Demand Response & intermediate price cap

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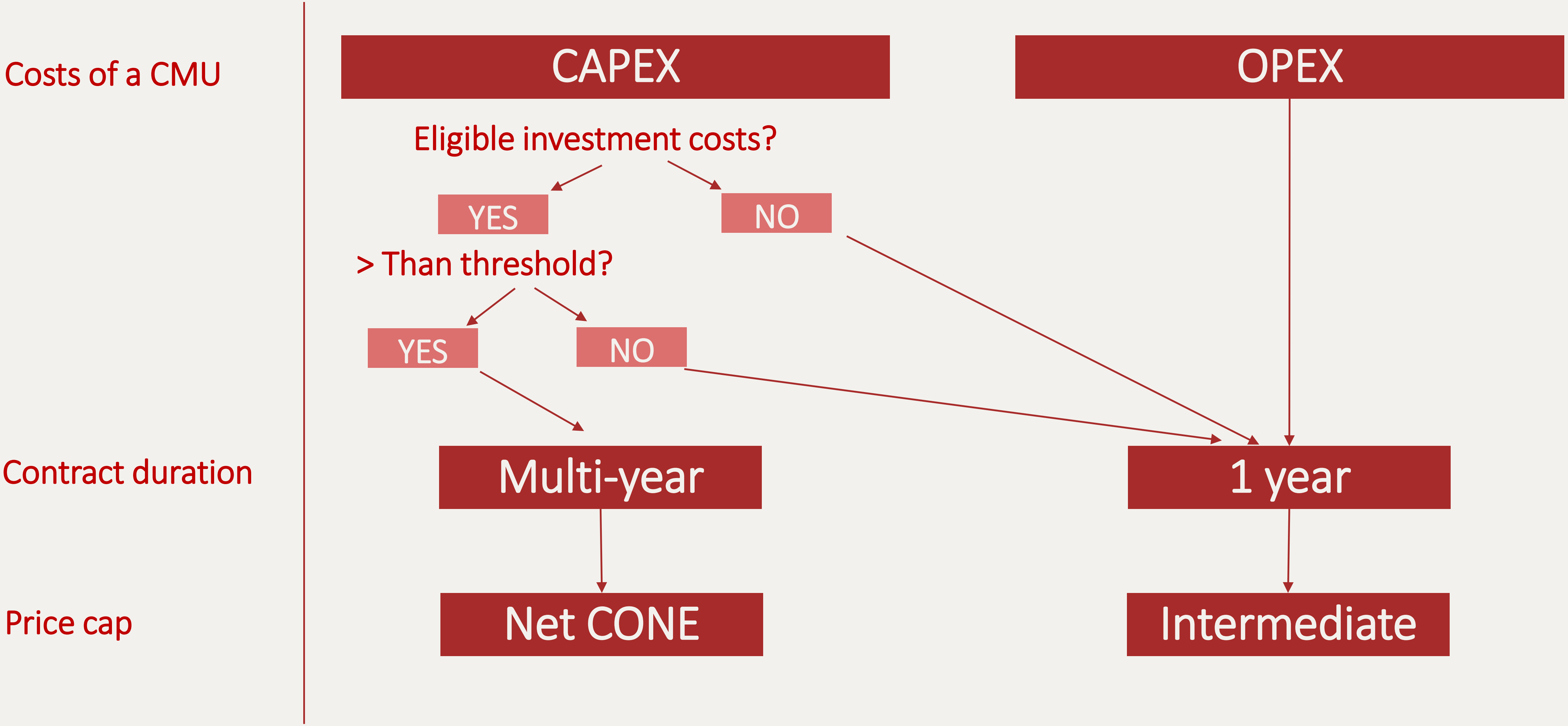
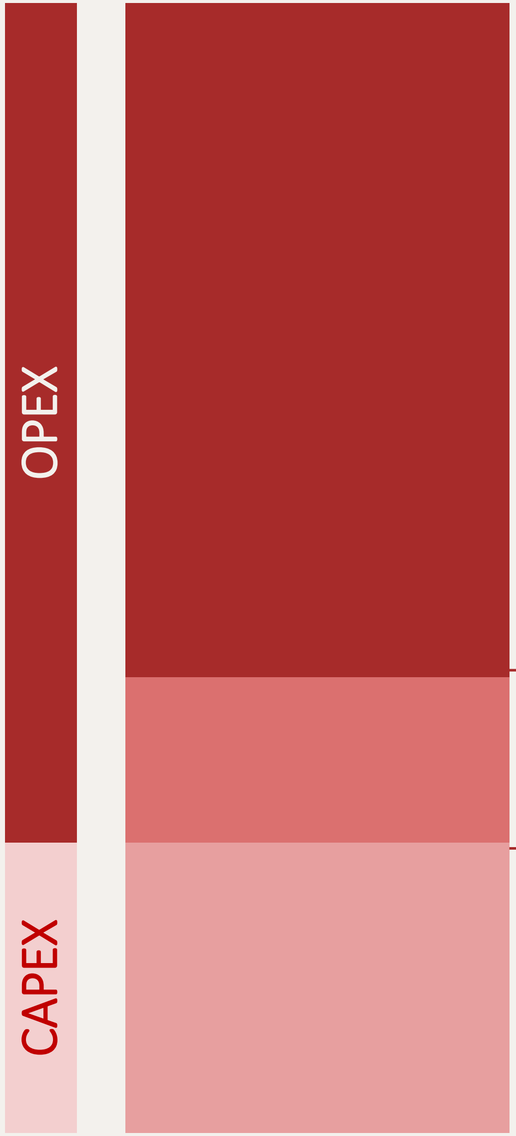
Recap on CRM design regarding recovery of missing money



What are the typical costs of a Demand Response capacity?



Costs occurred because of DR not being the core activity of consumers for both existing and new capacity -> mainly on the side of the Site (DR project has to generate sufficient revenues to match the "cost" of the project internally, else not considered as relevant enough to disturb the process).

-> These are typically <u>**yearly costs, comparable to fix O&M**</u>: if not covered, DR capacity can be disabled, put in "sleep" mode, not active until the costs are covered again

Costs to keep live existing capacity : mainly workforce on the CMU-owner side

-> typically low

Investment costs supported to "develop" and "install" a <u>new</u> DR capacity -> mainly on the side of the CMU owner: identification of the flexibility, installation to allow activation, prequalify and trade MWs…

-> currently not eligible (cf. discussions wrt. CREG consultation) to apply for multi-year contracts

-> level will depend on size of flex : can become significant when unlocking smaller sites

There is still a large potential of untapped DSM 2.0 that can be competitive to provide new capacity to the Belgian grid.

- Low hanging fruits of DR are already identified and active on the market:
  - sites with important number of MWs available at once (> 1 MW)
  - and/or with ability to generate availability revenues from ancillary services (lower or no missing money)
- Next fruits are still competitive vs. building new plants for peakiest hours, but can be more expensive to catch and require CRM:
  - lower capacity per site (<1 MW)
  - no participation to ancillary services (less sophisticated/slower assets) = more missing money potential
- Demand Response CMUs are highly flexible (yearly O&M costs mainly): no lock-in of capex if selected in a 1-year contract ; they can be hibernated on a yearly basis
- Compared to the price of low hanging fruits, next generation of Demand Response still has an economic space compared to the net CONE (70k€/MW/y)

Questions around proposed CRM design

- **With the current proposal, we see only one available route for such DR MWs:**
  - DR will almost exclusively be eligible to 1-year contract, and therefore fall under the intermediate price cap
  - "missing money" could go up, close to the absolute cap: there is still an economic space and potential to be in the merit order (as long as cheaper than new built MWs getting multi-year contracts)
  - DR is a very heterogeneous technology class: need to ensure all MWs can participate and be selected if competitive

- **Questions:**

  (i) How would the intermediate price cap calibration take into account these DR MWs?

  (ii) Would this not defeat the purpose of the intermediate price cap, having it potentially close to the absolute cap (net CONE)?

CBS proposal

- **To allow for all DR MWs to take part and be selected (if competitive), and keep an efficient intermediate price cap feature, CBS proposes to adapt the CRM design elements based on the following:**

-> Allow DR CMUs to ask for a derogation to the intermediate price cap, based on the demonstration of a missing money (costs at least, also revenues?) >> intermediate price cap

Annex

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Proposed CRM design (intermediate price cap in the design notes)

"The intermediate price cap – in line with the proposal explained further in this design note – applies only to bids related to CMUs applying for a 1-year capacity contract."

"As such, by design, CMUs within the one-year capacity category are confronted with no or minimal investments to cover for and hence also a lower expected level of missing-money. Therefore, to avoid windfall profits for CMUs within the one-year capacity category, it makes sense to apply an intermediate price cap to the one-year capacity category."

"Although the set of CMUs applying for a one-year capacity contract does not necessarily exclusively correspond with existing capacities, a worst performer analysis among existing technology classes is deemed an appropriate benchmark for missing-money of CMU's requiring minimal investments. Besides, it is neither possible nor desirable from a cost-efficiency point of view to consider all possible technologies with limited investments – hence also new and currently unknown – to calibrate the intermediate price cap."