This document contains the results of the consultation of neighbouring Member States concerning the introduction of a capacity remuneration mechanism in Belgium of the type “reliability options”, in accordance with article 21.2 of Regulation 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity.
1. Context

Belgium intends to introduce a capacity mechanism of the type “reliability options” in order to remedy its adequacy issues that arise from 2025 onwards, as has been identified in numerous studies.

Article 21.2 of Regulation 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity stipulates that “Before introducing capacity mechanisms, the Member States concerned shall conduct a comprehensive study of the possible effects of such mechanisms on the neighbouring Member States by consulting at least its neighbouring Member States to which they have a direct network connection and the stakeholders of those Member States.”

This document is the report of this consultation.

2. Process

Belgium has used the platform of the Pentalateral Energy Forum, extended with the UK, in order to carry out the aforementioned consultation. Authorities and regulators were invited to participate, as were market parties through the “market parties platform”.

This means that Belgium has consulted 7 countries on the introduction of its capacity remuneration mechanism: its five neighbouring member states - the Netherlands, Luxembourg, Germany, France and the UK – and the two remaining members of the Central Western Europe electricity market region, ie Austria and Switzerland.

The consultation was carried out in two steps:

- On the 25th of October 2019, a presentation and Q&A session was held in Brussels (see annex 1 for the presentation and annex 2 for the list of participants), presenting firstly the CRM in general, and secondly a special focus on cross-border participation.

- A period for written feedback was foreseen until the 15th of November, and has been prolonged until the 2nd of December upon request from some of the participants.

The non-confidential version of the reactions that were received can be found in annex 3 and in the following chapter their main messages are cited, along with a first answer. When needed, a further follow-up on specific points will be organized through Penta and/or bilaterally.

Obviously, talks with colleagues and stakeholders from neighbouring countries will not end after this consultation. On the contrary, it is only a first step. Indeed, Regulation 2019/943 foresees in multiple rules and processes supporting European collaboration between Member States, TSO’s and regulators concerning CRM’s in general (for instance, the elaboration of common methodologies) and for the implementation of cross-border participation specifically.

1 For further information and references on the adequacy situation and on the introduction of the capacity mechanism, see the website of the Federal Public Service Economy and, amongst others, the Belgian implementation plan (“plan de mise en oeuvre”) published on that same website: https://economie.fgov.be/fr/themes/energie/securite-deapprovisionnement/mecanisme-de-remuneration-de

2 The Pentalateral Energy Forum is the framework for regional cooperation in Central Western Europe towards improved electricity market integration and security of supply.
platforms like ENTSO-E and ACER will facilitate this collaboration. Taking into account the outcome of the European processes and methodologies, further discussions on regional and bilateral level will then be engaged to further complement these where needed and to implement cross-border participation.

3. Consultation

Regulation 2019/943 determines that a comprehensive study by means of a consultation should be carried out, and determines the subject of this consultation as the possible effects of the capacity mechanism. Therefore, the question that was asked during the consultation was the following:

*Which “possible effects of such mechanisms” on your country do you foresee?*

Some reactions that were received address this question, others go beyond this scope and focus for instance more on the design of the CRM. In any case, all reactions are treated.

In total, seven contributions were received: one each from Austria, France, Germany and Switzerland, and three from the Netherlands. None were received from Luxembourg and the UK.

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<th>Authority</th>
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The non-confidential version of the reactions that were received can be found in annex 3 and below their main messages are cited, along with a first answer.

3.1 Austria

The Austrian Ministry does not see any relevant or significant (negative) influence for the Austrian electricity market.
3.2 France

Taking into account that France already has a capacity mechanism in place, including a target solution for cross-border participation, and that the Belgian CRM also foresees in cross-border participation, the French regulator CRE points out that the agreements between the Belgian and French TSO in support of this cross-border participation should be coherent, especially regarding availability obligations.

*Answer:* The European methodologies and rules that will be developed by ENTSO-E by 5 July 2020 and subsequently approved by ACER, as referred to in article 26.11 of Regulation 2019/943, and especially those mentioned under points (c) and (d), should ensure coherence on availability obligations. If complementary bilateral dispositions would be needed, these can be foreseen in an agreement between TSO’s and they should be coherent as they should be in line with these European methodologies and rules.

CRE wonders about the timing of the European methodologies that will be developed by ENTSO-E by 5 July 2020 and subsequently approved by ACER on the one hand, and the TSO-agreements that are to be concluded on the other.

*Answer:* For the CRM developed in Belgium, the European methodologies and rules would normally arrive just in time to allow for a cross-border participation as from the first auction. However, as it is uncertain when the final approval by ACER will follow and as a reasonable time should be allowed for the necessary preparations for cross-border participation, Belgium has developed a back-up solution in case cross-border participation would not be possible as of the first auction. This solution consists in reserving a volume for the T-1 auction replacing the cross-border volume that could not be auctioned in the T-4 auction. This way, foreign capacities can still participate and contribute as of the first delivery year (2025).

*However, if for the agreement to be concluded to allow for Belgian participation in the French CRM, timewise it is not possible to wait for and make use of the European methodologies and rules, we are ready to discuss how the Belgian participation can be organized in the absence of these common rules.*

Finally, the CRE identifies the demand curve and the strike price as elements that potentially could create distortions on the French market, and requests to be consulted especially on the formula of the strike price that would be applied on French capacities, if this would include a reference to French market prices.

*Answer:* The demand curve of the main auction will be established according to a methodology that is to be fixed by Royal Decree, in accordance with the European rules on the subject and which will be part of the state aid approval process with the European Commission. The same goes for the demand curve of the pre-auctions per border. In this context, it is important to recall that Regulation 2019/943 foresees that TSO’s shall set the maximum entry capacity available for the participation of foreign capacity based on an annual recommendation of the regional coordination center, and which takes into account the expected availability of interconnection and the likely concurrence of system stress in the system where the mechanism is applied and the system in which the foreign capacity is located.

*As for the strike price, it is to be noted that in order to avoid distortions or discrimination, in general the same methodologies will be applied as much as possible to domestic and foreign capacities. If it would be judged appropriate to diverge from this general principle*
concerning the strike price by using ad hoc foreign parameters, this can be part of an agreement between the Belgian and French TSO. According to Belgian law, such an agreement is subject to approval from the Belgian regulator – if a similar provision is not foreseen in France, the CRE is invited to contact the Belgian regulator to further discuss how a consultation could be organized.

The CRE concludes with two questions: if new capacities can obtain multi-year contracts, and if foreign capacities can obtain such contracts.

Answer: New and existing capacities can obtain multi-year contracts in the Belgian CRM. The duration of the contract will depend on the level of investment. The thresholds determining the maximum duration will be fixed by a Royal decree and are part of the state aid approval process with the European Commission.

For foreign capacities, it has been concluded that it is not justified to provide for multi-year contracts, mainly taking into account the uncertainty associated with the maximum entry capacity over the years.

3.3 Germany

The four German TSO’s have sent a coordinated response, pointing out three issues. The first concerns a request that cross-border participation of German units in the Belgian CRM should not affect the units’ potential to be used for redispatch purposes, given the frequent need for this in the German system.

Answer: In accordance with article 26.2 and 26.3 of Regulation 2019/943, foreign capacities should be allowed to participate in a CRM. However, in exchange for the capacity premium, these foreign capacities are only required to respect an availability obligation. These capacities therefore remain fully available for the German market.

The second issue concerns a request that all additional tasks that would be asked from the German TSO’s can be managed with a reasonable effort and that all resulting costs are covered.

Answer: We trust it that the tasks, and the associated cost recovery methodology, will be described in the proposal to be submitted by ENTSO-E to ACER by 5 July 2020 according to article 26.11 of Regulation 2019/943. If this methodology would not be sufficiently clear, a further elaboration can be foreseen in an inter-TSO agreement.

Finally, the German TSO’s express their concern with the provision that Belgium would allow for direct foreign participation (ie connected to Belgium through a direct and exclusive line) in its CRM. The fact that these capacities do not face an additional competitive situation would incentivize them to exclusively connect to the Belgian control area, which could lead to adequacy issues in Germany. A CRM should not lead to a situation where capacity providers seek physical access to the financially most attractive location, but on the contrary by connected to the control area/bidding zone where they intend to participate in the energy market.

Answer: If a capacity would connect directly and exclusively to the Belgian control area, this would indeed mean that they wish to and should participate in the Belgian market. However, it is obviously not Belgium’s wish nor intention to negatively impact the adequacy situation of its neighbours. Therefore, further analysis will be carried out on this issue.
3.4 The Netherlands

Three written reactions to the consultation have been received from the Netherlands: from the administration, the TSO and the association of energy companies.

The administration reiterates its concerns with the provision that Belgium would allow for **direct foreign participation** (ie connected to Belgium through a direct and exclusive line) in its CRM, pointing out that this (1) could create adverse effects on the possibilities for the Netherlands to organize its own security of supply, (2) could minimize their disposal of grid stability and congestion management options, and (3) could minimize their options to comply with the rule that minimum 70% of the capacity of critical network elements should be available for commercial cross-zonal exchanges. Taking these elements into account, the Dutch administration expresses its preference for a cross-border participation via interconnection.

The Dutch TSO Tennet evokes the same concern for the same reasons, and providing more explanation on these arguments. In addition, Tennet argues that the provision for direct foreign capacities creates an incentive for market participants to disconnect from the Dutch network, which would be at odds with the Electricity Target Model based on the coupling of zonal EOMs to facilitate cross-border trade and which violates the principle that a CRM should not reduce incentives to invest in interconnection or undermine market coupling (referring to the Guidelines on state aid for environmental protection and energy 2014-2020, paragraph 233).

**Answer:** Further analysis is being carried out on the issues raised by the Netherlands.

Furthermore, Tennet stresses their belief in the energy only market, and points out that **indirect cross-border participation** (ie over interconnectors) also has a distortive effect on the Dutch energy market: due to the additional revenues that participating Dutch capacities would gain from the Belgian CRM, the price signal in the Dutch market is weakened.

**Answer:** In accordance with article 26.2 and 26.3 of Regulation 2019/943, foreign capacities should be allowed to participate in a CRM.

Finally, Tennet stresses the importance of a good collaboration between Dutch and Belgian NRA’s and TSO’s, in the framework of the Electricity Regulation, especially regarding the sharing of potential revenues, the calculation of the maximum entry capacity and the rules and procedures for simultaneous shortage.

As for Energie Nederland, the association considers the current design of the Belgian CRM overly complex, resulting in a de facto price regulation and not conducive to the participation of as much market parties as possible. Instead, it is proposed to simplify the overall design, which for Dutch participants would facilitate their participation, minimize the impact of the CRM on the energy markets and decrease hurdles to invest in the energy market in Belgium.

Energie Nederland continues with specific proposals for certain design aspects. These proposals are also based on the work going on in the Task Force CRM (ie the platform used by the Belgian administration, regulator and TSO to consult stakeholders on the design of the CRM).

**Answer:** The current design of the Belgian CRM is the result of the aspiration to, while guaranteeing the security of supply, minimize the cost of the CRM (as required by the Belgian law). Furthermore, many aspects of the Belgian CRM are inspired by already functioning CRM’s in other member states. As pointed out, also a large stakeholder consultation process has taken place and is still ongoing, resulting in certain design choices on the request of the stakeholders. Finally, the CRM is designed in such a way as to be compliant with state aid rules from the European Commission.
In our belief, the current design would not hinder cross-border participation, but on the contrary is maximizing possibilities for foreign capacities to participate and minimizing the impact on neighbouring markets. Also, the design is largely similar for foreign and domestic capacities, as the same rules will be applied as much as possible for both categories in order not to create discrimination. However, if necessary and justified and within the framework of the Royal Decree fixing the conditions for cross-border participation, deviations from this general rule will be possible through specific market rules, contracts and inter-TSO agreements, all to be approved by the regulator.

3.5 Switzerland

Switzerland has communicated not to submit any remarks, as they are not directly affected by the Belgian CRM.
Annex I – Presentation

NB - Please note that the slides below represent the state of play at the time of the consultation, ie October 2019. A law introducing the CRM was voted in April 2019, containing high level principles (and which is void until state aid approval from the European Commission has been obtained). All other aspects mentioned in the presentation are draft proposals, subject to change (including in function of the results of the Penta-consultation).

Purpose of the meeting

Regulation 2019/943 ("the Electricity Regulation"), article 21:

"Before introducing capacity mechanisms, the Member States concerned shall conduct a comprehensive study of the possible effects of such mechanisms on the neighbouring Member States by consulting at least its neighbouring Member States to which they have a direct network connection and the stakeholders of those Member States.”
**Agenda**

A. The envisaged Capacity Remuneration Mechanism in Belgium

B. Focus on cross-border participation

C. Consultation on the possible effects of the Belgian CRM on neighbouring countries

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**A. The envisaged Capacity Remuneration Mechanism in Belgium**

1. Context
2. Reliability options: general principles
3. Reliability options in Belgium
4. Planning
5. Further information
1. Context
Security of Supply

- General context:
  - Energy transition
  - Ageing centralized production park
  - Bad investment climate for new capacities
  - Nuclear phase-out by 2025

- Nuclear phase-out by 2025:
1. Context

**Need for a CRM**

- March 2016: Elia study, requested by Minister, demonstrates a need for additional capacity and the lack of investment signals.

- June 2016: after a stakeholder consultation, DG Energy recommends to start preparations for a potential introduction of a CRM.

- May 2017: Minister requests to start preparations for a CRM.

- Nov 2017: Elia study demonstrates a need of 3.6 GW new built capacities. Studies from the Federal Planning Bureau, Ghent university, Energyville confirm the gap.

---

1. Context

**Need for a CRM**

- End 2017: DG Energy launches a study to determine the best remuneration mechanism for Belgium and to prepare the legislative framework.

- March 2018: study conclusion:
  - CRM based on "reliability options" is the mechanism best suited for BE, because of:
    - European context
    - Limitation windfall profits
    - Concentrated production and supply markets
    - Effects during simultaneous scarcity.
1. Context
Introduction of CRM

- Spring 2018: elaboration draft law introducing reliability options in Belgium
- July 2018: start of consultation of the European Commission on the draft law

- 4th April 2019: approval CRM law in federal Parliament

- June 2019: latest adequacy study from Elia demonstrates again that there is a need for new capacity in 2025, and that the EOM alone will not attract sufficient investments

2. Reliability options: general principles
CRM?

Capacity remuneration mechanism = capacity is remunerated for being available for the system

Types of CRM

Targeted
- Volume-based
- Price-based

Market-wide
- Volume-based
- Price-based

1. Tender
2. Reserve
3. Targeted capacity buyer
4. Central buyer
5. De-central obligation
6. Market-wide capacity (system)

Source: European Commission, Sector inquiry on Capacity Mechanisms
2. Reliability options: general principles

Strategic reserve

- Remuneration for being available as back-up during winter period (from 01/11 until 31/03)
- Capacities (generation and demand response) outside of the market
- Volume, necessary to meet peak demand in winter, determined yearly
- SR approved until winter 2021 - 2022

2. Reliability options: general principles

Reliability options?

- Capacity remuneration scheme, which is:
  - Volume-based & Market-wide
  - Centralized
- Technology neutral
- Capacity premium and beneficiaries are determined through a competitive process
- Excessive profits are limited with a pay-back obligation
2. Reliability options: general principles

*Volume-based & market wide*

- Volume = volume needed for Security of Supply

- Market wide:
  - Open to new capacities, but also existing and refurbished
  - Open to Belgian capacities, but also to foreign participation

---

2. Reliability options: general principles

*Technology neutral*

- Technology neutral:
  - Open to all technologies, i.e. DSM, storage, all kinds of production capacities
2. Reliability options: general principles

**Centralized**

- Central buyer will buy reliability options and supervise respect of obligations;
- Does not preclude a secondary market

---

2. Reliability options: general principles

**Competitive process**

- Capacity premium is determined through a competitive process:
  1. Pre-determined demand curve
  2. Auction determines the price(s) and its beneficiaries

![Diagram](image-url)
2. Reliability options: general principles

**Competitive process**

- Auctions with different time horizons to allow for existing / new / refurbished capacities and for different technologies to compete:

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**Pay-back obligation**

- Monthly premiums, with pay-back obligation in case of market prices exceeding a strike price

![Diagram of Spot markets, Central buyer, Market revenues, Capacity premium, Pay-back obligation, Capacity holders, Market reference price, and Delay price](image)
3. Reliability options in Belgium

Belgian CRM: the framework law

- Approved by the Parliament on 4th April 2019
  - Introduces reliability options mechanism in BE
  - Contains high level principles & roles and responsibilities

- Operational implementation by Royal and Ministerial decrees, market rules and contracts

- To be approved by European Commission and to comply with CEP
3. Reliability options in Belgium
*CRM: process and roles*

- **31/03** Volume & auction parameters
- **15/05** Publication market rules and contracts
- **15/09** End of pre-qualification
- **01/10** Auction

---

**31/03 Volume & auction parameters**

- Yearly instruction by Minister determining the volume & auction parameters for the T-4 and T-1 auctions
- Decision based on reports from the TSO and the regulator after consultation of the market parties and the administration

**Auction parameters**

- Demand curve
- Price/bid caps
- Reference price
- Strike price
- Derating factors
3. Reliability options in Belgium
31/03 Volume & auction parameters

Demand curve

- Volume needed for Security of Supply in T+4 and T+1 based on the reliability standard

- Taking into account:
  - Volume already contracted
  - Volume available for SoS but not participating
  - Reservation of volume for T-1

Reference price, strike price & price caps

- Reference price = price received on markets (DA)
- Strike price = threshold for pay-backs
- Price/bid caps are foreseen
3. Reliability options in Belgium

**31/03 Volume & auction parameters**

**De-rating factors**

- De-rating factor represents contribution to SoS
- Determines maximum volume of the capacity that can be offered in the auction

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3. Reliability options in Belgium

**CRM: process and roles**

- **31/03**  
  - Volume and auction parameters
- **15/05**  
  - Publication market rules and contracts
- **15/09**  
  - End of pre-qualification
- **01-31/10**  
  - Auction
3. Reliability options in Belgium
15/05: Market rules

- Market rules:
  - Terms and conditions prequalification
  - Auction terms
  - Availability obligations and associated penalties
  - Financial guarantees
  - Secondary market (deadline 1 year before first delivery year)
  - Information exchange and transparency rules

To be proposed each year by Elia, after public consultation, and to be submitted for approval to CREG.

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3. Reliability options in Belgium
15/05: Standard contracts

- Contracts determine further the obligations, in particular availability obligations & pay-back obligation
3. Reliability options in Belgium

**CRM: process and roles**

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<th>Date</th>
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<td>Publication market rules and contracts</td>
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3. Reliability options in Belgium

15/09: Prequalification

Eligibility rules & criteria:

- Minimum threshold in MW (1MW)
  - After application of de-rating factors
  - Aggregation is possible

- Rules on non-cumulation of subsidies
3. Reliability options in Belgium

3. Reliability options in Belgium

15/09: Prequalification

- Prequalification file to be submitted to Elia
  - Check of respect of market rules + determination of maximum eligible volume

- Investment file to be submitted to CREG if applicable
  - Determination of maximum contract length

- Results: 2 weeks before the auction at the latest

3. Reliability options in Belgium

CRM: process and roles

31/03
- Volume and auction parameters

15/05
- Publication market rules and contracts

15/09
- End of pre-qualification

01-31/10
- Auction
3. Reliability options in Belgium

01-31/10: Auction

- All prequalified capacity holders MAY participate, for all or part of their capacity
  - If no participation or only partially: Elia to be informed upfront.

- Auction format
  - Single round sealed Bid
  - Price caps
  - Pay-as-bid vs. Pay-as-cleared
  - Algorithm takes into account grid constraints
  - Clearing at most cost-efficient, technically feasible outcome

---

3. Reliability options in Belgium

01-31/10: Auction results

- Publication of results

- Contract to be concluded

- Availability obligations (including monitoring, testing & penalties)
  - Requirement to be available on critical moments
  - Secondary market will be available

- Capacity premium (EUR/MW/year) to be paid monthly during delivery year + pay-back obligation
4. Planning

**Auctions**

- Calender of auctions:
  - First T-4 auction in **October 2021**
  - First T-1 auction in October 2024
  - First delivery year from November 2025 onwards

- Preparations starting one year ahead!
  - First volume & parameters reports: end 2020 – beginning 2021
  - First prequalification period: **June 2021**

4. Planning

**Governance**

- Administration, CREG & ELIA develop proposals for secondary legislation as foreseen in the law

- Important **stakeholder consultation process** put in place

- Regular exchanges with **European Commission (DG Ener & DG Comp)**

- Consultation of neighbouring countries
5. Further information

Sources

https://economie.fgov.be
  > Théma’s > Energie > Bevoorradingsszekerheid > CRM
  > Thèmes > Energie > Sécurité Approvisionnements > CRM

➢ Context, general information & state of play

http://www.elia.be
  > Users’ Group > Implementation CRM > TF CRM

➢ Presentations proposals Elia, CREG & FPS
➢ Contributions stakeholders

B. Focus on cross-border participation

1. Strategic orientations
2. First elements of design
1. STRATEGIC ORIENTATIONS

Context

Reminder of the Belgian CRM law

Article 6 §4 defined the eligibility criteria and/or conditions for the prequalification procedure:

« [...] les conditions auxquelles les détenteurs de capacité étrangère directe et indirecte peuvent participer à la procédure de préqualification [...] »

« Tout détenteur de capacité de production éligible localisé dans la zone de régulation belge est tenu d'introduire un dossier de préqualification [...] tout détenteur de capacité étrangère est autorisé à introduire un dossier de préqualification. »

Distinction between direct and indirect foreign capacities

The following definitions are introduced at Article 2 §185 and §186:

- Indirect foreign capacity is located outside of the Belgian control area but offers a contribution to the SoS via interconnectors;
- Direct foreign capacity is located outside of Belgium's territory but is exclusively connected via a specific line to the Belgian control area. This capacity is subject to the same rights and obligations as an equivalent capacity located in Belgium.

Article 26 of Regulation on the Internal market for electricity (CEP)

1. “Capacity mechanisms [...] shall be open to direct cross-border participation of capacity providers located in another Member State [...]”
2. “[...] foreign capacity capable of providing equivalent technical performance to domestic capacities has the opportunity to participate in the same competitive process as domestic capacity, provided that Member States which apply the mechanism agree and a Member State that has a direct network connection with the Member State applying the mechanism.
3. “[...] Member States may require foreign capacity to be located in a Member State that has a direct network connection with the Member State applying the mechanism.
4. Cross-border participation in capacity mechanisms shall not change, alter or otherwise affect cross-zonal schedules or physical flows between Member States.
5. Capacity providers shall be able to participate in more than one capacity mechanism.
6. Capacity providers shall be required to make non-availability payments where their capacity is not available.
7. “[...] the entry capacity [...] is allocated to eligible capacity providers in a transparent, non-discriminatory and market-based manner.”
Objectives

Objectives of the CRM
The objective of CRM is to guarantee security of supply while minimizing its cost. The way in which foreign capacities will participate is therefore essential to ensure the proper functioning of the CRM and to comply with Article 7 undecies §1:

“... Le mécanisme de rémunération de capacité est conçu de façon à rendre le mécanisme le moins coûteux possible.”

“... Het capaciteitsvergoedingsmechanisme is zo ontworpen dat de kostprijs ervan zo laag mogelijk blijft.”

Objectives linked to cross-border participation*
- Maximize competition;
- Minimize cost;
- Enable the optimization of investments (capacity), in terms of volume, nature/technology and location (efficient investments);
- Promote efficient investment in transport infrastructure, as recommended by the European Commission;


Benchmark

Other European countries usually have defined a transitory and target models. The transitory model is to be applied prior to the conclusion of necessary TSO/TSO agreements.

United Kingdom
Intermediate solution: partially made possible by the design (all-island market) + explicit participation of derated interconnectors
Target model: explicit participation of foreign capacities from 2019 onwards
Intermediate solution: explicit participation of derated interconnectors
Target model: consultation as part of the five-year review of the mechanism

Ireland
Intermediate solution: partially made possible by the design (all-island market) + explicit participation of derated interconnectors
Intermediate solution: explicit participation of foreign capacities from 2020 onwards
Intermediate solution: explicit participation of derated interconnectors
Remote solution: explicit participation of foreign capacities after agreements with neighbouring countries

France
Intermediate solution: implicit participation of foreign capacities (7 GW)
Target model: explicit participation of foreign capacity from 2019 (pre-selection via ticketing system, reciprocity agreement) with a safeguard procedure based on explicit participation of interconnectors
Summary of options

<table>
<thead>
<tr>
<th>Conclusion of agreements with foreign TSO / Member State?</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO → Transitory solution</td>
</tr>
<tr>
<td>YES → Target model</td>
</tr>
</tbody>
</table>

1. Implicit participation of foreign capacities
2. Explicit participation of "derated" interconnectors
3. Organisation of foreign pre-auctions (per border) similarly to the Polish method

Indirect foreign capacities
Conclusion of agreements with foreign TSO / Member State?

Target model: Approach to foreign capacity participation in Poland

1. The Polish TSO (PSE) will pre-select foreign capacity providers:
   • Organisation of pre-auctions dedicated to foreign capacity at least two weeks before the main auction;
   • Foreign capacity units do not have to submit detailed information at the stage of these pre-auctions (offered capacity volume, offered capacity price, divisibility of the offer & carbon dioxide factors);
   • Separate pre-auctions are organized for each border (or per synchronized frequency area);
   • Bidders have to provide collateral in the amount of 10 EUR/kW;
   • Bids are sorted in ascending order and pre-selected by the TSO up to the corresponding rated interconnector capacity;
   • Bids are confidentially stored by the TSO who releases the collateral submitted by bidders which were not retained.

2. Pre-auctions winners go through the Polish Main Certification Process:
   • The Main Certification process is conducted by the Polish TSO in close cooperation with the relevant foreign CMU’s TSO/DSO;
   • Foreign CMUs must submit the same information as Polish CMUs to pass the Main Certification;
   • In addition, they must submit a commitment by the connecting TSO to providing unit-based availability information;
   • Foreign CMUs take part in the Polish capacity auctions in a "passive" way. This means that their exist offers are automatically equal to the offers submitted during the pre-auctions;
   • Each border has thus a different clearing price depending on the pre-auction clearing price;
   • Different clearing prices lead to a capacity congestion rent for each border. This one is computed as "Awarded capacity*CP in Poland – CP in foreign country". The congestion rent is split 50/50 between PSE and the neighboring TSO(s) and must be spent in accordance with the provisions of article 16, paragraph of Regulation (EC) No 714/2009 of the European Parliament and of Council.

* Extract from “State aid No. SA.46100 (2017) – Poland – Planned Polish capacity mechanism”
Agreements with foreign parties are a prerequisite

The participation of foreign capacities in the Belgian CRM requires the establishment of agreements between TSOs.

- The maximum entry capacity for cross-border participation is determined.
- The revenue sharing method is determined.
- Procedures and rules to be followed in the event of a simultaneous shortage are determined.
- Rules for the exchange of capacity contracts on the secondary market setting up and managing a registry.
- Pre-qualification rules.
- Rules related to availability verification (testing) in addition to the rules for executing unavailability payments.

Within the same framework of these Electricity Regulations, the role of the Regulatory Authority includes:

- Check if the maximum input capacities have been calculated according to the methods;
- Ensure that cross-border participation in capacity mechanisms is organised in an effective and non-discriminatory manner;
- Put in place adequate administrative arrangements to allow the execution of unavailability payments across borders.

In this context, NRA/NRA agreements might also be necessary.

Those agreements first require methods and guidelines from ENTSO-E

Phasing of the cross-border participation

With regard to retro-planning, two situations are possible:

- The necessary agreements between TSOs/NRAs are concluded before the pre-qualification of T-4 auction, organised in October 2021 for delivery in 2025.
  - In this case, all foreign capacities will have the opportunity to contribute to security of supply in 2025 by participating in the T-4 auction organised in October 2021 for the T-4 auction organised in October 2024.

- The necessary agreements between TSOs/NRAs are not concluded before the pre-qualification of T-4 auction, organised in October 2021 for delivery in 2025.
  - In this case, all foreign capacities will have the opportunity to contribute to security of supply in 2025 by participating in the T-4 auction organised in October 2025.

The solution presented above ensures the possibility of contribution of foreign capacity to the CRM from the first year of delivery targeted by Belgium (2025) while meeting the limits set by the ECO (1 (non-merit contribution) & (2) no participation of intermediaries). Note that the situation at each border will depend on the existence of cross-border agreements.
2. FIRST ELEMENTS OF DESIGN
### Pre-auction design

<table>
<thead>
<tr>
<th>Design principles</th>
<th>Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timing</strong></td>
<td>Auction to be finalized for when the prequalification procedures start (around 1/06)</td>
</tr>
</tbody>
</table>
| **Prequalification** | - Light prequalification: offered capacity volume, offered capacity price, divisibility of the offer & carbon dioxide factors, arrangements to deposit the collateral, grid user declaration (+ other potential elements)  
- Full prequalification:  
  - Aggregation allowed for foreign capacities at the same conditions as for national capacities but only with foreign capacities (aggregation of domestic and foreign capacities not allowed due to time constraint)  
  - Prequalification similar to the best extent to the one for national/domestic capacities and only applicable to the offers below the clearing price (price matching the last accepted bid to reach maximum entry capacity) |
| **Eligibility**    | Threshold: same threshold applied to both domestic and foreign capacities. Yet, no obligation on foreign capacities to participate in the prequalification  
Cumulation: rules on cumulation to be generalized in order to be applicable to all countries |
| **PAC vs. PAB**    | Same rules apply as for the main auction (including the phasing) |
| **Volume**        | The maximum entry capacity auctioned in T-4 and T-1 will be divided between T-4 and T-1 in the same proportion as domestic capacity (to be confirmed based on the volume methodology developed by CREG) |
| **Intermediate price cap** | Same intermediate price cap as the one applied in the main auction for all capacities |
| **Transfer of bids** | Bids are considered definitive. Bids cannot be cancelled between the pre-auction and the main auction. Bids are stored and kept confidential between pre-auction and main auction. |
| **Collateral**    | The payment of a collateral is foreseen. The collateral is retained in case the pre-selected bids do not successfully pass the complete prequalification (similar to the Polish case: avoid random participation). The collateral is reimbursed when the full prequalification is successfully completed. |

### Main auction and product design

<table>
<thead>
<tr>
<th>Design principles</th>
<th>Proposition</th>
</tr>
</thead>
</table>
| **PAC vs. PAB**   | In a PAB, the remuneration equals the bid formulated by the capacity.  
In a PAC setting, the remuneration equals the bid of the last selected foreign capacity (selected = awarded a contract) |
| **Ascending vs. descending clock (auction format)** | Same rules apply as for the main auction |
| **Tie-breaking rules** | Same rules apply as for the main auction |
| **Strike price**  | Ongoing |
| **Reference price** | Day-ahead on foreign market |
| **Intermediate price cap** | Same intermediate price cap as the one applied to domestic capacities unless strong evidence that market conditions are relatively different in foreign countries |
| **Availability obligation and penalties** | Same AMT hours of near scarcity (same moment and same principles)  
Same penalties |
| **Opt-out**       | Ongoing |
| **Secondary market** | Ongoing |
C. Consultation

1. Next steps
2. Tour de table

1. Next steps

- 25/10/2019
  - Presentation & tour de table

- 25/10/2019 – 15/11/2019
  - Written feedback

- Next SG II meeting
  - Presentation consultation report and conclusions
2. Tour de table

Which “possible effects of such mechanisms” on your country do you foresee?

Thank you for your collaboration!
## Annex II – Participants

**PENTALATERAL ENERGY FORUM**  
*Penta consultation of Belgian CRM – Participants*

**Friday 25 October 2019, 10:00 – 13:00**  
Benelux House  
Rue de la Régence 39, 1000 Brussels

<table>
<thead>
<tr>
<th>Country</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Austria</strong></td>
<td>/</td>
</tr>
</tbody>
</table>
| **Belgium**   | Jan Hensmans, Ministry of Economy, *chair*  
|               | Katrien Selderslags, Ministry of Economy  
|               | Sigrid Jourdain, Ministry of Economy  
|               | Amélie Gillet, Ministry of Economy  
|               | Pauline Anciaux, Ministry of Economy  
|               | Patrik Buys, ELIA  
|               | Daniel Huertas, ELIA  
|               | Chiara Adriaenssens, ELIA  
|               | Patricia Debrigode, CREG                                                      |
| **France**    | Louis Lallemand-Kirche, Ministry of Ecological Transition                     |
| **Germany**   | Frederik Sapp, Amprion  
|               | Jakob von Wagner, German Embassy  
|               | Rainer Stefan Hiltermann, German Embassy  
|               | Sebastian Schleich, TransnetBW  
|               | Peter Scheerer, TransnetBW  
|               | Bernhard Hasche, 50Hertz                                                      |
| **Luxembourg**| Louis Philippe, Creos                                                         |
| **Netherlands**| Sofie Robbertsen, Dutch Embassy  
|               | Tiemen Govers, Tennet  
|               | Eppie Pelgrum, Tennet  
|               | Justin Rosing, Ministry of Economic Affairs and Climate                       |
| **Switzerland**| Florian Kämpfer, Swiss Federal Office of Energy  
|               | Carl Jauslin, Swiss Mission to the EU                                         |
| **Market Parties** | Antoine Guillou, UFE  
|               | Ruud Otter, EnergieNederland  
|               | Olivier Van den Kerckhove, Engie  
|               | Jean-François Waignier, FEBEG  
|               | Yannick Phulpin, EDF  
|               | Guillaume Maes, Engie                                                        |
| EUROPEAN COMMISSION   | Mathilde Carbonnelle, DG ENER  
|                       | Andras Hujber, DG ENER  
| BENELUX SECRETARIAT  | Frederik Deloof  |
Annex III – Written contributions

Preliminary remarks:
- France has requested a confidential treatment of part of its contribution. This part has been marked black.
- Except for the removal of contact details, no further alterations have been applied: below texts are the original versions.

1. Austria

Van: Beretits, Georg Peter
Verzonden: maandag 2 december 2019 14:32

Dear Ms. Selderslaghs,

Many thanks for the information provided on the Belgian CRM!

Independent from the actual situation in Austria and with the assumption that the implementation of any mechanism will follow the rules set out in Regulation (EU) 2019/943, Chapter IV, we support the implementation of a capacity mechanism in case of an assessed (possible) lack of generation.

Based on the currently provided information we do not see any relevant or significant (negative) influence for the Austrian electricity market.

Kind Regards,

Georg Beretits

Bundesministerium für Nachhaltigkeit und Tourismus

Sektion VI - Energie und Bergbau
Abteilung VI/3 - Erneuerbare Energien, elektr. Energie u. Fernwärme inklusive Kraft-Wärme-Kopplung

DI Georg Peter BERETITS

bmnt.gv.at
2. France

Bonjour,

Nous tenons tout d'abord à vous remercier pour l'invitation et la présentation relative au projet d'architecture du mécanisme de capacité belge. Au regard des premiers éléments présentés le 25 octobre, et sans présager d'éventuels commentaires additionnels une fois le mécanisme plus précisément détaillé, voici une liste de points d’attention préliminaires soulevés par les services de la CRE :

D’après notre compréhension, dès 2021, des accords entre GRT des pays voisins et Elia devront avoir lieu afin de permettre la participation directe des capacités au mécanisme belge. Des accords de même nature sont nécessaires pour la mise en place de la solution cible de participation des capacités étrangères au mécanisme français. Nous souhaitons évidemment que ces accords soient cohérents, notamment s’agissant de la contrainte liée à la disponibilité des capacités. Nous nous interrogeons également sur l’articulation de la signature de ces accords avec la publication des méthodologies afférentes à la participation transfrontalière des capacités prévues par le règlement européen pour le 5 juillet 2020.

S’agissant des possibles distorsions sur le marché français liées au démarrage du mécanisme belge, les services de la CRE identifient en priorité le rôle que jouera le niveau de la courbe de demande centralisée et le strike price considéré pour les capacités françaises. En particulier, concernant le strike price, la CRE souhaiterait pouvoir être consultée sur la formule notamment dans le cas où celle-ci ferait référence à des cotations de marché français.

S’agissant des nouvelles capacités, existera-t-il, à la manière du mécanisme britannique, des contrats pluriannuels ? Les capacités transfrontalières pourront-elles obtenir de tels contrats ?

Concernant les points [censuré], nous ne souhaitons pas que ces éléments soient publiés dans le cadre d’une possible synthèse des concertations.

Bien cordialement

Michel Strek
Chargé de mission
Département Tarification et concurrence
Direction du développement des marchés et de la transition énergétique
Dear Ms Katrien Selderslaghs and Mr Jan Hensmans,

many thanks for the opportunity to provide feedback on the design of the capacity remuneration mechanism you intend to implement for Belgium. Enclosed you will find the feedback of the four German TSOs.

We are at your disposal for further discussions on this topic. Please do not hesitate to contact us in case of any questions.

Kind Regards,
Oliver John
Amprion GmbH
Economic Grid Management
Manager International Regulation

**German TSO CONTRIBUTION TO THE CONSULTATION on THE Capacity Remuneration Mechanism (CRM) for Belgium**

- **Avoid effects on redispatch potential in Germany**

German TSOs frequently need to use redispatch to ensure system stability by solving grid congestions.

A cross border participation in the Belgian CRM by units located in Germany must not reduce the units’ potential to be used for redispatch by the German TSOs. In general, these units still need to be available for all remedial actions by the German TSOs as foreseen in the German national legislation (such as but not limited to: any planned limitations for local grid congestions and any action to be taken by the TSOs in order to ensure the balance or/and security of the grid).

- **Tasks and costs for German TSOs**

Art. 26.10 of EU-Regulation 2019/943 on the internal market for electricity foresees several tasks for the TSOs where the foreign capacity is located to enable cross border participation, e.g. carrying out availability checks or establishing whether interested capacity providers can provide the technical performance. The German TSOs would like to point out that the cross border participation has to be designed in a way that ensures all additional tasks can be managed by the German TSOs with reasonable effort, and resulting costs are covered.

- **Cross border participation with direct network connection**

The four German TSOs would like to emphasise that the opportunity for a so-called direct cross border participation may cause some specific problems, which we would like to address. As explained in the workshop on the consultation of the Belgian capacity remuneration mechanism from 25th October 2019, there are two possible ways for foreign capacities to participate:

- **Direct foreign capacities** are located outside of Belgium’s territory, but exclusively connected to the Belgian control area. Regarding the participation in the Belgian capacity remuneration mechanism, direct foreign capacities are treated like Belgian capacities.
- Indirect foreign capacities are located outside of Belgium’s territory, offering a contribution to the Security of Supply via interconnectors. Indirect foreign capacities compete for a country-specific limited cross-border quota in terms of a qualification process for participating in the actual auctions.

The fact that direct foreign capacities do not face an additional competitive situation incentivises foreign capacity providers to exclusively connect their capacities to the Belgian control area. As a consequence, this can lead to adequacy issues in Germany.

In general terms various capacity remuneration schemes across Europe should not lead to a situation where capacity providers seek physical access to the financially most attractive location. Capacities should be connected to the control area / bidding zone where they intend to participate in the energy market.

4. Luxembourg

No reactions were received.
5. The Netherlands

5.1 Ministry of Economic Affairs and Climate Policy

Date 15 November 2019
Re Consultation Capacity Remuneration Mechanism Belgium

Dear Mr. Hensmans, Ms. Selderslaghs,

According to Article 21 of EU Regulation 2019/943, Belgium has opened a consultation period on the possible effects of its intention to introduce a capacity remuneration mechanism (hereafter CRM) on neighbouring countries. I would like to thank you for your opportunity to react.

Within the context of this consultation, I would like to reiterate the concerns that have been expressed at administrative and political level in the past few months. Our concerns are related to the possibility that has been created under the Belgian CRM law for foreign production capacity to directly participate in the Belgian CRM via the creation of an exclusive and specific line to the Belgian control area (according to article 6 paragraph 4, article 2 paragraph 1.85 and 1.86 in slide 40 of the presentation on 25 October).

Firstly, this option could create adverse effects on the possibilities for the Netherlands to organize its own security of supply. Secondly, it could minimize the disposal of grid stability and congestion management options in the Dutch control area. Lastly, it could minimize our options to comply with the provisions of Regulation 2019/943 which requires TSOs to make a minimum level of 70% of the capacity of critical network elements available for commercial cross-zonal electricity exchanges.

In our view foreign capacity preferably contributes to the Belgian security of supply via the current and future interconnection capacity between the Netherlands and Belgium. In this respect, I would like to refer to the commitments on strengthening the interconnection capacity between our countries in the Political Declaration of 11 June 2016.

Yours Sincerely,

Ernst-Paul Nas

Director Electricity
Ministry of Economic Affairs and Climate
5.2 Tennet

FROM: Tiemen Govers, Customers & Markets Netherlands | Market Development; TenneT TSO
DATE 15 November 2019

With this note TenneT TSO B.V. responds to the question “which possible effects” of the Belgian CRM we foresee on the Netherlands. We respond to the slide deck (hereinafter: “the presentation”) and the messages conveyed at the consultation meeting of 25th October, and have not considered supplementary materials published on the websites of the Belgian ministry of economy or Elia.

TenneT believes that a consistently implemented energy-only market (hereinafter: “EOM”) is the best means to provide price signals for investments that contribute to resource adequacy in the current energy system. In that sense, we regret foreseen or unforeseen distortive effects from capacity mechanisms on the functioning of the European electricity market. We however understand the need for new generation capacity in Belgium, and would welcome a strong decreasing effect on the import dependency of Belgium on the Netherlands during the winter period.

In the following, we address possible adverse effects from the participation of Dutch capacity providers in the Belgian CRM on the functioning of the Dutch electricity market. We hereby distinguish the effects of the two categories planned for such participation, namely (1) direct foreign capacity, and (2) indirect foreign capacity.

1. Adverse effects of participation of direct foreign capacity

From the Belgium CRM law\(^3\) follows that foreign capacity providers are only able to participate in the Belgian CRM under the same terms and conditions as Belgium capacity providers in case of a direct and exclusive connection to the Belgian control area. To qualify as direct foreign capacity, Dutch capacity providers are thus required to decouple units from the Dutch high voltage grid as a control area is operated by a single operator. The prospect of capacity payments from the Belgian CRM in addition to income from the electricity market, provides incentives for market participants to disconnect units located in the Netherlands, as no comparable capacity payments can be obtained in the Dutch energy market.

We consider that the above effect from the direct foreign capacity model is at odds with the Electricity Target Model based on the coupling of zonal EOMs to facilitate cross-border trade. Moreover, it violates the principle that capacity mechanisms should not reduce incentives to invest in interconnection or undermine market coupling\(^4\).

Given the fact that new infrastructure has to be built to realise a direct connection to the Belgian control area, it can be assumed that this option of direct participation is particularly attractive to owners of capacity located near the Netherlands-Belgium border. This includes highly efficient fast reacting gas fired generators\(^5\). As outlined below, the prospect of the departure of such generators from the Dutch control area raises concerns for the Netherlands with respect to (a) security of supply, (b) grid stability and congestion management and (c) compliance with principles for capacity allocation and congestion management.

\(^3\) Definitions of direct and indirect foreign capacities in article 2, paragraphs 1.85 and 1.86, referred to in slide 40 of the presentation.


\(^5\) See https://www.energiegenie.nl/2-content/overig/77-energicecentrales-op-de-kaart for an interactive overview of generation capacity in the Netherlands
a) Security of supply

The Netherlands has adopted ambitious measures to achieve a 49% reduction in national greenhouse gas emissions by 2030 compared to 1990 levels. This includes the closure of all current coal fired generation, and targets for renewable generation that equate to the roll-out of at least 43 GW variable renewable wind and solar capacity. Dispatchable generation, and especially fast reacting gas fired power plants, will play an important role to supplement renewables in this energy transition. Notably in periods of low wind and limited solar infeed, will all current dispatchable generation in the Dutch system be relevant for adequacy purposes. Incentives for generators to disconnect from the Dutch grid in order to cater the need for capacity in Belgium by participating in its CRM increases uncertainty for security of supply in the Netherlands.

b) Grid stability and congestion management

The Dutch transmission grid often has to deal with large electricity flows from north to south because a great amount of generation capacity, as well as interconnections to Nordic markets and the UK, is located in the northern and western parts of the Netherlands. The effect will likely increase due to the development of offshore wind capacity. Dispatchable generation, and especially fast reacting gas fired power plants in the south, plays an important role in solving congestions on critical network elements.

c) Compliance with principles for capacity allocation and congestion management

The redispatch capabilities of the gas fired generators near the Netherlands-Belgium border may become pivotal in ensuring compliance with the provisions of Regulation (EU) 2019/943, which requires TSOs to make a minimum level of 70% of the capacity of critical network elements available for flows induced by cross-zonal exchanges. TenneT is concerned that incentives from the Belgian CRM for generators to disconnect from the Dutch grid limits redispatch options to handle internal north-south flows and keep them to such level that the 70% target level of capacity can be made available for flows induced by cross-zonal exchanges. In the mid- to longer term this could have severe consequences for the bidding zone configuration in the region.

2. Adverse effects of participation of indirect foreign capacity

TenneT understands that indirect foreign capacity can participate in the Belgian CRM in accordance with the principles of article 26 of Regulation (EU) 2019/943. In line with our belief in the EOM as target model for the electricity market, we consider additional revenues for Dutch capacity providers obtained via participation in the Belgian CRM as distortive to the level playing field in the Dutch electricity market. Compared to other market participants, contracted capacity providers have an additional income source, reducing the need to recover their costs in the Dutch electricity market. This may affect bidding behaviour, ultimately reducing the effectiveness of price signals in the Dutch market. We regard this distortion to the Dutch EOM as a possible negative effect of the Belgian CRM on the Netherlands.

We understand that the Belgian CRM currently anticipates a structure for the participation of indirect foreign capacity that is inspired by the Polish CRM. With respect to the sharing of potential revenues that may result from cross-border participation, we would like to emphasise the importance of cooperation between the Belgian and Dutch National Regulatory Authorities foreseen by article 26(9) of Regulation (EU) 2019/943 to ensure proper investment incentives for interconnection capacity if that is deemed the scarce resource. In addition, we trust in good future cooperation between TenneT and Elia on elements listed on slide 45 of the presentation, including the calculation of maximum entry capacity for cross-border participation of Dutch capacity providers and procedures and rules for simultaneous shortage in Belgium and The Netherlands.
Energie Nederland

Response to the consultation on the Belgian CRM proposal

15 November 2019

Energie-nederland

Energie-Nederland is the association representing the commercial participants in the energy market in the Netherlands. This includes generation, trade, supply, aggregation and services companies. Energie-Nederland believes that the transition to a carbon free energy system should be done by using the efficiency and innovation power of the energy market. Creating an international level playing field through market integration is key in this perspective.

Contact information

Contact for this response:

Naam: Ruud Otter

Introduction

This paper is the Energie-Nederland response to the consultation by the Belgian government regarding its proposal for the implementation of a Capacity Remuneration Mechanism in Belgium. This response should be seen in the context of the obligation to consult neighboring countries regarding the possible effects of such a mechanism, according to Article 21-2 of EU Regulation 2019/943. This response is based on the information provided at the information session of 25 October 2019 in Brussels, as well as the information publicly available through the “Task Force Capacity Remuneration Mechanism”.

Energie-Nederland notes that a number of elements required in the EU Regulation 2019/943 is not yet publicly available:

- The identification of regulatory distortions and market failure according to Article 20-2
- An implementation plan to eliminate the regulatory distortions and market failure according to Article 20-3
- An analysis indicating the reason the current strategic reserve does not address the adequacy concerns according to Article 21-3

As a result, Energie-Nederland cannot comment on the general necessity of a CRM in Belgium.

Comments on the CRM proposal

General

Energie-Nederland considers the current design of the CRM to be overly complex. The design features a highly regulated framework based on numerous and heavy methodologies that would result in a de-facto price regulation. Energie-Nederland does not consider such a design conducive to the participation of as much market parties as possible. Instead, Energie-Nederland would encourage to drastically simplify the overall design, allowing competition and market functioning to improve efficiency and reduce the cost of the overall system. Simplification would also allow to better tune the different components of the CRM to each other, removing inconsistencies and making the market functioning and cost more transparent.

For Energie-Nederland, such a modified approach would have several benefits for Dutch market participants:
• It would facilitate participation of Dutch market participants to the CRM through the cross-border mechanism.

• It would minimize any possible impact the CRM has on the energy market, which would also affect the Dutch energy market through the market coupling processes.

• It would decrease hurdles for new entrants from abroad who are considering investing in the energy market in Belgium.

In the sections below Energie-Nederland details more concretely the concerns regarding the current design of the Belgian CRM.

Concerns regarding the impact on the (Dutch and European) energy market

Payback Obligation

Considering the fact that the reference price for the pay-back obligation is set to the DAM price, the volumes traded on the DAM needs to be taken into account. Energie-Nederland would like to emphasize that not all electricity is traded on the DAM and therefore, having all volume exposed to this pay-back level creates distortions in the market. Market parties will be exposed to pay back revenues they have never earned. This which will lead to radical change in the EOM market behavior as participants will not be able to trade as much in the forward market anymore. This will lead to more volume in the DAM, making the prices more short term and volatile. Energie-Nederland is concerned that this increased volatility in prices will affect the prices in the surrounding countries.

Energie-Nederland is pleased to see that a single strike price, which is in line with the CRM design in other countries, has been chosen. Several strike prices would severely disadvantage certain technologies, which would increase hurdles to participate.

Concerns from a point of view of Dutch/European market parties participating to the Belgian CRM

Payback obligation

The strike price should be set at the point where investors no longer counts on the revenue above it. In the position paper of FEBEG, it becomes clear that such a point could be set at around 300 Euro/MWh as prices rarely go above this threshold and therefore cannot be counted on in an investment decision. Any level lower than this would increase CRM procurement cost as a low strike price would increase the missing money in the EOM and revenues otherwise expected in the EOM, would have to be compensated by the CRM remuneration.

Furthermore, the strike price needs to be transparent and sufficiently predictable. The unspecified methodology with a wide range of outcomes is intransparent and unpredictable. Energie-Nederland would rather like to see a specific number as this is something which can be used in a business case. Vague methodologies cannot be used for investment decisions by our members.

The strike price applicable to foreign participation (through the interconnector) should have the local DAM price as reference for the pay-back as this better reflects that capacity’s revenues earned.

The mentioned lack of an exempted volume exposed to the pay-back obligation will, in addition to market distortion, lead to higher cost for the CRM procurement. This is because participants will need to cover this extra, unnecessary risk of having to pay back revenue which they never actually earned. Therefore, Energie-Nederland supports the FEBEG proposal of a simple, standard
exemption rate for the pay-back, which is in line with the actual traded volume in the DAM. This would strongly reduce the above mentioned concerns.

**Penalties**

Energie-Nederland is surprised to see the layering of penalties in this CRM design which reflects a severe lack of confidence in the free market and its participants. Energie-Nederland would like to emphasise that market participants already have an incentive to be available through the EOM.

Having a yearly penalty cap is too wide as it leaves risk that a participant is unlucky at the start of a contract and ends up having no incentive to become available again if the yearly threshold is met early. A monthly cap would be more appropriate as this would ensure that every player has a clear incentive to continue to do its utmost best to become/stay available throughout the contract duration. The monthly cap would also be in line with the current monthly payment structure.

**Auction process**

Elia states that PaB (Pay-as-Bid) is the inferior option. However, Elia still chooses for first two auctions to be PaB. This is again choosing for the most complex solution, while it could be done in a much simpler way with having PaC (Pay-as-Clear) implemented immediately.

**Secondary markets**

As the working assumption for all the penalties and other parameters is that there is a liquid secondary market where market participants can sell and buy their obligations, Energie-Nederland would like to emphasise the need to ensure there is sufficient liquidity in this market. Open question is how this will be done with foreign participation through the interconnector?

Another concern is the strike price which will be ‘updated’ when trading an option. This will lead to severe incentives in the secondary market, leading to unnecessary trading in when the strike price increases (taking up much unnecessary capacity for Elia to process), while when the strike price decreases, there will be a lack of liquidity as market players will hang on to their higher strike price. The strike price contracted in the original obligation should stay the same regardless of if/when the obligation is traded afterwards.

**Derating**

Energie-Nederland wonders how the derating will be set for foreign capacity participating through the interconnector.

**Prequalification**

A bank guarantee or another enforceable guarantee needs to be included in order to avoid opportunistic behaviour in the auction. The guarantee will ensure that all participants are serious players which will be able to face the consequences in case things do not go as planned. This also ensures that the CRM will be a reliable system.

**Intermediate price cap**

Energie-Nederland is surprised to see an intermediate price cap for 1 year contracts, but none for longer term contracts. This seems dangerous, especially when this price cap is set at a rather low level, it could exclude certain technologies or projects from participating.

**Cross border participation**

Regarding the cross-border participation to the Belgian CRM, Energie-Nederland appreciates that the implementation foresees the direct application of the target model formulated by the EU Regulation 2019/943, i.e. the direct participation of foreign capacity. Energie-Nederland...
encourages the Belgian government, TSO and NRA to conclude the necessary agreements with
the neighbouring counterparties as soon as possible. In this way, foreign capacity can participate
already to the T-4 auction. If this would not prove possible, Energie-Nederland expects this
capacity to be moved to the T-1 auction.

Regarding the proposed design of the cross-border participation of foreign capacity, Energie-
Nederland did not see blocking issues in the high-level design elements that were presented
during the information session of 25 October 2019. However, Energie-Nederland would like to
highlight the lack of concrete design proposals to properly assess and evaluate the concrete
implementation of cross-border participation to the Belgian CRM. As a result, Energie-Nederland
cannot yet definitively express approval or objection to the entire process by which foreign capacity
can participate to the Belgian CRM.

In addition to the actual process of cross-border participation, Energie-Nederland would like to
highlight again its concerns regarding the complex and over-regulated nature of the overall design
of the Belgian CRM as explained previously.

Conclusion

Energie-Nederland proposes the following improvements:

- Keep the CRM as simple as possible in order to enable as many market participants as
  possible as well as allowing for a free market without indirect price regulation.
- Introduce an exemption rate for the payback obligation which is in line with the DAM traded
  volumes.
- Make sure to keep the strike price transparent, predictable and significantly high.
- Let the strike price of foreign capacities participating through the interconnector use the
  local DAM as reference.
- Avoid overly penalizing capacities to the point where it increases CRM costs.
- Introduce a monthly penalty cap rather than a yearly penalty cap.
- Pay-as-Clear from the beginning rather than first Pay-as-Bid only to afterwards switch to
  Pay-as-Clear.
- Ensuring liquidity in the secondary market.
- Fix the strike price in every obligation and do not let it change when/if obligations are traded
  at a later stage.
- (Bank) guarantees to ensure that only serious actors are allowed to participate in the
  auction.
6. Switzerland

Dear Katrien, Dear Jan

Thank you very much for the invitation to submit our feedback on the consultation on the planned Belgian CRM in the setting of the platform of Support Group II of the Pentalateral Energy Forum. We appreciated to get firsthand information on the day of the consultation. As Switzerland is not directly affected by the Belgian CRM, we do not submit remarks on the design of the mechanism.

Concerning security of supply and especially in critical winter periods, we would like to assure you, that we are fully committed to contribute to possible regional coordination mechanisms in the future.

Best regards

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7. UK

No reactions were received.