintenance because supported by both existing and new capacities
- CAPEX not related to CRM goal (to provide MW)
  - black start (specific remuneration)
  - flexibility not increasing the contribution to adequacy (remunerated through other markets)
  - GHG Emissions reduction (except for existing capacity if needed to be prequalified)
  - energy efficiency (CRM goal is to cover residual demand)

# Eligible costs per CMU

CMU (capacity market unit)

- CMU = one offer from single or aggregated capacity
- aggregation rules and limits needed to avoid discrimination
  - all capacity units in the CMU must respect the investment threshold
  - no mix generation/storage/DSR
  - limited to units < min MW
  - limited max aggregated MW

# Eligible volume (MW)

- MW = not derated or derated MW offered by the CMU?

Drawbacks for derated MW:

capacities with a high derating factor will reach the threshold easier.  
Contradictory with the goal of CRM because per installed capacity, they contribute less to adequacy.

→ First option is preferred



# Control and penalties



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# Control and penalties (1/2)

- If pluriannual delivery period is authorized based on false information, bidder can artificially lower the price  
→ distortion of competition

## *Ex ante control*

- bidder provides a certificate from an accredited certification body on the compliance of planned investments
- control by CREG

# Control and penalties (2/2)

## *Ex post control*

- beginning first delivery year: second certificate from an accredited certification body on realization of investments and associated costs

## Penalties

- reduction of the contract length
- financial penalty

# Workflow - next step



# Workflow - next steps (1/2)

- interaction with stakeholders (TF + informal reactions)
- interaction with DG COMP
- September: public consultation
- November: Elia's advice
- December: final proposal

# Workflow - next step (2/2)

- Comments / alternative proposals:  
[consult.CRM@creg.be](mailto:consult.CRM@creg.be)
- Next TF:
  - summary of comments and alternatives  
+ reflections/actions
  - more detailed design

# CREG



Commission de Régulation de l'Électricité et du Gaz