Advice from Elia on the CREG proposal (C)2733 for the auction parameters to be used in the 2024 Y-4 CRM auction for delivery period 2028-29

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Non-confidential

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1. Introduction

Following the proposal (C)2733 “Voorstel van de parameters waarmee de aan te kopen hoeveelheid capaciteit wordt bepaald door de Y-4 veiling in 2024 met leveringsperiode 2028-2029" provided by the CREG , Elia is required to provide its advice to the Minister in accordance with Article 7undecies §5 of the Electricity law[1]:

“*§ 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”;*

“§5. 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 the volume parameters of the demand curve proposed by the CREG. Section 3 covers the price parameters of the demand curve and Section 4 covers the remarks on the comparison of the demand curves made by the CREG in its proposal. Finally, section 5 summarizes Elia’s main remarks.

Elia wants to use the opportunity to indicate that it has published an erratum of the calibration report with regards to the WACC used for the IPC determination. Elia based itself on the WACC that is currently included in article 4 of the RD Methodology[2]. This has been corrected by using the WACC as decided upon in the ministerial decree of 15 September 2023. The update has a minor impact on the proposed value of the IPC for the Y-1 auction but does not affect other auction parameters.

Confidentiality:

Elia confirms that all parts of this document are non-confidential and can be shared.

[1] Wet van 29 april 1999 betreffende de organisatie van de elektricteitsmarkt
Loi de 29 avril 1999 relative à l’organisation du marché de l’électricité

[2] Art. 4 van het KB Methodologie
Art. 4 de l’AR Méthodologie

2. Demand curve proposal: volume parameters

Elia agrees on the volume parameters proposed by the CREG in its proposal (C)2733.

However, the CREG mentions that Elia only considers individually modelled units that have **confirmed** government support as non-eligible. This is not the case. Elia considers all units that **might** receive support as part of the non-eligible volume. Units for which the support is not confirmed are also included.

3. Demand curve proposal: price parameters

Elia agrees on the price parameters proposed by the CREG in its proposal (C)2733.

Elia agrees that the price parameters should be expressed in €2028 to reflect the delivery period of the auction.

Using the cheapest DSM category (between 0 and 300 MW) to determine the price parameters of the demand curve would exclude all other technologies from participating to the auction due to their much higher missing money. Elia therefore agrees with the CREG to use the net-CONE of CCGTs to determine the price parameters of the demand curve.

4. Comparison between demand curves from previous auctions

4.1 Domestic to be contracted volume

The CREG mentions that the volume to be contracted domestically increases year after year because of increased electrification assumptions but that several market parties question these assumptions.

Elia would like to stress that, identical to previous iterations, the electrification assumptions were part of the public consultation on the reference scenario and that the total load in the reference scenario for the 2028-29/Y-4 auction was selected by the Minister based on a recommendation from the FPS Economy.

4.2 Inframarginal rents

With regards to the inframarginal rents, Elia shares the CREG's concern regarding the volatility between different calibration reports over time. Elia agrees that ideally there should be stability in auction price parameters to provide a stable investment environment for potential capacity providers. Elia agrees that ways to improve the stability in price parameters should be further explored.

However, Elia wants to highlight that it is bound by the RD Methodology in the calculation of the inframarginal rents. As stipulated in the RD Methodology, the inframarginal rents for the auction delivery period were calculated based on a simulation of the reference scenario as determined in the Ministerial Decree. For the post delivery period inframarginal rents, Elia includes the scenarios on which they are calculated in the public consultation on the reference scenario. Elia always used scenarios from the latest available studies which most closely resembled the reference scenario decided by the Minister.

Furthermore, Elia would like to stress that scenarios are estimates of future states of the energy system. The scenario proposals take into account the latest evolutions in the energy market which have been heavily influenced by the changing geopolitical context in recent years. Especially the impact of the Covid-19 pandemic and the more recent 'energy crisis' profoundly affected the energy markets. In addition,

policy measures at European and Belgian level (FitFor55, RePowerEU, update of the regional/federal climate plans, nuclear extension, increased offshore ambitions…) have changed several future assumptions. As also indicated by the CREG, these evolutions in the energy markets resulted in significant changes in the scenario assumptions for the different auctions.

Several factors can influence the calculated inframarginal rents of units, including fuel and carbon prices, the composition of the capacity mix domestically and internationally, flexibility assumptions, and demand. These scenario elements vary across different scenarios, including those used for future years. Increased fuel costs, greater electrification, and improved flexibility generally result in higher inframarginal rents, impacting technologies in the merit order differently.

Elia would like to use the opportunity to clarify some of the evolutions that took place in the course of these last calibration cycles:

Changes between 2025-26/Y-4 and 2026-27/Y-4:

In the 2025-26/Y-4 auction, 2 CCGT units with a total derated capacity of about 1.6 GW were contracted. These were therefore not part of the 2025-26/Y-4 reference scenario but were part of the 2026-27/Y-4 scenario. In addition to this, the scenarios for post-delivery years used to calculate inframarginal rents for the 2025-26/Y-4 auction date from before Covid and do not consider its effects. The Covid crisis had a strong downward effect on energy prices in future markets. This is considered in the fuel prices for the post-delivery years in the 2026-27/Y-4 auction but not in the 2025-26/Y-4 auction, leading to lower inframarginal rents in the post-delivery years in the 2026-27/Y-4 auction.

Changes between 2026-27/Y-4 and 2027-28/Y-4:

The most important evolution impacting the scenarios of these 2 auctions was the war in Ukraine. This had and still has far-reaching consequences on the electricity market on both the long and the short term. On the long term, the war in Ukraine pushed both the EU and Belgian government to take important measures to ensure the supply of sufficient and affordable electricity. Moreover, at the EU level the REPowerEU package was adopted on top of the Fit for 55 targets. These packages resulted in significant changes in the scenario assumptions on EU level. At the Belgian level, the lifetime of 2 nuclear plants was extended and therefore taken into account in the reference scenario. In the short term, the war in Ukraine resulted in high fuel prices, especially for gas, which also translated into futures markets for electricity. These high fuel prices were considered as part of the reference scenario and therefore resulted in high electricity prices in the simulation (in line with the high electricity prices observed on the markets at that moment). For calculating the inframarginal rents in the post-delivery years, Elia used scenarios from the AdeqFlex'21 with high prices. The high prices in the AdeqFlex'21 model were still significantly lower than the prices observed on the markets at that moment.

Changes between 2027-28/Y-4 and 2028-29/Y-4:

There is a significantly higher level of electrification and flexibility at EU level considered in the 2028-29/Y-4 reference scenario compared to the 2027-28/Y-4 reference scenario. As explained in the complementary analysis published jointly with the calibration reports in November 2023, this leads to higher inframarginal rents. In addition, AdeqFlex'23 was used to calculate the inframarginal rents for the post-delivery period in the 2028-29/Y-4. Contrary to AdeqFlex'21, AdeqFlex'23 did take into account the impact of the war in

Ukraine, resulting in post-delivery scenarios with prices more in line with the reference scenario. This results in higher inframarginal rents in the 2028-29/Y-4 calibration.

5. Conclusion

Elia agrees on the demand curve proposed by the CREG in its proposal (C)2733. These parameters would lead to a volume of 6733 MW in point A and 6956 MW in point B and C, as well as a Global Auction Price Cap equal to 76,8 €/kWd/y.