Consultation on Belgium's electricity market reform plan

Reaction of Febeliec

About Febeliec

Febeliec (Federation of Belgian Industrial Energy Consumers) represents industrial energy consumers established in Belgium, as well as their sector federations. As of 1/1/2020, Febeliec represents 34 member companies and 4 sector federations.

Febeliec has a double objective:

- strive for competitive prices of electricity and natural gas for companies in Belgium
- contribute to the security of supply of energy in Belgium

Febeliec is the Belgian member of IFIEC Europe.

For more information on Febeliec, see www.febeliec.be.

Febeliec's general position

Febeliec's members have a direct interest in Belgium's intention to introduce a capacity remuneration in Belgium:

- Belgian industrial consumers have an strong need for competitive energy prices and for a highly reliable supply in order to guarantee the economic viability and the continuity and safety of their operations. A well-functioning electricity market not only leads to competitive electricity prices, but also to security of supply at the lowest possible cost for all consumers. If market functioning, including all possible corrective measures (including strategic reserves) in order to take away market distortions, does not lead to these results, introducing capacity remuneration mechanism under the terms and conditions listed in the Clean Energy Package, can be considered as a last resort solution.
- Any capacity remuneration mechanism comes with a cost, likely to be borne at the end of the day by energy consumers and/or tax payers. Estimates for the CRM proposed by the Belgian government vary between 360 and 940 million euros per year for 10 to 15 years, a substantial cost that could severely impact Belgian industry's international competitiveness. Therefore the introduction of any capacity remuneration mechanism should not only be accompanied by an upfront estimation of the cost but also by maximum transparency on the proposed financing mechanism before implementation. In any case, for Febeliec the introduction of a CRM is not likely to lead to the lowest possible cost solution.

General comments on the Belgian implementation plan

Febeliec understands the document submitted by the Belgian authorities "*is to be regarded as the implementation plan from Belgium in accordance with article 20 of Regulation 2019/943 of 5 June 2019 on the internal market for electricity, both for the already approved strategic reserve (state aid measure SA.48648) as in the context of the ongoing state aid approval process for the introduction of a capacity mechanism of the type "reliability options" in Belgium."* Its aim is therefore not to justify nor to prove the need to introduce a capacity remuneration mechanism in Belgium, nor to justify the required volumes of capacity to be remunerated. Febeliec will therefore not comment on the parts of the document referring to those issues. This can, however, not be interpreted as Febeliec approving of the introduction of a CRM in Belgium, nor of the volumes referred to in the Belgian plan. Febeliec has, at several occasions in the past, expressed its doubts on this issue and on the proposed solution, for instance with its press release of 18 September 2019 (see http://www.febeliec.be/data/1568736300Press%20release%20CRM%20ENG_20190918.pdf). Furthermore, Febeliec would like to point out that CREG, the Belgian electricity and gas markets regulator, has published an interesting analysis of the adequacy assessment the Belgian government is referring to (see https://www.creg.be/sites/default/files/assets/Publications/Studies/F1957EN.pdf).

Specific comments on the Belgian implementation plan

- 1. Introduction, 1st §

  Febeliec is surprised the Belgian government does not explicitly mention the planned nuclear phase-out as (one of) the major reasons for concern on system adequacy. Furthermore, it does not take into account that massive subsidies have lead to huge investments in (intermittent) renewable capacity, without any proportionate

contribution to system adequacy. Last but not least, for Febeliec, high dependency on imports is as such not a cause of concern on adequacy.

- 1. Introduction, 4th §
  Febeliec does not agree with the document that *"all decisions from the regulator and market related measures from the TSO are consulted through extensive workshops and/or written (online) consultations"*. This is definitively not the case for several key issues, such as the type of CRM to be introduced, the adequacy assessment methodology, the final CRM design note and market rules, and most of the Royal Decrees determining the details of key aspects such as auctioning modalities and financing.

- 2. Policy context
  Febeliec is surprised about several aspects of this chapter, such as
  - The fact that most data used are for the situation in 2017, while the proposed CRM would only have an impact in 2025.
  - Several times, evolutions and views are expressed referring to "studies" without these being specified.
  - The decreasing trend in peak load (figure on page 8) between 2010 and 2017 (!) is remarkable…

- 3. Resource adequacy
  As mentioned before, Febeliec will not comment in detail on this issue, as it is not the subject of the implementation plan. Febeliec does not agree with this analysis and would like to point out the following elements:
  - In the 1st §, the document draws a very general and broad conclusion out of 4 studies with very different backgrounds, methodologies and objectives.
  - The "*complete overview*" referred to in § 2 is not attached.
  - For Febeliec, the "*vast stakeholder involvement process*" referred to in § 3 is not sufficient and not compatible with the provisions of the Clean Energy Package. The public consultation referred to concerned the input data ONLY and did not concern the adequacy assessment methodology, on which no public consultation was held. Febeliec would like to underline that the same methodology was used for justifying the strategic reserve in the past, but was never publicly consulted in that framework neither.
  - In § 6, the document refers to the "*urgency*" of Belgium's adequacy issue, without justification.
  - The conclusions and recommendations of the Elia study are based on the HiLo scenario, not on the Base case. This leads to a clear overestimation of the capacity needs.
  - The study assumes neighbouring countries will not be adequate in some circumstances, which is strange in the case of France, the UK and Germany, which all have approved capacity remuneration mechanisms in place.
  - The strategic reserve the last § refers to has never been used in Belgium. Even in October-November 2018, when up to 6 out of 7 nuclear plants were offline, there was sufficient capacity and flexibility available in the system in order to guarantee security of supply (see also the CREG analysis and conclusions on this issue, https://www.creg.be/sites/default/files/assets/Publications/Studies/F1950FR.pdf).

- 4. The Belgian electricity market
  According to article 20.3 of Regulation 2019/943, "*(…) Member States with identified resource adequacy concerns shall develop and publish an implementation plan with a timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process (…)".* For Febeliec, the submitted document does not contain sufficient analyses nor concrete measures in order to comply with these criteria:
  - Although an estimated 85% of electricity end consumption in the Belgian market is sourced in the Forward market, the Belgian implementation plan does not (or hardly) mention(s) it. It only looks at the spot market.
  - Price limits on the spot market were never reached in normal circumstances since the creation of the Belgian exchange, which indicates security of supply has never been acutely threatened since 2006.

- The impact on market functioning and security of supply of current or planned investments in additional cross-border capacity (see § 4.1.6.) and the introduction of the 70% rule referred to in § 4.1.4. is not analysed.
- Section 4.2. of the implementation plan gives a detailed and extensive overview of measures taken and planned in the balancing market, but their impact on market functioning and security of supply is not analysed. It is, however, clear that these measures will increase the pressure on BRPs (Balancing Responsible Parties) to remain in balance at all times, which is the basis of security of supply in a market environment.
- Section 4.3. of the implementation plan gives a detailed and extensive overview of measures taken and planned on demand-side response, but their impact on market functioning and security of supply is not analysed. This is remarkable, given the significant potential of the different measures mentioned in this section:
  - Transfer of energy as from 2020 (at the earliest) in the Day-ahead and Intraday markets.
  - The progressive introduction of smart meters in the regions (by the end of 2019, already 100.000 smart meters were installed in Flanders), giving residential consumers and SMEs (representing about half of total end consumption of electricity) the possibility to actively participate in the market
- Section 4.6. of the implementation plan describes ongoing work by Elia and the CREG on scarcity pricing, but its impact on market functioning and security of supply is not analysed.
- In Section 4.7., it is mentioned that self-generation, energy storage and energy efficiency will undergo substantial evolutions in the following years. Their impact on market functioning and security of supply, however, are not analysed.
- Febeliec would also like to refer to a note by the CREG on "*measures that could improve the electricity market functioning*" and that the government does not tackle in its implementation plan (see https://www.creg.be/sites/default/files/assets/Publications/Notes/Z1651FR.pdf).

- 6. Conclusion

  In the conclusion, no concrete timelines nor measures are listed. It is not clear what is meant by the sentence "*All governments, regulators, the TSO and DSOs and other market parties are committed to strive for an ever better functioning market and have many measures ongoing or planned",* nor which "*other market parties*" are meant (generators ? suppliers ? traders ? consumers ?). It is also unclear which of the measures referred to on the implementation plan are meant here ("*Many of these measures are listed in the present implementation plan").* Again, the conclusion mentions "(…) *it has been shown through multiple studies that improving the market functioning alone will not be sufficient to address the challenges at hand and state intervention is deemed necessary*", but which studies are meant is unclear.