

**Advice from Elia on the CREG proposal  
(C)2508 for the auction parameters to be  
used in the 2023 Y-4 CRM auction for  
delivery period 2027-28**

01/03/2023



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## 1. Introduction

Following the proposal (C)2508 "Voorstel van de parameters waarmee de aan te kopen hoeveelheid capaciteit wordt bepaald door de Y-4 veiling in 2023 met leveringsperiode 2027-2028" provided by the CREG, Elia is required to provide advice in accordance with Article 7undecies §5 of the Electricity law<sup>1</sup>: *"§ 5. Uiterlijk op 1 maart van ieder jaar geven de Algemene Directie Energie en de netbeheerder een advies aan de minister over het voorstel van de commissie bedoeld in paragraaf 4"; "Au plus tard le 1er mars de chaque année, la Direction générale de l'Energie et le gestionnaire du réseau donnent un avis au ministre relatif à la proposition de la commission visée au paragraphe 4".*

This advice is structured as follows: Section 2 covers the response on a general remark raised by the CREG, Section 3 covers the volume parameters used for the demand curve, while section 4 covers the price parameters for the demand curve.

### **Confidentiality:**

Elia confirms that this contribution can be seen as non-confidential and that it can be shared freely.

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<sup>1</sup> Wet van 29 april 1999 betreffende de organisatie van de elektriciteitsmarkt  
Loi de 29 avril 1999 relative à l'organisation du marché de l'électricité

## 2. General remarks

Elia would like to point out that in order to improve transparency it made considerable efforts to provide extensive additional information to the CREG and to the other stakeholders. This additional information provided by Elia is not required by the Royal Decree Methodology and shows Elia's commitment towards transparency. Elia is constantly working to improve transparency and this year's calibration process should be seen as part of an ongoing effort to further improve transparency in future studies. Elia further wants to highlight the highly volatile and uncertain context in which this year's calibration process was performed. Both the energy transition and the war in Ukraine caused major shifts in energy markets and have caused important changes in policies. This is reflected in both the input data for the scenario and the results of the calibration process. Elia agrees that there are important differences with the results of the calibration report of last year but is of the opinion that these changes have been explained in detail and can be verified using the input data for the scenario as decided in the Ministerial Decree <sup>2</sup> as well as all additional materials provided by Elia.

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<sup>2</sup> <http://www.ejustice.just.fgov.be/eli/arrete/2022/09/09/2022042067/moniteur>

### 3. Proposition demand curve: volume parameters

#### 3.1 Capacity contracted in previous CRM auctions

As indicated by the CREG in its proposition for the demand curve, by application of article 11, §2, 4° of the Royal Decree Methodology<sup>3</sup>, the capacities already contracted in previous CRM auctions should be removed from the demand curve. Elia agrees with the calculation method and values for the already contracted capacities proposed by CREG and has no further remarks regarding this.

#### 3.2 Non-eligible capacity

Elia supports CREG's proposition to include the derated nuclear capacity in the non-eligible capacity, if such capacity is taken into account.

In the CRM auction of 2022 for delivery period 2026-2027, the nuclear capacity of Tihange 3 and Doel 4 was considered as non-eligible and removed from the demand curve following the Ministerial Decree of 30 March 2022. Given that the Minister is in negotiation with Engie on the extension of the nuclear units and as such will determine the legal framework of this extension, Elia believes that the Minister is best positioned to determine whether there will be sufficient guarantees that the nuclear units of Tihange 3 and Doel 4 will be present in the electricity mix in 2027-2028 and if it should be included in the non-eligible capacity.

On the non-eligible volume from thermal units, the CREG mentions that Elia makes no distinction regarding individually modelled units. Elia is surprised by this remark and would like to point out that it clearly makes a distinction between aggregated and individually modelled thermal units in its calibration report as well as in its assumptions workbook and that this split is also followed by the CREG in its proposition.

The CREG also mentions that Elia only considers individually modelled thermal units which have been confirmed to receive support as part of the non-eligible volume. Elia wants to stress that this is not correct and that all units that could potentially receive support according to the FPS Economy are considered as part of the non-eligible volume. Jointly with the calibration report, Elia provided a confidential Excel file with additional information to the CREG. This file contained an overview of the thermal units considered in the non-eligible volume, both for profiled and individually modelled units where this is verifiable.

The aforementioned points on the non-eligible volume of thermal units do not seem to have influenced the proposition of the non-eligible volume by the CREG. As a result, Elia agrees with the proposed volumes for each category.

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<sup>3</sup> Koninklijk besluit van 28 april 2021 tot vaststelling van de parameters waarmee het volume aan te kopen capaciteit wordt bepaald, inclusief hun berekeningsmethode, en van de andere parameters die nodig zijn voor de organisatie van de veilingen, alsook de methode en voorwaarden tot het verkrijgen van individuele uitzonderingen op de toepassing van de intermediaire prijslimiet(en) in het kader van het capaciteitsvergoedingsmechanisme  
Arrêté royal de 28 avril 2021 fixant les paramètres avec lesquels le volume de la capacité à prévoir est déterminé, y compris leurs méthodes de calcul, et les autres paramètres nécessaires pour l'organisation des mises aux enchères, ainsi que la méthode pour et les conditions à l'octroi d'une dérogation individuelle à l'application du ou des plafond(s) de prix intermédiaire(s) dans le cadre du mécanisme de rémunération de capacité

### 3.3 Max Entry Capacity for cross-border participation

Elia agrees with the proposition from the CREG to reserve the entire max entry capacity for cross-border participation for the Y-1 auction and to not apply a pro-rata reduction. Elia agrees with the proposed max entry capacity per country proposed by the CREG, and notes that the same approach was used in the previous auctions.

### 3.4 Other volume parameters

In point 60 of advice (A)2509 on the proposal for parameters to be used in the Y-4 auction in 2023 for the 2027-2028 delivery period, the CREG proposes to calculate the derating factor for nuclear capacities on the nuclear units that will be extended. Elia would like to recall that according to the methodology the derating factors for nuclear units is determined by its forced outage rate which has been determined in the Ministerial Decree of 9 September 2022 on the scenario to be used for the 2023 auction<sup>4</sup>.

Elia agrees with the propositions from the CREG regarding the remaining volume parameters in the demand curve proposal and has no further remarks regarding this.

In general, Elia agrees with each of the volume parameters proposed by the CREG in point 73 of its proposal and the resulting auction volumes.

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<sup>4</sup> <https://www.ejustice.just.fgov.be/eli/arrete/2022/09/09/2022042067/moniteur>

## 4. Proposition demand curve: price parameters

### 4.1 General

Elia wants to point out that all cost and revenue components as well as the strike price in the determination of the inframarginal rents and missing money are expressed in €2020 in the calibration report published by Elia. The choice for €2020 was made because the cost components of which Elia disposed were expressed in €2020. Values from studies expressed in different price units (for example, the AFRY study in €2022) were translated to €2020 to be fully comparable with the remaining figures/numbers of the report. The Equivalent Annualized Costs (EAC) as determined in the intermediate values selected by the Minister<sup>5</sup> are consequently calculated on CAPEX estimations expressed in €2020 and are therefore also expressed in €2020.

In addition, since the input data for the scenario and the intermediate values had to be determined in the first half of 2022 while the auction takes place in October 2023, this creates a period during which inflation could play a significant role. Given the uncertain nature of inflation, as also observed over the past year, Elia wanted to limit its impact on the calibration for the CRM. By expressing all values in the calibration report in €2020, Elia removed the impact of future inflation from its calculations and as such avoided its uncertainty.

Be that as it may, this means that the inframarginal rents expressed in the calibration report published by Elia and the price parameters of the demand curve proposed by the CREG are also expressed in €2020. Elia therefore advises to take the inflation as from 2020 into account in the determination of the price components of the demand curve. This is also mentioned by the CREG in point 56 of advice (A)2509 on the proposal for parameters to be used in the Y-4 auction in 2023 for the 2027-2028 delivery period.

### 4.2 Inframarginal rents

The CREG mentions that the determination of the inframarginal rents does not account for possible design changes to the CRM, which could influence inframarginal rents of market players. The CREG mentions the strike price indexation and change in the Payback Obligation.

Elia does not share the CREG's concerns with regards to the adapted indexation of the strike price, and wants to stress that it doesn't identify a related impact since the new design follows the exact same principles as the old, although taking place in a more dynamic way.

Moreover, Elia, to the best of its abilities, cannot predict, let alone simulate, the price impact of such future price shocks. Indeed, the Strike price will only be indexed ex-post based on the evolution of the prices witnessed on the DA market during the run-up to the delivery period. Thirdly, it is essential to understand that the calibrated Strike Price (and the cap it represents on the inframarginal rents) and its indexation mechanism are two independent concepts. The former functions as an auction parameter for which Elia makes a proposal upon which the Minister takes a decision. This parameter is, as a reminder, calibrated thanks to a process described extensively in the Royal Decree Methodology. It must be taken into account by market actors when bidding into the auction. The indexation mechanism of the above-

mentioned Strike Price is expected to ensure a certain coherency between its initial value and the recent energy market developments witnessed during the delivery period.

Following the above, Elia does not believe that the proposed design modifications for the Payback Obligation have an impact on the way inframarginal rents should be estimated.

In particular, these modifications involve an exemption from the Payback Obligation for DSM units. The high variable costs assumed for DSM units mean that they are at the end of the merit order; as a result, the proposed exemption would give rise to a very small amount of revenues that would not impact the auction price cap of this Y-4 auction given that DSR is not the technology with the lowest missing money.

### 4.3 Net revenues from Ancillary Services

Elia has provided an estimation of the net revenues from Ancillary Services in its calibration report. The CREG correctly observes in its proposal that Elia has capped the revenues from mFRR at 10 €/MW/h in its calculations, and states that this might lead to an underestimation of these revenues.

Elia disagrees with this; rather, the removal of certain excessive prices on a weighted average basis is performed in order to estimate net balancing revenues in the most representative way possible: Elia repeats that monthly weighted average prices higher than the above-mentioned value have only been observed for a limited amount of months in the sample of 36 months, which is why Elia considers them rather as the exception compared to the rest of the sample. An estimation of these revenues, including non-representative revenues, may lead to an excessive estimation of net balancing revenues, which might negatively impact the values set for both the Intermediate Price Cap as well as the Net-CONE, potentially barring some units from recovering their Missing Money which effectively excludes them from the auction. In order to be able to successfully contract the capacities that are needed to maintain adequacy and to attract as many participants as possible to the auction to improve competition and therefore reduce its costs, Elia recommends maintaining the cap of 10 €/MW/h.

### 4.4 Revenues post-delivery period

On the determination of the revenues for the post-delivery period, Elia would like to stress that the revenues were calculated based on a scenario that is a combination of the sensitivities mentioned by the CREG. Elia has no further remarks regarding this and follows the proposition from the CREG.

### 4.5 Net-CONE determination

With regards to the determination of the derated Net-CONE of the best new entrant, Elia agrees with the proposed value of 56.5€/kWd and the resulting maximum auction price of 84.8€/kWd.

Using the input values put forward in the proposition of the CREG, Elia obtained a different result of the (derated) Net-CONE for batteries. Elia calculated a net-CONE of 103.8 €/kW and derated Net-CONE of 173.0€/kWd. This however, has no impact on the derated Net-CONE of the best new entrant and the resulting maximum auction price.