elia
| Elia Group

Intermediate Price Cap

Overview Public Consultation

22/10/2019 | Glenn Plancke

[#3]

In what follows a summary is given of the feedback received in the public consultation about the design note on the Intermediate Price Cap

- Comments were received from:
    - CREG, Febeliec, Febeg, Centrica Business Solutions, Actility, Fluvius and Next Kraftwerke.

- Purpose of this presentation:
    - Present an **overview of the comments/feedback** received during the public consultation process as interpreted by Elia.
    - Provide a **first clarification about some of the design aspects** that – based on our interpretation of the feedback received – may have not have been well understood by the stakeholders or not sufficiently well explained in the design note. This means that **no new aspects** are introduced.

- Elia’s positioning towards the different comments is **out of scope** of the current presentation. This feedback will only be provided at a later stage.

Different comments from stakeholders can be categorized in the following topics

1) **Governance**
    a) Royal Decree Approval Process
    b) Yearly Calibration Process
2) **Scope of Intermediate Price Cap**
3) **Methodology for Calibration of Intermediate Price Cap**
    a) List of existing technologies
    b) Revenues simulations (including scenarios for energy market & for ancillary services)
    c) Cost components
    d) CRM effects to be taken into account in the calibration
4) **Alternative proposal to calibrate the Intermediate Price Cap**
    a) 50% of CONE for OCGT

Governance framework is fixed in the Electricity Law, some aspects will be clarified in the Royal Decrees

- **CREG** is of the opinion that Elia should organize a second public consultation about the proposed draft articles for the Royal Decree.
- **CREG** requests to include more detailed criteria to assign the independent expert.
- **CREG** proposes to fix the frequency of updating the shortlist of existing technologies in the Royal Decree. Additionally, CREG requests to include more detailed criteria to assign the independent expert independent expert.
- **Febeliec** requests to specify the public consultation process on the yearly calibration of the Intermediate Price Cap in the design note/royal decree.
- **Febeg** would like to have concrete examples/figures about the intermediate price cap calibration by the end of this year.

Different opinions among stakeholders about the scope of the Intermediate Price Cap

Elia Proposal: Intermediate Price Cap is applicable to all CMUs with a Capacity Contract Duration of 1 Delivery Period

- **CREG** proposes to exempt CMUs with a Capacity Category linked to a Capacity Contract for more than 1 Delivery Period (approved by CREG), but opting for a Capacity Contract Duration of 1 year from the Intermediate Price Cap.
- **FEBEG** is of the opinion that **no Intermediate Price Cap** should be applied as the Intermediate Price Cap is not the best option to fit its purposes, being (i) limiting windfall profits and (ii) market power mitigation.
- **Fluvius** remarks that a single price cap provides little incentive to bid lower than the price cap.
- **Actility** is of the opinion that no price cap can be part of the CRM design. Additionally, both **Actility and Next Kraftwerke** are of the opinion that the proposed Intermediate Price Cap is not technology neutral.
- **Febeliec** is of the opinion that **multiple Intermediate Price Caps** are to be implemented (per technology) and that also CMUs with **Capacity Contract Duration of more than 1 Delivery Period** are to be subject to an Intermediate Price Cap.

Comments on the list of existing technologies to consider for calibration of intermediate price cap

Elia Proposal: Independent expert determines shortlist, which will be updated only when deemed appropriate, i.e. when technological or economic conditions have changed considerably

- **Febeliec**, **Febeg and CREG** request to have further details included in the Royal Decree based on which criteria the shortlist of technologies is updated. To be clarified which party decides upon the update of this list.
- **CREG** proposes to fix the frequency of updating the shortlist of existing technologies in the Royal Decree.
- **Centrica Business Solutions** requests to distinguish **2 categories of demand side response** in the worst performer analysis, being (i) DSR offering balancing services and (ii) DSR not participating in balancing services (e.g. “slow” MWs).

Different opinions about the scenarios to model the expected inframarginal rents from the energy market in the calibration process

Elia Proposal: Yearly inframarginal rents on the energy market are simulated taking into account a reference scenario that is consistent with the one(s) determined to calibrate the volume to be procured through the CRM and based on P50 estimates on these simulations.

- **CREG** highlights that the **reference scenario** should not be consistent, but **identical to the scenario used to calibrate the volume** to be procured through the CRM and notes that it is of the opinion to use **average** estimates instead of P50 estimates in the estimations.
- **Febeg** is of the opinion that the distribution of future revenues and margins should be based on several scenarios and the expected margins are to be corrected for the risk aversion of the market participants.
- **Febeliec** opposes the proposal to work with P50 estimates and argues that this approach underestimates the average revenues.

Suggestions to optimize the calculation of the balancing revenues in the calibration method

Elia Proposal: Balancing revenues to be included in the missing money calculation and to be estimated based on Elia's historical procurement costs.

- **CREG** suggests to further detail the methodology to calculate the balancing revenues and to calculate the balancing revenues **per technology class**.
- **Febeg** is of the opinion that **no ancillary services and balancing revenues** should be taken into account in the calibration, given that not all units will have a revenue from the balancing market.
- **Febeg** also argues that the procurement costs of Elia do not equal the **net revenues** of a supplier of ancillary services.

Several market parties request further clarification regarding the cost calculation in the calibration methodology

Elia Proposal: Cost calculation based on short-list of existing technologies determined by an independent expert, including annualized routine investments, yearly fixed O&M costs and short-run marginal costs.

- **CREG** request to include **criteria per technology** class to determine the costs related to such a technology. Additionally, yearly update of costs to be included.
- **FEBEG** requests clarification about the different costs components that are included:
    - Costs related to **major overhauls** are to be included in the calibration : Elia confirms that major overhauls are indeed included in the Intermediate Price Cap calibration as part of the *"Annualized routine investments not directly linked to a life-time extension or capacity augmentation"* as mentioned in the design note.
    - **Financing costs of existing units** (linked to investment decisions prior to the introduction of the capacity market) should be included in the calibration.
    - **Link with Investment Threshold** calculation: FEBEG argues that the annualized routine investments should be defined as the investment threshold for a Capacity Category linked to a Capacity Contract covering 3 Delivery Periods, increased by non-eligible overhauls cost .

Several comments relate to the fact that the Intermediate Price Cap calibration should take into account the effects of the CRM implementation

- **Febeg** is of the opinion that **a risk premium** is to be included in the calibration to reflect the risk related to (i) Payback Obligation and (ii) Other Penalties and (iii) Operational Risks
- **Centrica** requests to include the **CMU's activation costs** related to the Availability Testing under the CRM.
- **Febeliec** argues that it should be further elaborated how the **Strike Price level** will be taken into account in the revenue determination in the calibration of the Intermediate Price Cap.

Elia received 1 alternative proposal for the methodology to calibrate the Intermediate Price Cap

Elia Proposal: Calibration of Intermediate Price Cap based on missing money of the worst existing technology in the market.

- **Febeg** argues that it is difficult to define an intermediate price cap that does not distort efficient market behaviour.
- As an alternative, **Febeg** therefore proposes to calibrate the Intermediate Price Cap based on 50% of the Cost of New Entry of a OCGT.