

# FEBEG's feedback on CREG's presentation:

The parameters determining the amount of capacity procured in the capacity mechanism– (presented on 26 Sept)

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## Reference– Key elements from CREG’s presentation

1. The introduction of a capacity mechanism is to meet the reliability criteria at the lowest and at a proportional cost [...] (Slide 6)
2. Multi-year contract:
  - Risk of more expensive capacity (with multi year contracts) procured in 2025 pushing out less expensive capacity in later years” (Slide 7–8)
  - Problem with multi year contracts combined with decreasing adequacy concern (slide 10)
3. Cost for CRM vs Cost for society (EENS\*VOLL) – EENS decreases sharply (Slide 9)
4. Minimal volume to T-1. If this average number of hours is lower than or equal to 200, this block is auctioned in T-1 (Slide 14).

## Key feedbacks & questions

1. Proportional cost: Please define
2. Multi-year contracts are not a “problem”!
3. Cost for CRM vs Cost for society (EENS\*VOLL) –how to compute in practice? What are the implications?
4. Minimal volume to T-1: Is 5–6 GW the right order of magnitude?  
No second chance in T-1!

Auctioning more capacity than necessary must be avoided → we fully agree

- 1 – Proportional cost
- 2 – Multi-year contract
- 3 – Cost for society
- 4 – Minimal volume T-1

# 1. “Proportional cost”?

“The introduction of a capacity mechanism is to meet the reliability criteria at the lowest and at a proportional cost [...]”

## 1. What is a “proportional” cost?

- “Corresponding in size or amount to something else”
- “Having a constant ratio to another quantity”

## 2. FEBEG’s Understanding of CRM

- Adequacy level (Demand) is defined
- Demand includes elasticity (Demand’s slope)
- Competitive process defines prices
- Overall costs is the results of prices & quantities

## 3. Which cost is proportional?

- PWC: “345 millions €/year”
- CREG: “614–940 millions €/year”

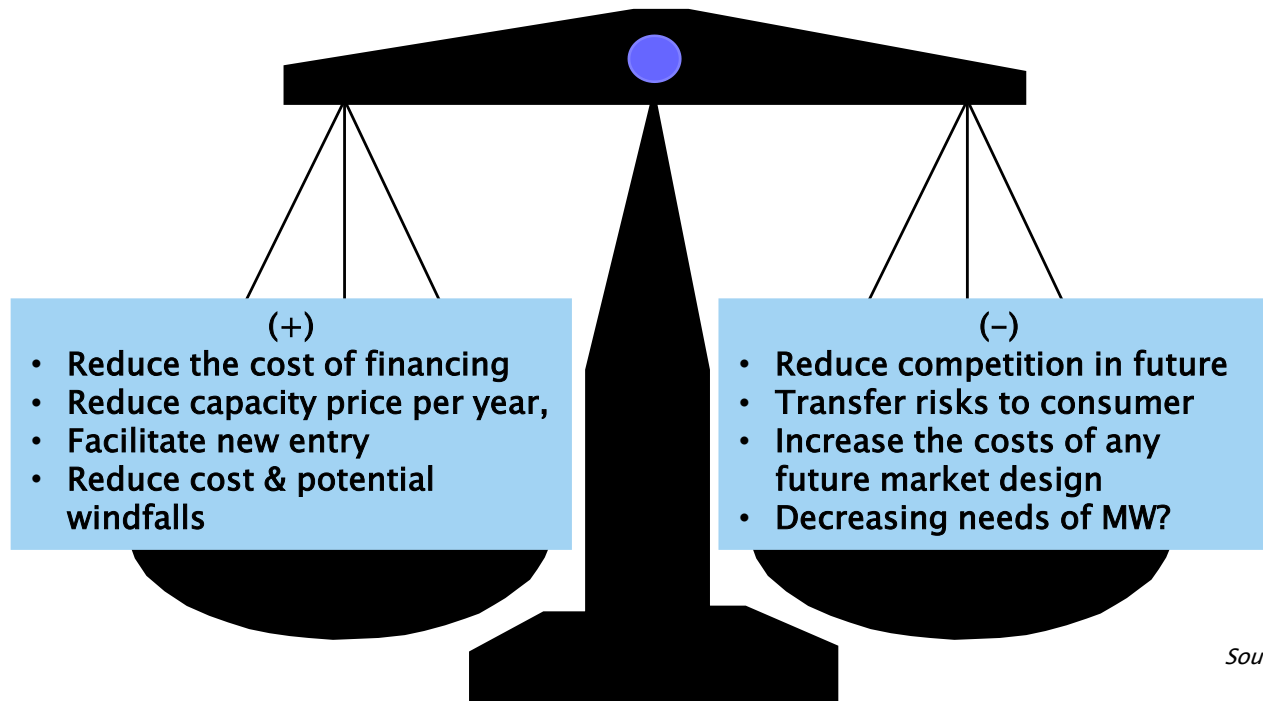


## Open questions :

1. Please elaborate on “proportional cost”– in the law?
2. Is there a better process than a competitive process to ensure lowest cost?
3. Is it cost for society? (See comments slide 8)

## 2. “Multi-year contract, a problem?” (1 / 2)

Risk of more expensive capacity (with multi year contracts) procured in 2025 pushing out less expensive capacity in later years”



Source: CREG consultation p 6

- LT contracts offer insurance for 15 years & capacity with high efficiency
- Competition from DSM, existing assets, interconnection will limit LT volume

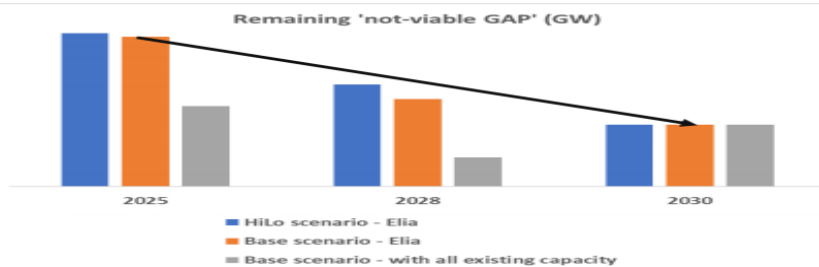
### Open questions :

1. How will the options considered (no multi-year, variable remuneration, price limit) keep the advantages of multi-year contracts for Belgium?
2. We do not see the risk of capital-intensive applying for multi-year contract assuming 200 hours/year or less. They will simply not be competitive. Do we miss something?

## 2. “Multi-year contract, a problem?” (2 / 2)

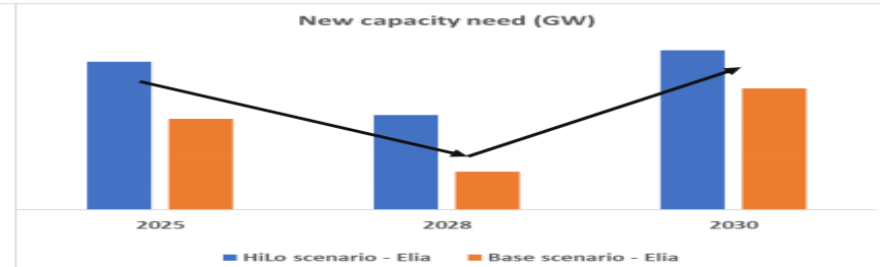
Risk of more expensive capacity (with multi year contracts) procured in 2025 pushing out less expensive capacity in later years”

“CREG: Simulation results Elia regarding the capacity (GW) show: • ‘not-viable gap’ decreases towards 2028/2030 • Need for new capacity decreases in 2028 and increases again in 2030”



Not viable gap decrease ?

- CO2 @ 80 €/t
- Import, “Flat” Demand
- Min CAPEX & O&M



Capacity need decrease & increase?

- Decommissioning waves “lumpy”
- Green developments lumpy & linear

1– Uncertainty → needs for LT contract

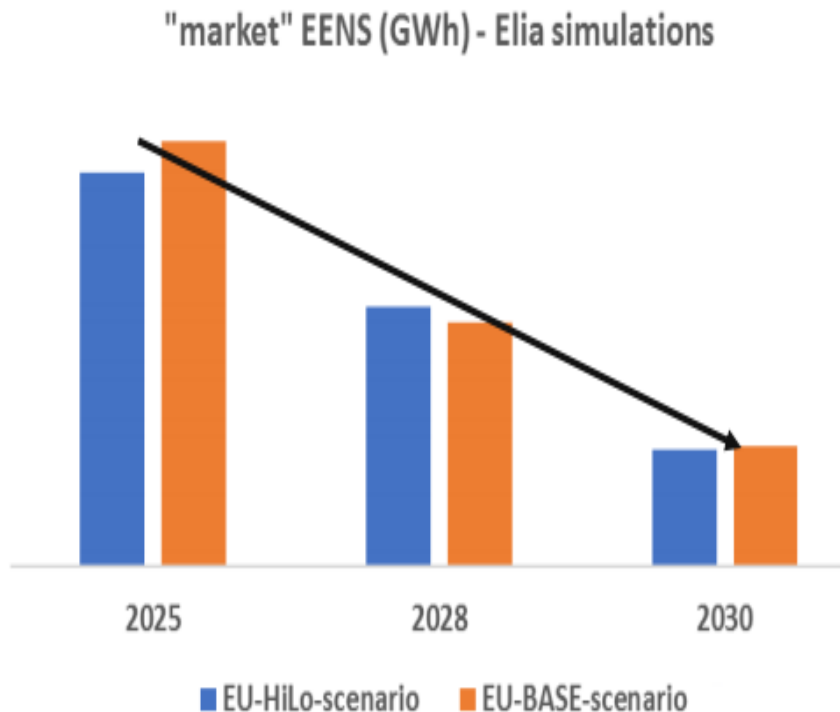
2– Real world is not “perfect foresight”

3– Yearly auctions will reflect short term supply/demand equilibrium

**Unable to invest “physically” for 2025, “disinvest” in 2028 & reinvest in 2030...**

### 3. “Cost for CRM vs Cost for society (EENS\*VOLL) – EENS decreases sharply ?”

Cost for CRM vs Cost for society (EENS\*VOLL) – EENS decreases sharply



#### Open questions :

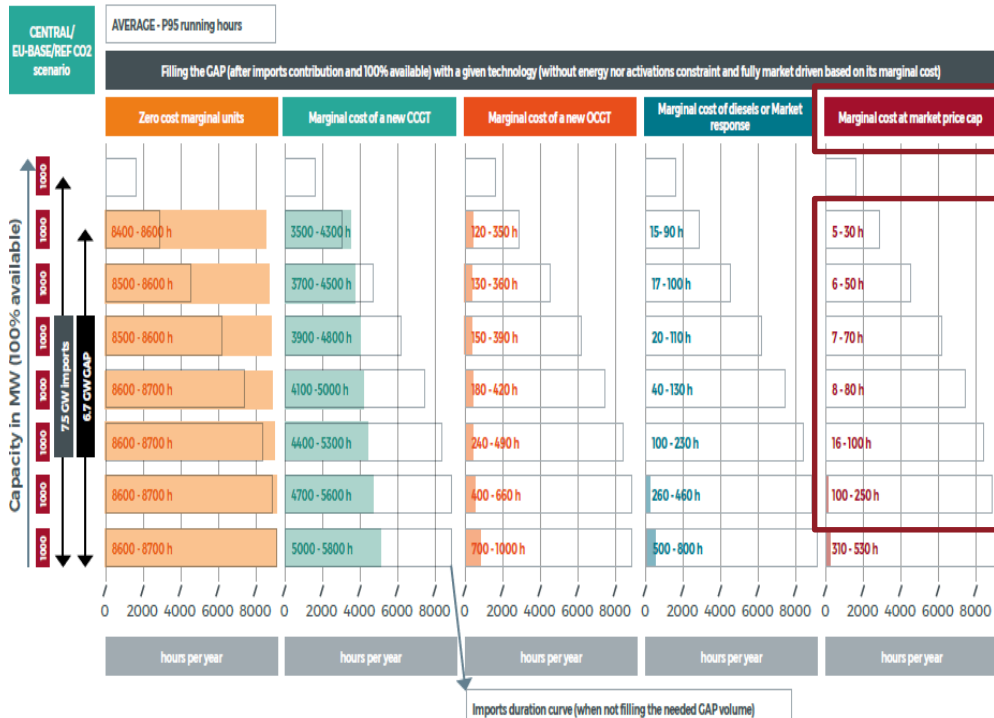
1. Is EENS\*VOLL: “THE” measure of cost for society? How to ensure reliability standard are met with this approach?
2. How will this work in practice?
  - How will CREG compute EENS?
  - If  $VOLL * EENS > \text{Cost CRM}$  or if  $VOLL * EENS < \text{Cost CRM} \rightarrow$  What are the implications?
3. How are benefits for society taken into account?
4. Any experience from other CRM?



## 4. “Minimal volume to T-1?”

If this average number of hours is lower than or equal to **200**, this block is auctioned in T-1. “The average number of hours needed to meet the reliability standards should be calculated as the hours that capacity with a **marginal cost equal to the market price cap is needed to fill the gap**”

FOR 2025 [FIGURE 4-43]



6 GW?

### Position Febeg:

1. It is fundamental that some volumes are made available for T-1
2. Insist that in T-1 there are no second chance...
3. If we plan 6 GW in T-1...it's a different story

### Open questions:

1. Can CREG provide some order of magnitude on the volume to auction in T-1?
2. Is 5-6 GW for 2025 the correct interpretation?

# Summary of questions

## Proportional cost:

1. Please elaborate on "proportional cost"– In the law?
2. Is there a better process than a competitive process to ensure lowest cost?
3. Is it cost for society?

## Multi-year contract:

4. How will the options considered (no multi-year, variable remuneration, price limit) keep the advantages of multi-year contracts for Belgium?
5. We do not see the risk of capital-intensive applying for multi-year contract assuming 200 hours/year or less. They will simply not be competitive. Do we miss something?

## Cost for society:

6. Is  $EENS * VOLL$ : "THE" measure of cost for society? How to ensure reliability standard are met with this approach?
7. How will this work in practice? How will CREG compute EENS? If  $VOLL * EENS > Cost CRM$  or if  $VOLL * EENS < Cost CRM \rightarrow$  What are the implications?
8. How are benefits for society considered?
9. Any experience from other CRM?

## Minimal volume T-1 :

10. Can CREG provide some order of magnitude on the volume to auction in T-1? Is 5–6 GW for 2025 the right figure?

# Thanks –

## Annex:

- Febeg Statement on “overestimating the need”
- Minimal volume T-1 for 2025– ELIA & analysis CREG
- Quote from consultation on investment Threshold p6– CREG

## “Overestimating the need?”

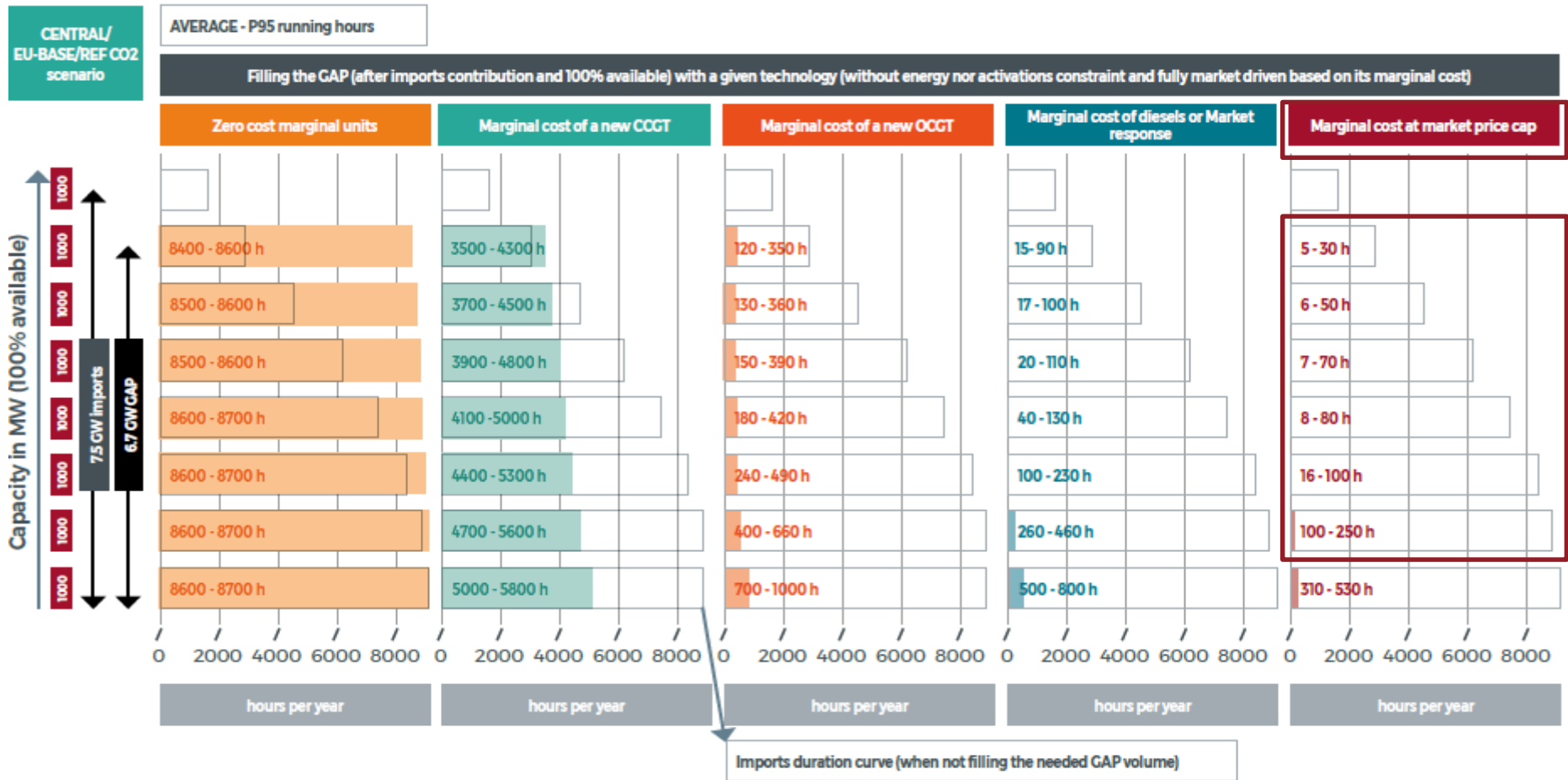
CREG: Auctioning more capacity than necessary must be avoided as much as possible [...]

FEBEG fully agree with CREG and insist « We have no interest in an overdimensioned CRM! »

Over dimensionned CRM = overcapacity =  
Depressed Energy only market (€/MWh) = Assets  
not running (Q)

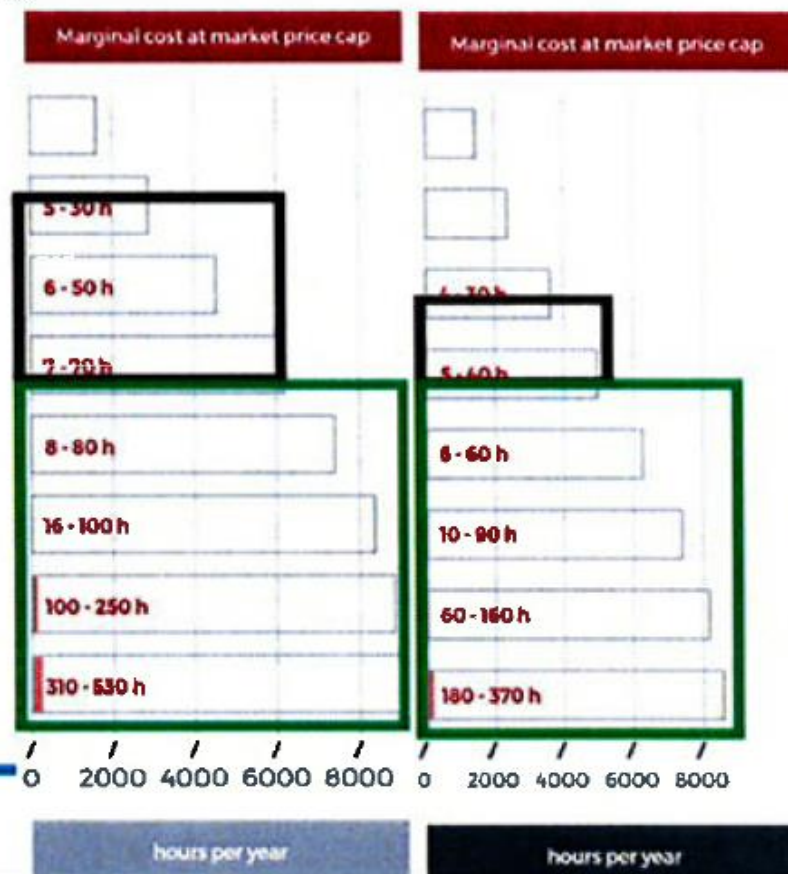
# 4. "Minimal volume to T-1?"

FOR 2025 [FIGURE 4-43]



# Déficit de capacité pendant 5-7 heures en moyenne par an

- L'analyse d'Elia fait apparaître un déficit de capacité pendant 5-7 heures en moyenne
- Gauche : 2025 // droite : 2028



— CREG

## “Multi-year contract, a problem?” – CREG consultation p 6

Risk of more expensive capacity (with multi year contracts) procured in 2025 pushing out less expensive capacity in later years”

### Advantage – :

“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. This could reduce the capacity price required per year, and help ensure a new project is competitive against existing projects in the market.” This can help ensure the measure overall is proportionate, since if in years when new entry is required all existing capacity is also paid a high price, this could lead to windfalls for existing capacity. The potential for new entry at a competitive price may also be critical for controlling the market power of existing capacity providers”.

### Disadvantage –

“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). They increase the costs of any future market design transition, since long contracts would in principle need to be honoured if in future a new market design was adopted”

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. » ([La CREG souligne.](#))