febeliec
federation of belgian industrial energy consumers

PRESS RELEASE

Expensive subsidies for new power plants seem to be premature…

Brussels, 18th September 2019 – Energy regulator CREG expressed clear reservations regarding the recommendations of electricity grid operator Elia to rapidly introduce a capacity remuneration mechanism (CRM) for the construction of new power plants. Febeliec shares the regulator's concerns: a CRM risks to seriously distort the electricity market and to lead to hundreds of millions of euros of extra costs per year. Further analysis is therefore absolutely necessary!

In its *"Adequacy & Flexibility"* study, transmission system operator Elia published at the end of June its expectations towards security of supply in electricity for Belgium in the period 2020-2030. In order to cope with the nuclear phase-out by 2025 Elia underlines the need of massive investments for the coming years, both in additional generation and import capacity, as in flexibility sources (storage, energy efficiency and demand side management). According to Elia, a capacity remuneration mechanism therefore urgently needs to be introduced in order to financially support these investments.

Federal energy regulator CREG, however, expressed some serious concerns on the Elia study. In a study of 11th July the CREG made amongst others the following objections:

- the hypotheses of Elia on the availability of the generation capacity of Belgian generation plants in the coming years are too pessimistic;
- Elia assumes that our neighbour countries will no longer be able to cover their own needs in all circumstances, although some of them have a CRM of their own;
- Elia does not sufficiently take into account the flexibility already available in the electricity market. The CREG refers in this matter to its study on the winter 2018-2019, during which a certain number of nuclear plants were unavailable for several months, without security of supply being jeopardized;
- maintaining existing power plants into the system (if necessary by means of a strategic reserve) would drastically reduce the need of a CRM;
- part of the (expensive) new investments would be needed during only a very limited number (5 to 7) of hours, which could be covered also, and at a much lower cost, by other means (eg. demand side management);
- Elia clearly underestimates the profitability of existing and new generation units, and thus overestimates the need for a support mechanism;
- the Elia study does not meet the requirements of the newly amended European legislation ("Clean Energy Package") justifying the need for a support mechanism.

Febeliec has analysed the Elia study and shares the CREG's concerns. The methodology and hypotheses used by Elia clearly need to be improved. Febeliec does not fundamentally oppose to the introduction of a CRM if market functioning does not lead to security of supply. In that case European legislation prefers for that matter a strategic reserve to a wide CRM. In any case, Febeliec insists on the need to clearly justify the activation of a massive and expensive support mechanism as a last resort solution. All electricity consumers in this country count on security of supply, but also on affordable electricity. The cost estimates of the CRM vary from 300 to 940 million euros a year (12 to 38 euros for a household, millions of euros for the largest companies), while analyses clearly show our electricity prices haven't been competitive for many years, compared to our neighbour countries. Furthermore, Febeliec insists on the need to set up an open dialogue between Elia, the CREG and the other stakeholders in order to reach a broad consensus on the real needs for the years to come.

Contact: Thérèse van Bellinghen (Op de Beeck & Partners) - 0475/47.82.33 - therese@opdebeeck-partners.be