POSITION

Subject: Reaction to ELIA's amended proposal regarding Payback Obligation
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During the Task Force "Capacity Remuneration Mechanism" of 12 November 2019, Elia presented an updated design proposal regarding the Payback Obligation. The main new element of the updated design proposal regards the Strike Price.

Elia proposes to add a second element to the determination of the Strike Price for assets that do not submit a full schedule. The second element comprises the Declared Market Price (DMP), an element that was previously intended to be used exclusively for the requirements around the availability obligations and penalties. Elia proposes that Capacity Market Units (CMUs) that do not submit to full schedules will be subject to a strike price that is the maximum of (i) the Strike Price resulting from the methodology as proposed in the formal consultation; and (ii) the Declared Market Price as submitted and/or updated by the Capacity Provider. If for example the market-wide Strike Price is 500eur/MWh and the DMP of a non-full-schedule CMU is set at 800eur/MWh, this CMU must only reimburse the difference between 800eur/MWh and the DAM price under the Payback Obligation.

The main objective of this proposal is to avoid that a CMU without full schedule would obliged to pay back revenues it did not earn on the market.

FEBEG fully supports the principle that revenues not earned by CMU's should not be subject to a pay-back obligation. FEBEG already pointed several times to the fact that generators are selling part of the expected generated energy in advance on the forward markets: energy which is already sold on forward markets, is no longer able to capture any revenue from the short-term markets.

Nevertheless – due to a lack of exemption from the pay-back obligation for capacity that has already sold on forward markets – CMU's with a full schedule are exposed to a pay-back of revenues they did not earn. **FEBEG considers this as a clear discrimination between CMU's favoring CMU's without a full schedule above CMU's with a full schedule**.

Therefore, FEBEG considers the updated proposal a clear step back from the Payback Obligation design that Elia presented in the design proposal during the formal consultation.
This proposal implied a simple, single Strike Price that is determined through a methodology that targets a level that keeps the balance between minimizing the risk of double remuneration, and allowing a sufficiently broad scope for Demand Side Response to participate.

While FEBEG did not agree with some of the elements of the proposal for the Payback Obligation – notably the absence of an exemption for capacity sold on forward markets – it did consider the attempt to find a compromise on the Strike Price commendable.

FEBEG would like to highlight some issues it sees with the updated proposal:

1. The proposal abandons the idea of a single Strike Price, the benefits of which Elia pointed out quite extensively in the design proposal. Instead, a theoretically infinite number of strike prices can be set, limited only by the number of DMPs that are set in the market. This has major impacts on the fundamentals of a capacity market based on reliability options, e.g. not only on the level playing field between market participants, but also on other design considerations such as the secondary market and the declaration of additional DMPs on other markets such as Intraday and Balancing (Are they subject to a Payback Obligation if DMPs on these markets are lower compared to the DMP on the Day-Ahead Market (DAM)?).

2. The proposal fundamentally affects the current functioning of the Energy Markets, as the DAM becomes a de-facto Pay-as-Bid market for non-full-schedule CMUs. As such assets would be subject to a Payback Obligation to any amount above their DMP, each asset has de facto its own price on the DAM and is no longer able to capture further inframarginal rent in the energy market. This will impact the bidding behaviour, as any inframarginal rent will have to come either from increasing its bid on the Energy Market or on the Capacity Market, or the estimation of Declared Market Price by concerned units.

3. The proposal creates a fundamental discrimination between CMUs. For full-schedule CMUs the Strike Price would represent a ceiling on the price such units can actually capture on the energy market (cfr pay-back obligation above strike price). For non-full-schedule CMUs on the other hand, the proposal rather introduces the Strike Price as a floor, as these CMUs can still capture prices above this market-wide Strike Price through their self-declared market price but will never be exposed to as Strike Price below the market-wide one. These CMUs have therefore clear and specific advantages compared to full-schedule CMUs, esp. given the other features contemplated for the capacity market design (e.g. auction design). As a side comment, one should also observe that full-schedule CMUs have no such ability, even when underlying costs would lead to the marginal operating cost being above the market-wide Strike Price.

4. Because the DMP is proposed to be dynamic over time and over different time-horizons (i.e. can also be set for Intraday and balancing markets), non-full-schedule can evade the Payback Obligation; a concern on the DMP that FEBEG already raised in the context of the Availability Requirements and Penalties. FEBEG wonders how the strong emphasis on the risk of double earnings that pervades the entire CRM design can be reconciled with the lax approach in this updated proposal with a self-declared market price by market participants used as a benchmark to assess the Payback Obligation amount for non-full-schedule CMUs.

In light of these strong and important concerns, FEBEG therefore requests formally that Elia does not retain the proposed change of adding the DMP to the Strike Price in the updated design proposal.
FEBEG still considers the following principles key to the definition of an equitable and correct Payback Obligation:

- A single Strike Price applicable to all CMUs, set at a price level above which market participants do no longer count on energy market revenues in their capacity market bid.
- An exemption from the Payback Obligation for capacity that has already sold on forward markets in the form of a single percentage representing the average hedging ratio of market participants.

FEBEG would like to underline once again that the interest of the consumers is to benefit from the electricity up to the reliability standards set by the Belgian authorities at an acceptable total supply cost (including the cost for the electricity, but also the networks charges, taxes and other levies). FEBEG believes that the forthcoming capacity market design should foster fair and healthy competition between all market players, the possibility for new entrants to participate on equal terms, the long-term visibility needed to lower the investment risks and therefore the cost for consumers, etc. FEBEG is concerned that the current discussions are deviating from this objective.