

20221014 Public consultation on the Low Carbon Tender design note – 4/11/2022

Febeliec would like to thank Elia for this consultation on the design note for the tender for low carbon technologies (LCT).

On the context and regulatory framework, Febeliec would like most strongly to voice its concerns, as it has already done during the meetings where this tender was discussed. In case there is a real and important risk for Belgian system adequacy for the winter 2024-2025, Febeliec considers the framework too restrictive, as the tender is not technology-neutral and could thus jeopardize system security by excluding volumes and technologies that could alleviate these concerns. Moreover, by explicitly excluding technologies, it is not ensured that the outcome of the tender will lead to the lowest possible costs for the system and consumers. Alternatively, if no adequacy concern would exist for winter 2024-2025, there would be no need for this tender nor for all the related work by all concerned parties. Last but not least, Febeliec also wonders about the approval of this subsidy scheme by the relevant authorities, which does not seem to have been granted at this moment.

On the link with the design of the capacity remuneration mechanism (CRM), Febeliec regrets that this also means that all flaws of this mechanism will also be introduced into this tender. Febeliec has over time provided ample examples of a wide range of issues with the CRM and will not repeat all of them here, but wants to highlight in particular the issues that the CRM is a year-long product (with a.o. implications for maintenance periods, availability monitoring and secondary markets), while the tender is supposed to “ensure security of supply during Winter 2024-2025” which does not require availability over an entire year and could alleviate important concerns from demand facilities and thus demand side response which have been voiced over the years vis-à-vis the CRM. Because Elia wants to ensure a perfect transition between both products, it however introduces an additional barrier to participation (on top of the non-technology-neutrality) which could (again) jeopardize Belgian system security. Moreover, by incorporating the Functioning Rules for the LCT Tender in those of the CRM, this creates an additional complexity as this could lead to additional retrospective modifications whenever the latter change (as has been the case, with future changes being already discussed), increasing the risks and thus creating an additional barrier.

On the design note itself, Febeliec is concerned as it refers to be aligned “as much as possible” with the CRM framework except where it deviates from this in the design note or with future (not yet known) versions or any changes that might be brought in the future, which does not improve readability nor provides any clear view on the rules that will be applicable.

On the scope of the mechanism itself, Febeliec is very worried, apart from the issue of non-technology-neutrality, about the focus on “new” capacities while the definition of “new” is lacking. Febeliec wants to refer also to all the comments on this topic made during the meetings as well as during the discussions on a.o. the strategic reserve (where a similar discussion existed) as well as bilateral meetings with Elia on the subject, as a too strict definition would exclude important volumes of a.o. demand side response (e.g. because a (small) part of an installation already participates to e.g. a balancing product but the rest of the installation does not, because an installation historically was prequalified (but not necessarily selected nor activated) for an ancillary service, because an installation reacts to a market signal (which under the current climate of sometimes extremely high market prices is not only normal but also often at the request of the government to reduce overall consumption and be more flexible), and so on. Febeliec is very strongly concerned that if an important security of supply issue were to be found for winter 2024-2025, the framework would by being too restrictive exclude very important volumes of flexibility, which would drive up the overall cost and maybe even in itself jeopardize system security (especially also taking into account

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 42 companies (Air Liquide, Air Products, Aluminium Duffel, Aperam, ArcelorMittal, Arlanxeo Belgium, Aurubis Belgium, BASF Antwerpen, Bayer Agriculture, Beaulieu International Group, Borealis, Brussels Airport Company, Covestro, Dow Belgium, Etex, Evonik Antwerpen, Glaxosmithkline Biologicals, Google, Ineos, Infrabel, Inovyn Belgium, Janssen Pharmaceutica, Kaneka Belgium, Kronos, Lanxess, Nippon Gases Belgium, Nippon Shokubai Europe, NLMK Belgium, Nyrstar Belgium, Oleon, Pfizer, Proxiums, Sol, Solvay, Tessenderlo 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.

the fact that the government for example pushes for the reservation of 250MW additional balancing capacity, thus already greatly cannibalizing the available potential in the system). In any case, Febeliec finds it extremely worrisome that at this point a definition of “new” (or “low carbon” for that matter) are not yet available. The proposal of Elia (which is apparently not yet validated by the Federal nor European relevant authorities) is for Febeliec unacceptable as it is too restrictive and excludes too many flexibility assets, as described above and discussed before. Moreover, any justification for the period of “the last two years” is given, while in particular 2020 and 2021 were marked by the impact of the covid-19 sanitary crisis (which also impacted overall demand levels) and 2021 and 2022 were marked (in an extreme way) by rising price levels and direct and explicit requests from the government to reduce consumption and activate flexibility (in many cases not even remunerated) to alleviate the financial impact of the energy crisis for all consumers. Febeliec would find it very odd and even contra-productive to now punish the responsible behaviour of the actors that acted upon these requests by ex post excluding them from participation to the LCT tender, as results from the past (under extreme system conditions) are no guarantee for the future. Last but not least, Febeliec insists that in case explicit or even more concerning implicit participation to the energy markets (and in particular ancillary services) were to be considered a criterion, that activation (or at least reservation) would be taken into account and not only prequalification as prequalification without any remuneration in the past is no guarantee for participation in the future as these capacities might no longer be flexible and willing to react to signals.

On the proposed baselines by Elia, it is unclear how outages, maintenance, shutdowns for sanitary reasons (e.g. covid), shutdowns on government or system operators requests (in case the coming winter would lead to adequacy or other concerns), preventive shutdowns this or following winters to avoid potentially important damages from unplanned curtailments, etcetera would be taken into account to ensure that no capacities are unduly excluded, exacerbating the problem to ensure that sufficient capacities are prequalified to participate to the tender to ensure the lowest possible cost for consumers, in case an adequacy concern would be identified.

Febeliec in the design note also does not find a clear answer on how “new” capacities would be able to prequalify their volumes and also wonders how for existing assets with no validated metering how metering data from an access point could be used as proxy, knowing that multiple independent (new and/or existing) installations behind an access point might be offered for prequalification.

Febeliec also does not fully understand how capacities contracted in the CRM could be allowed to participate to the LCT tender and how it would be ensured that no excessive remuneration and potential windfall profits are granted. Febeliec also wants to add that there is a risk by introducing this tender that flexible assets which were to come available in the market in the near future (and thus would help alleviate the currently high prices in the energy markets including those for ancillary services) might be postponed in order to (potentially) capture subsidies from the tender, which would have an upward effect on costs for consumers in the near future. This issue was also raised during the meeting by other actors than Febeliec as a point of concern.

On multi-year contracts and remuneration, Febeliec is concerned about the possible impact on the CRM, including a.o. impact on secondary markets, issues with diverging applicable derating factors, and wonders what would be the (positive and/or negative) impact on the Y-1 auction of the CRM. Moreover, Febeliec also wonders how the Functioning Rules and Capacity Contracts of the LCT Tender and CRM would seamlessly be integrated to avoid any perverse and negative effects, including on the costs for consumers.

On the input scenario selection, Febeliec wonders why only one single scenario is to be selected to be simulated, as it is clear that, especially under the current very volatile market conditions which will presumably continue to have effects over the coming years, it would be advisable to simulate different scenarios in order to have a clear picture of the impact of different sensitivities and thus get a clear view on the robustness of Belgian system security. Febeliec thus most strongly opposes the approach of only one

single scenario and considers this approach a clear and irresponsible risk for system security in Belgium.

On the derating factors, Febeliec reiterates its comment on the potential impact of diverging derating factors between the LCT tender and the (subsequent) CRM period and wonders how this will be tackled concerning a.o. the secondary markets. This impact could even become worse if assets would consider cancelling CRM contracts in order to participate (under more favourable conditions as there would presumably be less competition) to the LCT tender instead.

Febeliec also wonders why cross-border capacity is explicitly excluded from the LCT tender as no justification is given and validation of the proposed design by the relevant authorities is not yet granted.

On the global auction price cap, Febeliec is surprised to see that here all (eligible) technologies will be included for the preselected capacity types while such approach is not taken for the CRM and thus wonders what will be the impact on both.

On the prequalification requirements, Febeliec considers the proposed text completely insufficient to provide any input as it refers to those of the CRM, except where they would diverge without any further specification. The design note thus does not provide any valid description of the design. The same applies in many degrees to a significant part of the rest of the design note, which does not provide much detailed nor concrete input for many topics.

Concerning the bidding, Febeliec has many concerns and questions on the impact of the LCT tender on the CRM, both the Y-1 auctions as well as (past) Y-4 auctions and overlapping transaction periods and how this element would be solved (e.g. for capacities that have already been selected for the CRM in any possible timeframe or constellation, as e.g. already parts of offered and selected capacities could be offered in the LCT tender).

For the clearing, Febeliec insists on a cost minimization approach while also ensuring that no unnecessary (large) capacities are selected to bridge a very small (or even insignificant) gap.

On pre-delivery monitoring, Febeliec wonders how this will be done for not yet existing capacity and how it will be guaranteed that this capacity will be available in time.

On availability monitoring, Febeliec wants to refer to its comments on the year versus winter product above.

Concerning the payback obligation, Febeliec cannot validate the proposed design by Elia as it is unclear how indexation would be applied (and how this would then be integrated with the first Y-4 auction where no indexation exists for the strike price and the discussion on retroactivity is not yet concluded).

Concerning the secondary market, Febeliec wants to refer to its comments on this topic above and wonders how the LCT tender and the CRM will be seamlessly integrated to avoid perverse effects in the secondary market (as well as on other topics). Moreover, it is unclear how non-selected capacities would be eligible to participate in the secondary market (and whether they would then also automatically be allowed to participate in the secondary market of the CRM). Last but not least, Febeliec has grave concerns concerning the liquidity of the secondary market for the LCT tender, especially also in combination with the issues concerning overall liquidity for this tender because of a too strict framework for participation.