

# Prequalification and pre-delivery monitoring

Additional design clarifications

21/11/2019 | Thibaut Gérard

# Context

Feedback on prequalification design note presented in TF CRM 12/11/2019

A clear framework for participation and pre-delivery monitoring of unproven demand response in Y-4 auction should be provided by ELIA

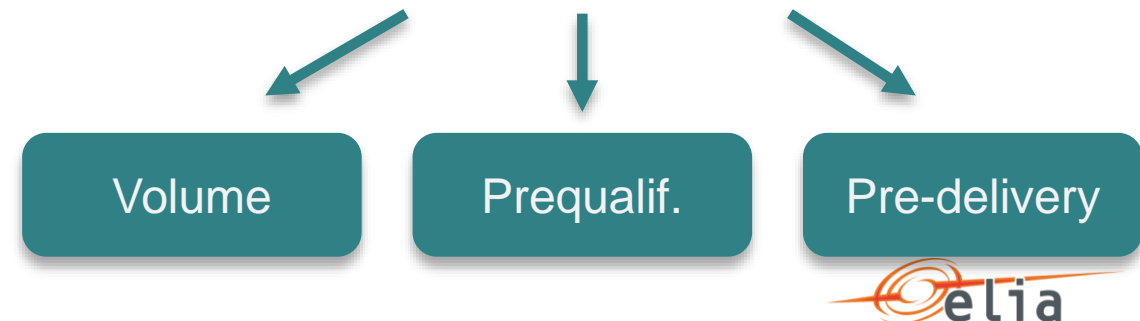
- Possible participation to CRM mechanism is currently limited to capacities related to delivery point(s);
- Such design is hardly applicable to DR volume for which underlying delivery points are not known at auction
- Provided sufficient guarantee (e.g: via the appropriate dimensioning of bank guarantee) to monitor progress in pre-delivery period; such participation should be authorized by ELIA:
  - Unproven Demand Response as eligible category;
  - Justification via valid business plan;

Initial feedback ELIA: brings additional risk to see additional volume procured in Y-1 and therefore negatively influence mechanism total cost.

BUT ELIA agrees to **further reflect** on the principle and come back in next TF (21/11/2019)

Result of this additional reflection presented today (TF CRM 21/11/2019)

- ❑ Such concept cannot be limited to “Unproven demand response” and must be considered broader and from **technology-neutral** perspective.
- ❑ ELIA investigated the “**unproven capacity**” concept, because of **its expected positive influence on Y-4 competition**.
- ❑ Lessons learned from UK unproven capacity mechanism: such concept only works with **appropriate framework and monitoring mechanism**





# Consideration of unproven capacity

## What does this concept means?

### Definition

capacity which cannot – at the time of **Y-4** prequalification – be associated to one or several CMU and therefore respect delivery point prequalification requirements

- ➔ Only a **partial prequalification process possible** (no calculation of nominal reference power, no deratings, no grid user declaration, no opt out...)
- ➔ **In addition** (not in replacement) to the already presented full prequalification process, which **remains the standard procedure**
- ➔ **Declared eligible volume** 100 % available at Y-4 prequalification. Not applicable to Y-1 auction.
- ➔ Supported by project plan (inc. specific milestone as specified in contract, similar to requirement on additional capacities)

### Who is eligible

Any kind of technology, provided that it **commits to respect the additional** pre-delivery **monitoring requirements** (see following slides)

# Consideration of unproven capacity

## Design adaptation required

### Volume concerned

#### Additional possibility, in parallel to the standard prequalification process

- **Stricter conditions** than possibilities offered via the standard prequalification process
- **Limited volume** at first to avoid negative impact on society (seen additional uncertainty)



Proposal to cap possible Y-4 selection (**in auction algorithm**) of unproven capacity to **400 MW** (**specific flag on the unproven capacity bids**)



**Same regime needed for Y-4 auctions organized in 2021, 2022 and 2023** as results of pre-delivery monitoring of first contracted Y-4 (2021) capacity needed prior to any additional evolution (one way or another)



Such capacity can only apply to **one-year contract** and is subject to **intermediate price cap** (pluri-annual contracts are accessible upon the condition of full prequalification and subject to CREG investment file approval)



No link between Y-4 unproven capacity (if any selected) and Y-1 volume determination (200 h)

# Consideration of unproven capacity

## Design adaptation required

### Prequalif.

- ➔ **Full prequalification process must be finalized prior to start of delivery period**, with 2 specific gates monitored in pre-delivery monitoring: Y-1 volume determination and Y-1 auction
- ➔ ELIA will not reject unproven capacity in prequalification process based on CRM Candidate project plan
- ➔ **CRM Candidate is responsible** (penalties in case of non-respect)
- ➔ **No cap on CRM candidate prequalified volume** other than the cap applicable to auction (incentivize competition)

### Pre-delivery monitoring – additional requirements

- ➔ 75 % of contracted capacity must be fully prequalified (at DP level) **prior to Y-1 volume calculation**
- ➔ 25 % of remaining obligation must be prequalified **prior to Y-1 auction** (level playing field with “proven” capacity competing in Y-1 auction)
- ➔ Penalty proportional to the failed obligation (see following slide):
  - Via bank guarantee;
  - Contracted Capacity reduced by additional volume procured in Y-1 (if any)
- ➔ Penalties (if any) are included in the CRM financing mechanism to reduce cost for society

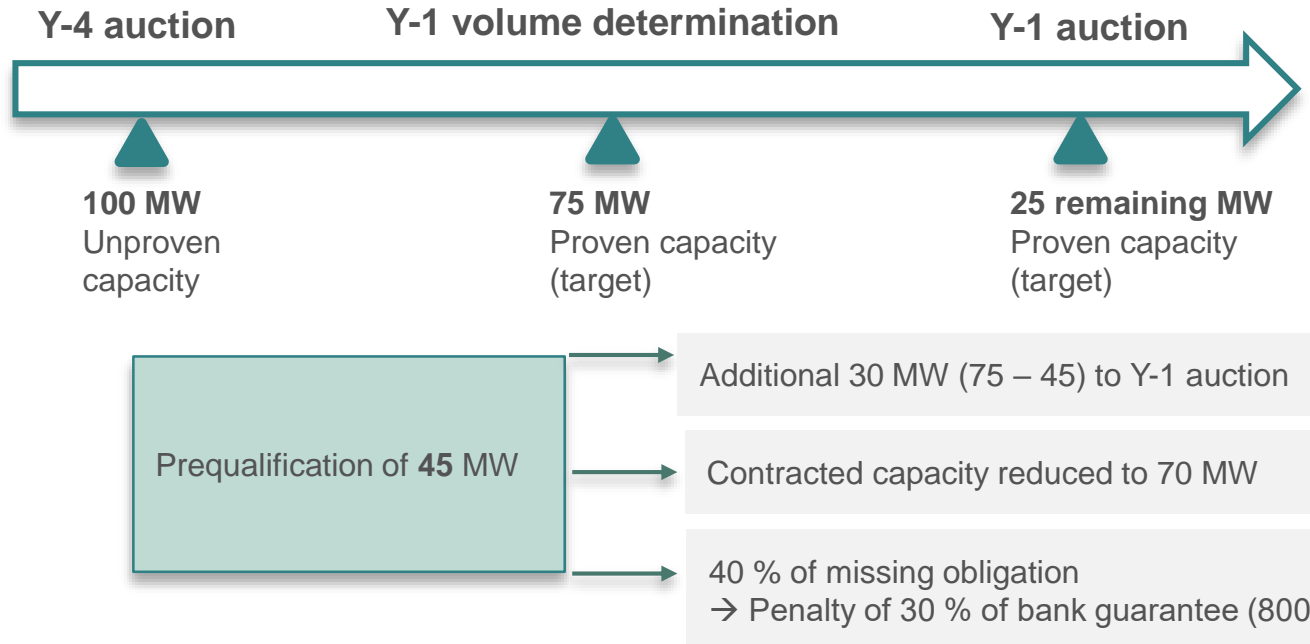
# Consideration of unproven capacity

Design adaptation required – penalties and specific pre-delivery monitoring requirements

**Principle # 1:** the missing volume  $((0,75 * \text{Contracted capacity}) - \text{prequalified Eligible Volume})$  is added to Y-1 volumes and deduced from initial Contracted Capacity

**Principle # 2:** Penalties are proportional to the % of missing volume  $(1 - (\text{effectively prequalified eligible volume} / (0,75 * \text{Contracted Capacity})))$

% of missing volume	Penalty
100 %	<b>Contract terminated</b> (entire volume) + 20k€*contracted capacity (full bank guarantee)
$ \geq 66 \% ; < 100 \% $	50% of bank guarantee
$ \geq 33 \% ; < 66 \% $	30 % of bank guarantee
$ \gt 0 ; < 33 \% $	15 % of bank guarantee



# Consideration of unproven capacity

## Design adaptation required – additional clarifications

### Strike price

Strike price applicable at moment of Y-4 prequalification used as this parameter is used as input to the CRM Candidate business plan

### Derating Factors

Derating Factors applicable at moment of Y-4 prequalification used as this parameter is used as input to the CRM Candidate business plan

### Availability controls

No differences with initial design as Delivery Points and CMUs must be fully prequalified prior to start of delivery period

### Secondary market

“Proven” capacity cannot be replaced by additional unproven capacity

→ Cap of 400 MW remains applicable

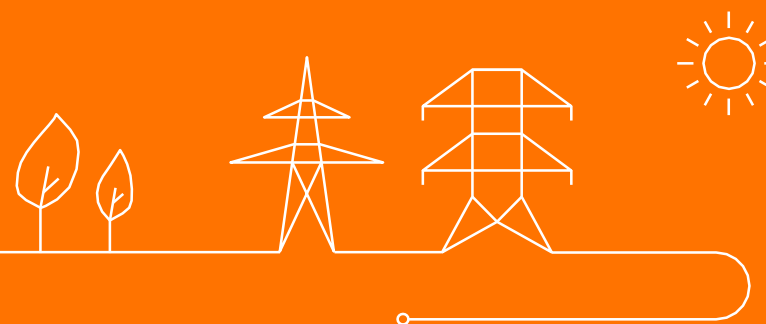
### Mitigation gaming risk

Y-4 prequalified delivery points (either via full track or fast track; inc. opt-out volume) cannot be considered as “unproven capacity” (gaming possible between 2 different penalty regime)

### Transparency

Specific flag, monitoring and reporting required to determine how this principle should evolve in time

# Consideration of delay caused by third parties (e.g: Fluxys, ELIA, DSO)





# Feedback received – pre-delivery monitoring

## Additional design clarification

**How is a delay caused by third parties impacting the Capacity provider?**

→ By no means can a Capacity provider be responsible for delays caused by third parties (e.g: ELIA, Fluxys, DSOs)



### **Delays related to infrastructure work (e.g: new 380 kV line, gas)**

*Infrastructure work = works which cannot be realized by another entity than the respective system operator ( **only 3 system operators identified**: Fluxys for gas, ELIA or DSOs for electricity).*



### **Delays related to CRM project**

*Works realized by a System Operator (e.g: part B of FTR connection process (ELIA)) but that is open to competition (Project owner choice to select ELIA to realize some infrastructure work related to his project)*

# Feedback received – pre-delivery monitoring

## Additional design clarification

### Delays related to infrastructure work (e.g: new 380 kV line)

- Permitting risk is the highest risk to see significant delays on infrastructure works
- Best effort obligation
- A delay on infrastructure work cannot influence Capacity Provider(s) projects and related remuneration



Additional volume added to Y-1 auction to compensate impacted and already contracted capacities



**Initial Contractual obligation delayed** (by one year) and **no financial penalty** due by Capacity Provider



If use of Y-1 auction not possible, start of remuneration as initially foreseen AND no penalties related to availability monitoring



Applicable for a limited period of time (proposal 3 years). Consecutive to this period of time, in case no evolution on concerned projects, **initial Capacity Contract Terminated.**

# Feedback received – pre-delivery monitoring

Additional design clarification

## Delays related to the CRM project

The Capacity Provider decides to select the System Operator (e.g: ELIA) for the realization of works related to some elements of its connection process (not an obligation to go with ELIA, other suppliers can deliver such services)



**Level playing field** between the System Operator and other third parties contracted by the Capacity Provider (no competitive advantage to select the System Operator for these works)



The Capacity Provider is responsible for the risks related to these works. Connection process and related works are part of the “project” risk. **Updated design proposal proposed in previous TF CRM (12/11/2019) applies**