

## **Febeliec answer to the FPS Economy public consultation on the techno-economic analysis of the bids and outcome of the CRM auction**

Febeliec would like to thank the FPS Economy for this public consultation on Haulogy document concerning the techno-economic analysis of the bids and outcome of the first Y-4 CRM auction for delivery year 2025-2026.

Febeliec takes note of the description by Haulogy of the CRM mechanism and will not make comments to this description or the design itself, except that it wants to stress that participation to the CRM mechanism is not an obligation but is voluntary (except in some cases for pre-qualification) and that it should be kept in mind that the only reason of existence of a CRM is to guarantee security of supply, and this at the lowest possible cost in line with the related legal criterion. Nevertheless, the existence of the Belgian CRM does not exclude market actors to operate solely in the energy only market. In this respect, Febeliec considers the approach of Haulogy to state that opt-out IN volumes are less certain from a security of supply approach comprehensible under a CRM-only approach but excessive under a market approach with only part of the capacity covered by a CRM, as market parties should be encouraged to fully participate to the energy only markets without any distortions from support schemes. Moreover, the European legislation clearly indicates that additional mechanisms to ensure security of supply such as the Belgian CRM are to be temporary (also reflected in the fact that approval is for a limited period of time) and should evolve towards an energy only market approach over time. In conclusion, it is for Febeliec incomprehensible that for Haulogy a market approach seems to be considered inadequate vis-à-vis security of supply, as all capacity remaining in an energy only market context is significantly reducing the cost of the Belgian CRM, which is a legal criterion and should thus rather be reinforced instead of being considered as an element of concern.

As a general comment, and related to the above comment, Febeliec wants to stress that reimbursing part of the received CRM support when market prices exceed certain thresholds is an essential part of the Belgian CRM, as a measure to avoid windfall profits for participants and avoid excessive costs for consumers, and is known as mechanism by all participants prior to participation to the auction, while there are moreover caps applied to any such reimbursement. Febeliec is in any case not in favor of modifying the strike price with an indexation, as this would lead to uncertainty for participants and thus to higher costs. Febeliec opposes retroactive modification of the strike price and believes that, just as for the first Y-4 auction, it is important to give a clear visibility on the strike price, which can then be priced in by the participants, thus without subsequent modifications which would introduce an extra layer of uncertainty and *in fine* costs. Moreover, Febeliec is also concerned that it would be difficult to establish a relevant and correct indexation formula. The formula proposed in the document for example creates ample issues, a.o. regarding time lags effects and hedging strategies. When one considers the last two and current calendar years, with 2020 being heavily impacted and thus skewed by a sanitary crisis, 2021 being a mix of the impacts of the sanitary crisis and an acceleration of electricity prices through strongly increasing gas and other fuel prices after the summer and prices in 2022 seeing an even more volatile behavior due to the Ukrainian war and all its effects, an indexation for 2023 based on these three years would lead to surprising outcomes, probably in themselves not relevant for price behavior during 2023. Indexation for 2024 would then lead to a much higher level (as 2020 would no longer be taken into account), but subsequent years might be facing reverting price curves etcetera. Time lag effects could wreak havoc for business cases, while not reflecting any on-going market events. As indexation formulas would always create lots of side effects, some of them unwanted or negatively impacting market functioning, Febeliec strongly favors to continue to apply the current approach with a fixed strike price and not modify it over time, in order to avoid to add an additional layer of uncertainties and costs.

The same applies to a wide range of features in the Belgian CRM, such as penalty clauses, monitoring, secondary market and so on, which are there to ensure that consumers acquire the searched level of security of supply (on which Febeliec has made ample comments in other consultations on the methodologies and calculations related to this aspect, mostly as being too conservative and thus creating an artificially increased need for additional capacity, but which are not the scope of this consultation) with the highest level of certainty under the condition of the lowest possible cost. As mentioned above, Febeliec insists that opt-out IN capacity and all other capacity remaining in the market but not participating with the CRM auctions is preferable from a cost perspective, and under the current market conditions with very high prices, such capacity would in most cases be profitable to even extremely profitable, as no subsidies would be given but also no strike price and pay-back obligation would be applicable (nor would any penalties, monitoring obligations, financial guarantees, ...). While Febeliec is in favor of a strong follow-up of capacity awarded in the CRM, as

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*Febeliec represents industrial energy consumers in Belgium. It strives for competitive prices for electricity and natural gas for industrial activities in Belgium, and for an increased security of energy supply. Febeliec has as members 5 business associations (Chemistry and life sciences, Glass, pulp & paper and cardboard, Mining, Textiles and wood processing, Brick) and 39 companies (Air Liquide, Air Products, Aperam, ArcelorMittal, Arlanxeo Belgium, Aurubis Belgium, BASF Antwerpen, Bayer Agriculture, Bekaert, Borealis, Brussels Airport Company, Covestro, Dow Belgium, Evonik Antwerpen, Glaxosmithkline Biologicals, Google, Ineos, Infrabel, Inovyn Belgium, Kaneka Belgium, Kronos, Lanxess, Nippon Gases Belgium, Nippon Shokubai Europe, NLMK Belgium, Nyrstar Belgium, Oleon, Pfizer, Proximus, Recticel, Sol, Tessengerlo Group, Thy-Marcinelle, Total Petrochemicals & Refining, UCB Pharma, Umicore, Unilin, Vynova and Yara). Together they represent over 80% of industrial electricity and natural gas consumption in Belgium and some 230.000 industrial jobs.*

there is a substantial cost for society and thus fulfillment of the obligations is important, it should be clear that Febeliec also considers the CRM design as being extremely complex and thus Febeliec can understand that market parties would rather remain in the market, with potentially more volatility on revenues (but also higher potential profits) than exchanging this for a more certain revenue stream but also additional obligations (and a topping off of potential market revenues).

Concerning the above-mentioned complexity of the CRM, Febeliec indeed, after discussions with its members but also a wide range of other stakeholders, does believe that the overly complex framework, functioning rules and so on create a very important entry barrier and as such lead to more limited competition and thus an unwarranted higher cost of the CRM (and thus might go against the legal lowest cost criterion).

In any case is Febeliec of the opinion that all market and entry barriers should be removed, both for participation to the market and for participation to the CRM. Febeliec also believes that technology-neutrality is important in the CRM, as well in the Y-4 as Y-1 auctions, thus ensuring that also storage and demand side response are able to participate to the Y-4 auctions (and should also be considered as relevant technologies for determining the parameters for such auction, such as CONE), as not only it will increase competition in this Y-4 auction but also will ensure that these technologies have a fair chance of being selected, as Y-1 volumes for the auction will be redetermined in Y-2 and might be revised downwards significantly in case calculations from Elia regarding security of supply were in Y-5 overly conservative, which would lead to significant volumes of these technologies *in fine* not being incorporated in the combined auction outcomes and thus unnecessarily driving up the overall CRM cost. As mentioned in the document, in some cases such technologies might want to wait for the Y-1 auction to have better visibility on volumes, but their participation (or participation with already part of their flexibility volumes) should not be excluded nor considered a negative aspect. Febeliec in any case does not at all understand why a penalty on the intermediate price cap should be applied for the Y-1 auctions, as this would create a disadvantage for any participants to this auction and moreover goes even against the reasoning from Haulogy and the FPS Economy that some technologies are more suited for a Y-1 auction with better visibility on the underlying fundamentals and business processes. Febeliec believes such approach with a penalty could constitute a competitive disadvantage and thus undermine technology-neutrality and non-discrimination.

Concerning opt-out OUT, as already indicated in previous discussions and consultations, Febeliec believes that such opt-out OUT capacity should be analyzed diligently, in order to avoid that this approach would be used for gaming or other unwanted purposes. Febeliec believes that the framework for such opt-out OUT, including argumentation, should be provided sufficiently ahead in time to avoid unwanted effects.

Concerning the minimum threshold, Febeliec, as already voiced during the discussions on the design of the CRM, considers the minimum threshold of 1 MW after derating as excessive and an undue entry barrier.