

## Capacity Remuneration Mechanism in Belgium

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### Centrica Business Solutions (REstore) comments to Elia following first round of design

August 30th, 2019

#### Executive Summary

- *The “market response” potential should be assessed on the “offer” side rather than on the “demand” side of the CRM*
- *“Market response” MWs should be able to apply a self-derating with regards to their expected availability rate in winter, in addition to the derating linked to their technical limitations (duration and number of activations)*
- *The calculation of the derating factors associated to each option of the “market response” limitations menu should be based on the actual contribution of each option to the security of supply*
- *A strike price for DR reflecting its actual activation costs will be key to ensure a fair CRM and avoid payback of revenues that have not been earned*
- *A clarification is needed that the payback obligation will be capped at 100% of CRM revenues*
- *ToE DA/ID needs to be validated (i.e. all rules and details known) before the first T-4 auction in Oct. 2021, to be able to monetize flexibility from DR on the wholesale markets. Else the potential from DR would be unnecessarily limited to MWs capable to participate in the balancing markets.*
- *Minimal volumes required for T-1 auctions will have to consider impact of multi-year contracts in T-1*
- *Terms & conditions to take part to T-4 auctions for unproven DSR still have to be clarified*

#### Introduction

Centrica Business Solutions (REstore) would like to thank Elia for the intense and high-quality work that has been provided these past months in the CRM TF by the involved team. We are aware of the high complexity and intense discussions linked to the implementation of a fully workable and efficient CRM in a market, especially within such a short period. While Elia is now working on the drafting of the design notes based on the first round of exchanges that occurred in the TF CRM, Centrica Business Solutions (REstore) would like to share with Elia its thoughts and analysis on some of the design points that have been discussed. These thoughts are the result of our internal understanding and analysis of the design presented by Elia. We do hope these will contribute to implementing an efficient and workable final design, and we remain at the disposal of Elia to further detail or explain the arguments and points developed in the document.

#### The “market response” potential should be assessed on the “offer” side rather than on the “demand” side of the CRM

As stated during a TF and clearly answered by Elia, we believed it is key that the available and observed amount of “market response” is not considered by Elia in its adequacy study on the “demand” side of the curve (i.e. as reducing the peak demand to meet), but rather on the “offer” side, i.e. as a CMU contributing to the need of MWs to ensure the required LOLE criteria.

Indeed, as market response MWs can take part to the CRM, counting them on the demand side of the curve could lead either (i) to double counting MWs, creating some missing volume to meet the adequacy standard, or (ii) to prevent market response MWs from taking part to the CRM and therefore hampering their sustainability and availability in the future.

Elia did explicitly confirm this principle orally, but we believe it is a key point to clearly insert in the design note documents to avoid any potential distortion.

**“Market response” MWs should be able to apply a self-derating with regards to their expected availability rate in winter, in addition to the derating linked to their technical limitations (duration and number of activations)**

We understand from Elia’s proposal that “market response” MWs will not be subject to any de-rating based on the historical availability rates of the technology they belong to, but rather to a de-rating led by their technical limitations in terms of duration and number of activations they can sustain.

While we do support this principle, we also believe that during the application to the CRM, “market response” CMUs should be able to self-derate, i.e. apply for a less than 100% de-rating with regards to their availability, in addition to the de-rating linked to their technical limitations. Indeed, it is likely that such MWs will also face planned or unplanned outages. Our analysis concludes that such an “availability” de-rating cannot be achieved by selecting a low option in the “constraints” de-rating menu

We therefore believe a CMU owner should be able to indicate its anticipated availability and therefore apply a de-rating to avoid (i) showing to the market an inflated level of MWs available, and (ii) paying penalties that could be avoided in the first place.

**The calculation of the derating factors associated to each option of the “market response” limitations menu should be based on the actual contribution of each option to the security of supply**

We do support the principle presented by Elia regarding how to consider the limitations of some CMUs in terms of length and number of activations: these do require to apply an additional and different de-rating than for availability. The next step in the design will now be to come up with and discuss on the de-rating values associated to each option of this “market response” menu.

In this matter, we believe that the value of each option of the menu should be modelized with regards to its effective contribution to the security of supply in Belgium. Concretely, depending on the dimensioning need of the Belgian system, the de-rating of these limitations can be more or less linear, as the first hours of activations will likely be more valuable than the last ones, leading to non-linear de-rating factors. In France for example (where the needs might be different from the ones in Belgium, so not applicable as such), out of a total availability window of 10 hours, assets able to provide only 2 hour long activations are eligible to a 40% de-rating factor (4MW prequalified for each 10MW installed), and only 4 hour long activations to a 70% de-rating (7MW prequalified for each 10MW installed) as the first hours are more valuable than the last ones.

This will be a key point of the CRM design, as this de-rating will have an impact on “market response” assets and send the signal of the optimal requirements for such assets, which will have to reflect the needs for Elia to remain fair.

**A strike price for DR reflecting its effective activation costs will be key to ensure a fair CRM and avoid payback of revenues that have not been earned**

As presented in the CRM TF and in the informal consultation organized by Elia, we underline the need to implement a strike price design that ensures CMUs with high activation prices like DSR will not be subject to a payback obligation in situations where no revenues have been earned on the market, as this would introduce a discrimination between assets taking part to the CRM auction.

Unlike in other CRMs that have been implemented elsewhere, the payback obligation is the key feature of this reliability option mechanism, that together with the intermediate price cap (which takes into account the expected amount of payback) is essential to ensure that CMUs will not earn windfall profits in case market prices are high and CRM revenues have already been earned. However, the design of the strike price that is needed to implement this payback obligation should not lead to a CRM that exposes CMUs to unjustified payback of revenues.

Regarding the single or multiple strike prices, Centrica Business Solutions does understand the fact multiple strikes prices do raise additional challenges in the product design, making it difficult to foresee. We therefore believe a unique

but high enough strike price (with or without different payback exemption rates) would be an acceptable option for the Belgian CRM.

#### **A clarification is needed on that the payback obligation will be capped at 100% of CRM revenues**

It is unclear from the presentations and discussions in the TF CRM if the payback obligation would be limited to a maximum of 100% of the CRM revenues earned, or if a CMU would be subject to a potential payback going beyond the amount of revenues provided by the CRM.

Centrica Business Solutions (Restore) believes it is important to clarify this point and supports the fact the payback should not exceed 100% of CRM revenues (penalties paid not being included in this payback as underlined by Elia).

This is particularly true in the case of a strike price design that would not properly reflect the real activation cost of a CMU, with a risk of paying back more money than earned with the CRM. It would indeed be too risky for MWs with an activation cost above the chosen strike price to participate given that they could face the situation that the reference price does reach the strike price but not their proper opportunity cost and hence they would not be able to grab the market revenue but still have a payback obligation.

Ensuring such MWs would not be at risk from that perspective is, according to Centrica Business Solutions, a key precondition for the acceptability of a strike price that imperfectly reflects the real opportunity costs of each MW engages in the CRM.

#### **ToE DA/ID needs to be validated (i.e. all rules and details known) before the first T-4 auction in Oct. 2021, to be able to monetize flexibility from DR on the wholesale markets. Otherwise the potential from DR would be unnecessarily limited to MWs capable to participate in the ancillary services.**

ToE DA/ID will be a key enabler for DR MWs that can't or do not take part to balancing services to enter the CRM, as it will be the favoured tool to demonstrate to Elia the availability of the MWs during AMT periods. To achieve this, it is key that full details of this ToE DA/ID model are known and validated at the time for the first T-4 auction, for participants to fully understand and assess the mechanism.

#### **Minimal volumes required for T-1 auctions will have to consider impact of multi-year contracts in T-1**

While the law foresees that a minimal amount of MWs are procured on T-1 auction, we do see there is a risk to not secure those volumes if some volumes taking part to a T-1 auction secure multi-year contracts (3,8, or 15 years). While this is unlikely for large generation assets, it could happen for storage or DER assets. In this configuration, the next T-1 auction would not be able to have the required amount of MWs reserved, because of these multi-year contracts already awarded. We therefore point this risk to Elia, in order to identify solutions to fulfil the legal requirement and ensure T-1 auctions remain a viable route to the market.

#### **Terms & conditions to take part to T-4 auctions for unproven DSR still have to be clarified**

Looking at the design elements published until now, we believe that the requirements to take part to the T-4 auctions have not been discussed yet, and in particular with regards to unproven DSR. For example, which level of commitment (legal and/or financial) asked for DR MWs offered in T-4 will be key to determine the participation of this technology in this timeframe. While T-1 will remain the most likely route to the market for DR MWs, we must foresee a workable T-4 auction design to allow this route to also be taken if relevant. Looking at examples in other countries on this point, we believe this should be discussed in TF CRMs, in order to find a workable balance.