

MONITORING REPORT

Belgian electricity market
Implementation plan

July 2022

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1. Introduction

As is foreseen in article 20.3 of “Regulation 2019/943 of 5 June 2019 on the internal market for electricity” (hereafter: Regulation 2019/943), Member States with identified resource adequacy concerns shall develop and publish an implementation plan with a timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process.

In August 2021, the European Commission has approved, under EU State aid rules, Belgium's capacity mechanism. In the framework of this state aid process Belgium has submitted its final implementation plan¹ on 9 July 2020.

As is foreseen in article 20.6 of Regulation 2019/943, Member State shall monitor the application of their implementation plans and shall publish the results of the monitoring in an annual report and shall submit that report to the Commission. This is the present document, the “Monitoring Report”.

To elaborate this monitoring report, the DG Energy of the FPS Economy collaborated with CREG, ELIA and the Regions who provided input in their field of competence and expertise.

Chapter 2 discusses the changes in the policy environment that have taken place since the last monitoring report and also provides some key figures about the Belgian electricity system. Chapter 3 dresses a state of play of resource adequacy. Chapter 4 provides an explanation of the changes from the last monitoring report². Chapter 5 concludes.

2. Context

2.1. Policy context

Since the last report, the Russian-led war in Ukraine has had a major impact on the electricity market, with soaring gas and electricity prices and a renewed focus on energy independence. In addition to that, problems with the nuclear fleet in France add to the uncertainty on the Belgian market, given its large interdependence with the French market.

The crisis has demonstrated the importance of well-functioning and interconnected electricity markets, allowing European countries to help each other out in times of need. This is why Belgium is committed more than ever to further improve market functioning and to the implementation of the measures listed in this plan. The current report gives an overview of the state of play of these measures.

On the other hand, the crisis has also shown the vulnerability of our energy supply. In response to this, numerous measures have already been taken in order to alleviate the impact of the high prices and to ensure our security of supply.

With energy cheques, a VAT reduction from 21% to 6% and the extension of the number of households eligible for social tariffs, the Belgian federal government decided on several mitigation measures with immediate impact on the energy bills, especially for households.

Furthermore, in order to reinforce the Belgian security of supply and to continue helping out our neighbours with a maximum of exports both in terms of gas and electricity, a Winterplan has been approved in July 2022. The plan focuses on the upcoming winter '22-'23, but also already contains measures for the winters thereafter. It was decided for instance, to speed up the reflections on a consumer centric market design, as described in this plan.

These measures come on top of those that were already decided earlier this year. It was decided to take the necessary steps to extend the operation of two nuclear plants by 10 years and to massively speed-up and scale-up renewable energy, in line with REPowerEU. In order to achieve this, it was decided, amongst other things, to accelerate the development of offshore capacity and rapidly develop hydrogen,

¹ <https://economie.fgov.be/sites/default/files/Files/Energy/Belgian-electricity-market-Final-implementation-plan-CRM-22062020.pdf>

² <https://economie.fgov.be/sites/default/files/Files/Energy/CRM-Monitoring-Report-Belgian-electricity-market-Implementation-plan-2021.pdf>

to reduce VAT for investments in renewable energy and offer supplementary support for research, development and innovation in the context of the energy transition.

Finally, and without questioning the benefits of an integrated European electricity market, it should also be recognized that the crisis has exposed some limitations of its functioning and has spurred questions on the fundamentals of the market. It is indeed urgently needed to bring the benefits of renewables to the end consumer by lowering the electricity prices and avoiding windfall profits, and Belgium is committed to participate in the reflection on any possible improvement to the market that can bring this forward.

2.2. Key facts about Belgian electricity system

This section aims to provide a non-exhaustive overview of the recent trends in the electricity sector in Belgium.

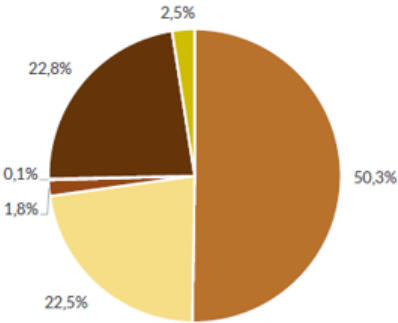
2.2.1. Production

As shown in figure 1, the Belgian gross electricity production in 2021 was 100,1 TWh.

Figure 1: Belgian gross electricity production in 2021

Electricity		TWh
Nuclear		50,3
Natural gas		22,6
Solid fossil fuels and manufactured gases		1,8
Oil products		0,1
Renewable energy		22,9
Other sources*		2,5
Total		100,1

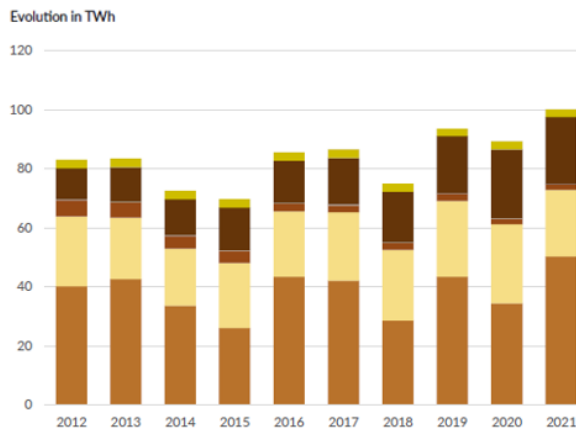
* Other sources include pumped hydro, heat recovery, non-renewable waste and other.



Source: Energy Key Data – July 2022

The gross electricity production in 2021 was 12% higher than in 2020, mainly due to a higher production from the nuclear installations (+46,1% or 15,9 TWh). the year 2021 is the highest year ever in terms of gross electricity production. During the last decade, the largest increase can be found in renewable energy, where production increased by 117,6% or 12,4 TWh compared to 2012. From the figure 2, we can moreover deduct that the use of oil products and solid fossil fuels has decreased strongly (respectively -66,9% and -67,7% over the last decade) in favour of mainly renewable energy. The last power plant using solid fossil fuels closed in 2016. The remaining electricity production originating from this group of fuels originates from manufactured gases from the iron and steel industry and from small multi-fired CHP plants.

Figure 2 : Evolution of gross electricity production (TWh) in the last decade in Belgium

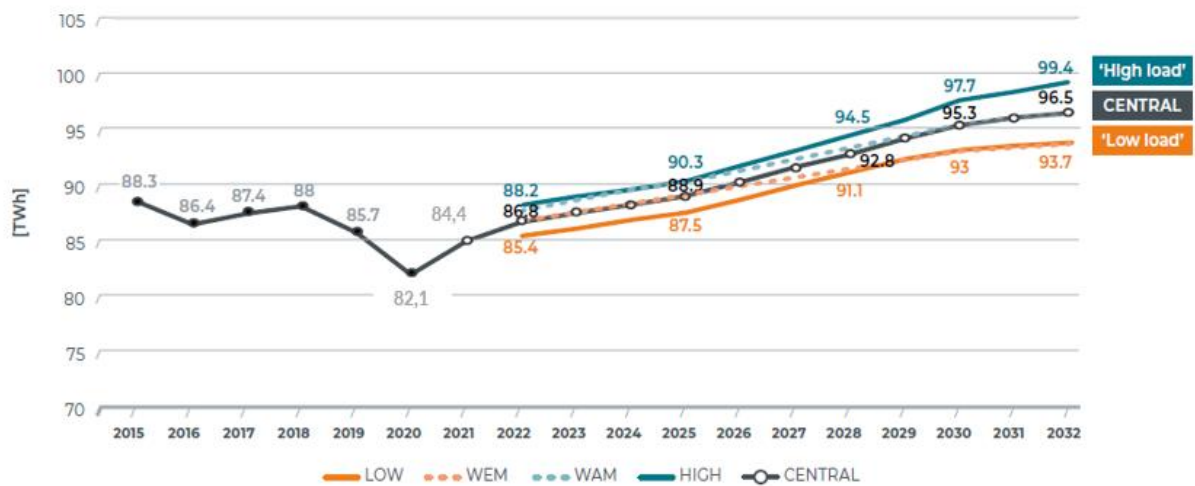


Source: Energy Key Data - July 2022

2.2.2. Consumption

Figure 3 shows the evolution of electricity demand from 2015 to 2032 for a central scenario and two sensitivities. 'High load' sensitivity take into account an increase in electricity consumption compared with the 'CENTRAL' scenario from +1.5% in 2022-2025 to +3% in 2032 (linear increase). 'Low load' sensitivity take into account a reduction in electricity consumption compared with the 'CENTRAL' scenario from -1.5% in 2022-2025 to -3% in 2032 (linear decrease).

Figure 3 : Total load evolution in Belgium for the 'CENTRAL' scenario and 'HIGH LOAD' & 'LOW LOAD' sensitivities

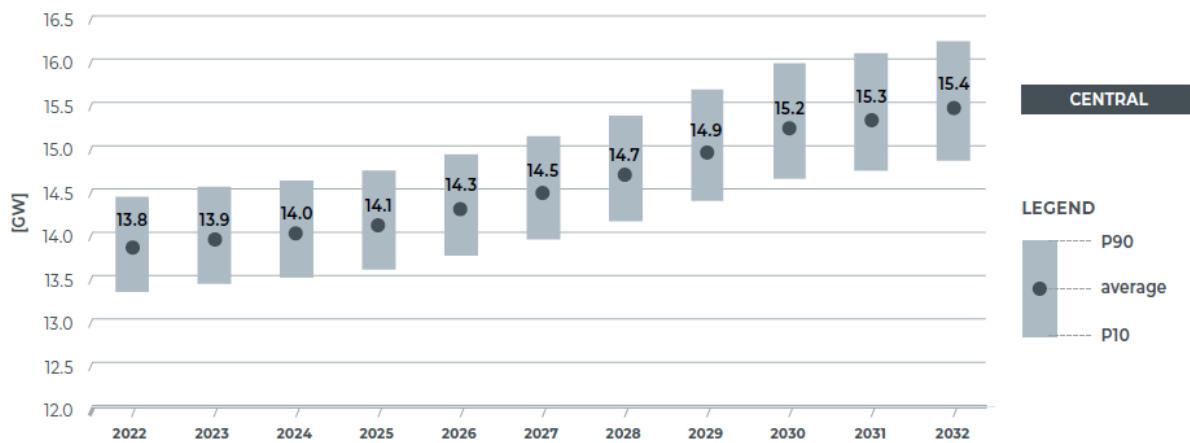


Source³: ELIA 2021, Figure 3-11

The peak load distribution resulting from the analysis of the 200 climate years load profiles are also provided in Figure 4.

³ For years 2020 and 2021, we used data from "Public consultation on the scenarios, sensitivities and data for the CRM parameter calculation for the Y-4 Auction for Delivery Period 2027-2028".

Figure 4 : Distribution of the peak load in Belgium for the CENTRAL scenario

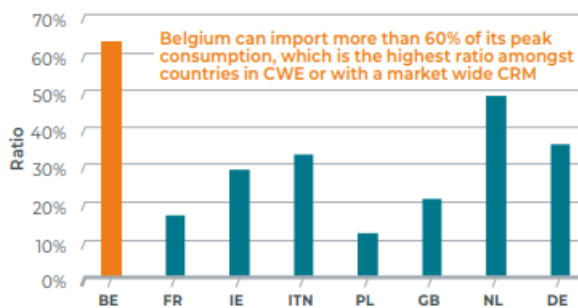


Source: ELIA 2021, Figure 3-12

2.2.3. Belgian grid

Belgium has one of the highest interconnection capacities shared with neighbours (when comparing the share of market maximum capacities to the peak consumption of each country). Data from the Mid-term adequacy forecast (MAF2020⁴) for 2025, summing up the NTC (Net Transfer Capacities) capacities assumed for Belgium for each of its borders leads to a share on the peak consumption of more than 60%.

Figure 5: Ratio between the imports capabilities and the average peak demand



Source: ELIA 2021, Figure 2-7

In 2021, net electricity imports were negative for the third year in a row after many years of positive net imports. This points to a surplus of electricity produced relative to domestic demand. Net imports were positive for the Netherlands and Germany (2,1 and 0.7 TWh, respectively). With France, Luxembourg and the United Kingdom, net imports were negative -2,6, -1,1 and -7.0 TWh, respectively). This will result in net exports of 7,9TWh in 2021. The high exports to the United Kingdom are mainly driven by the higher price at peak times in the United Kingdom compared to the mainland. The increase in exports to France is due to the exceptionally low availability of French nuclear plants.

⁴ <https://www.entsoe.eu/outlooks/midterm/>

2.3. CRM: first auction

The first Y-4 auction of the Belgian CRM was held in October 2021 for the 2025-2026 delivery period. The results were published⁵ on the 31st of October 2021, with an update on 13 April 2022, and approved by the national regulator. The total amount of capacity (in derated MW) selected in this auction amounts to 4,456.75 MW, spread over 40 selected "Capacity Market Units". New capacities accounted for 37.1% of the capacities selected in the auction.

The bid volume weighted average bid price of the retained bids is equal to 31,671.57 €/MW/year. The highest bid price of the retained bids is equal to 49,993.18 €/MW/year. Given the "pay-as-bid" clearing algorithm in the auction, each retained CMU will receive its own bid price as a capacity remuneration.

For the submitted bids subject to the Intermediate Price Cap, the bid volume weighted average bid price is 19,901.60 €/MW/year for the submitted bids and 19,892.72 €/MW/year for the selected bids.

The technology Combined Cycle Gas Turbine accounted for 87.5 % of the volume participating in the auction and constituted the largest category selected in the Auction (81 %). The volume of demand side management selected in this Y-4 auction accounted for 287 MW (after derating) (6.5%).

3. Resource Adequacy

Due to the unforeseen international context and the European response to the Russian-led war in Ukraine, the Belgian federal government decided on 18 March 2022 to partially reassess the timing of the nuclear phase-out, by allowing the extension, for a period of ten years, of the operation lifetime of two of the seven nuclear units (Tihange 3 and Doel 4), with a combined nominal power of ca. 2 GW. The closure of the other nuclear units (totaling a nominal power of ca. 4 GW) remains according to schedule⁶, i.e. the last decommissioning date is 1 December 2025.

Since then, uncertainty has further increased because of the current gas crisis and the low unavailability of the French nuclear fleet.

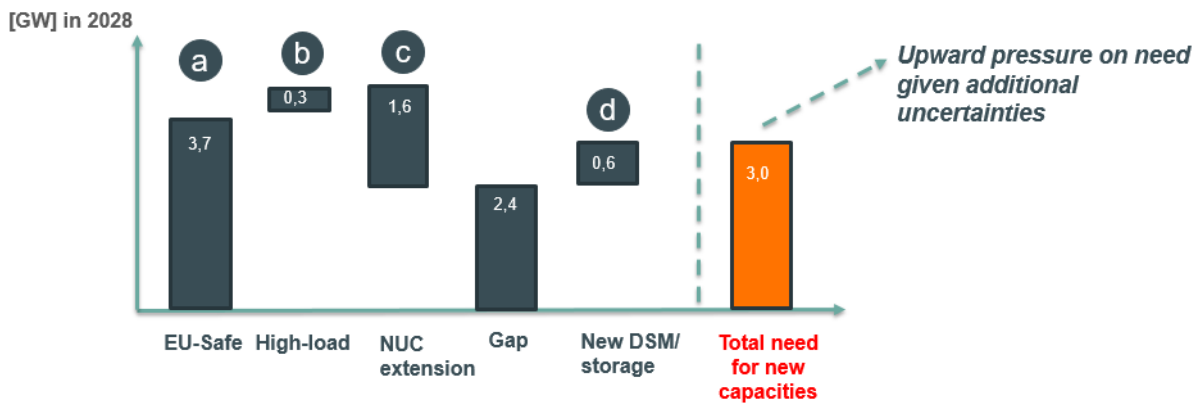
However, building on the most recent Belgian National Resource Adequacy Assessment (NRAA), established by the TSO in June 2021, a substantial and persistent need for new capacities is demonstrated even after consideration of the partial nuclear extension.

The starting point of the analysis was performed based on the numbers published in the NRAA for the year 2028 which is representative of the situation after completion of the nuclear extension works. Indeed, the assessment tries to reflect the situation in 2026-27 for which the results of the year 2028 are representative (note that taking 2025 results would only change the figure by 0.1 GW). The figure below expresses capacities deemed 100% available (or 'de-rated' capacities). The total need for new capacity (3 GW in the figure below) excludes the multi-year contracted capacity in the Y-4 auction for 2025-2026 of approximately 1.6 GW derated capacity. With these contracts, the need in 2028 totals around 1.4 GW derated capacity.

⁵ [CRM Auction Results \(elia.be\)](https://www.elia.be/en/CRM-Auction-Results)

⁶ To be entirely complete, for the upcoming winter '22-'23 it is investigated if Tihange2 could run until maximum 31/03/23 instead of until 01/02/23, in order to maximise available Belgian capacity and to help alleviate the tight situations in especially Germany and France.

Figure 6 : Overview of need for new capacities (100% available) in 2028

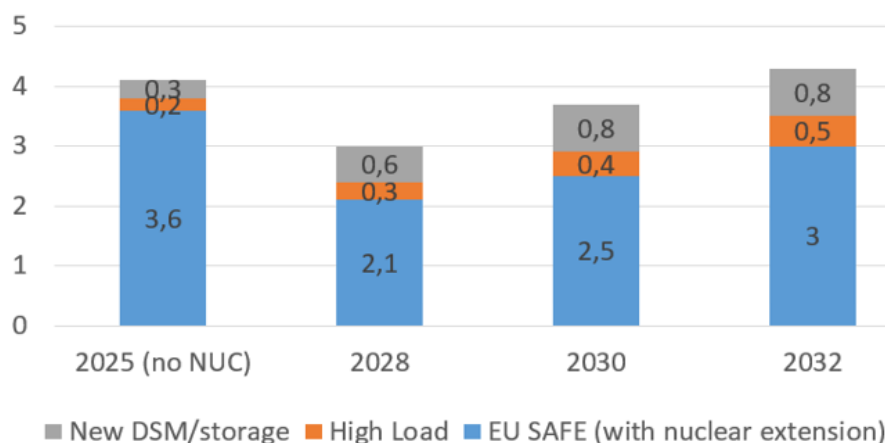


In the paragraphs below, all different elements from the graph above are explained in more detail:

- a. **EU-SAFE”-scenario: several risks identified in the NRAA are confirmed and being materialized:** the increased uncertainties that have arisen since the publication of the NRAA in June 2021 justify taking the EU-SAFE scenario as starting point to assess the needed capacity required in Belgium. The probability of the risks beyond control of Belgium as assessed and quantified in the NRAA is indeed increasing, while some of the risks identified are materializing or further exacerbated. Those include at least the announcements on coal phase outs in Europe, the nuclear unavailability in France, the ‘Fitfor55’ package and REPowerEU proposals and the recent European and national plans to reduce gas dependency, the uncertainties regarding a possible gas supply disruption which could materialize in the coming months or years.
- b. **“High Load”:** Since the publication of the NRAA, increased ambitions with regards to electrification in Belgium were set. Further policy changes should be integrated in the assessment. First and foremost, the ‘Fitfor55’, the ‘RepowerEU’ and the Belgian ambitions (decision from the Belgian government of 18 March 2022) will result in an acceleration of renewables and electrification of heating, transport and industry. The NRAA anticipated an increased demand in the coming years, but could not account for these policy ambitions and changes that happened after the publication of the NRAA. As a comparison, the European Commission ‘FitFor55’ assessment during summer 2021 (MIX scenario) indicated for Belgium that the package would result in a final electricity consumption for 2030 higher than 106 TWh (where losses and other transformation loads are not included) while the NRAA considered 95.3 TWh of total electricity demand (with losses and other transformation loads included) in the central scenario and 99.4 TWh for the ‘high load’. The values in the NRAA are at least 10% below the estimated value by the European Commission in its assessment.
- c. **“Nuc extension”:** The nuclear capacities are deducted based on their contribution to security of supply. In the Ministerial Decree setting the CRM auction parameters for the 2022 Y-4 auction (for delivery in 2026-2027), the derating factor for nuclear units in Belgium has been set at 80%.
- d. **“New DSM & storage”:** a de-rated volume of 600 MW of new DSM and storage capacities (compared to today’s values) was already considered when calculating requirements for new capacities. In line with Art.23(5) m) and 24(1) of Electricity Regulation 2019/943, the calculated new capacity requirements are already taking into account the massive development of DSM and batteries in Belgium, according to the most recent political ambitions when the NRAA was elaborated. Those capacities have a contribution of 600 MW for the year 2028. The economic viability assessment performed under the NRAA has demonstrated that insufficient new demand response and storage capacity would be developed without support from a market-wide CRM. This would further increase the need for new capacities (+ 600 MW to 3.0 GW (100% available)).

The need for new capacities is increasing over time. This was already confirmed by the NRAA and is further exacerbated by the recent elements brought forward. Starting from the EU-SAFE scenario (and after the reduction of the gap following the extension of two nuclear power plants), the impact of the aforementioned changes is shown in the figure below:

Figure 7: Evolution of need for new capacities in time (GW)



It is however very uncertain that the high prices would trigger significant investments in new capacity of any technology (in Belgium or abroad). First and foremost, the current crisis is expected to be temporary in nature, but with an unknown duration and long-term effect. Second, the high prices have triggered fundamental policy discussions, creating uncertainty for investors. Third, the recent report published by ACER⁷ shows very low liquidity in most European markets⁸, hence new generation assets might not be able to lock in long term revenues even at such high prices. Finally, the economic situation is highly uncertain, with inflation on the rise and interest rates being revised upwards, in combination with the fear of an economic recession.

Overall, based on the most recent NRAA and with a limited number of sensitivities materializing, the need for new capacities in the Belgian electricity system remains significant even after the lifetime extension of two nuclear power plants. However, current volatile market conditions are not beneficial for the investment climate in any sector, including the electricity sector, and it is not expected that the need for new capacities will be met with sufficient investment. A CRM on the other hand provides investors with certainty and security. This is why the Belgian government has decided the capacity remuneration mechanism should continue.

⁷<https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER%26%23039%3Bs%20Final%20Assessment%20of%20the%20EU%20Wholesale%20Electricity%20Market%20Design.pdf>

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=SWD:2022:230:FIN&from=EN>

4. Implementation plan - Monitoring 2022

Table 2 provides a summary of the different measures that will be discussed in Chapter 4. The status of each of these measures, in comparison to their status in the last monitoring report, is given.

Table 2: Summary of the different measures

Measures	Status
Wholesale markets	
Price limits	Update
Offers in the wholesale market	No change
Generation reserves by TSOs	No change
CWE flow-based market coupling	No change
CORE region	Update
Integration of HVDC interconnectors	Update
Balancing markets and ancillary services	
Improved balancing publications	Update
Revision of the alpha component	Update
Further implementation of frequency-related ancillary service Product Roadmaps	Update
Participation in EU Balancing Projects	Update
Regional imbalance settlement harmonization	No change
Internet of Energy	Update
Flexibility	
Transfer of Energy	Update
EMD	Update
Smart Meters	Update
Regulated prices	
Interconnections and internal grid capacity	Update
Scarcity pricing	Update
Self generation, energy storage and energy efficiency	Update
Reliability standard	Update

4.1. Wholesale markets

4.1.1. Price limits

The day-ahead and intraday electricity prices on the wholesale markets are only limited by the harmonized technical price limits, applied by the NEMOs.

For single day-ahead coupling (“SDAC”), the harmonised technical price limits were initially set between a minimum price of -500.00 EURO/MWh and a maximum price of + 3,000.00 EURO/MWh. The decision No 04/2017 of ACER of 14 November 2017 states that in the event that the clearing price exceeds a value of 60 percent of the harmonised maximum clearing price for SDAC in at least one market time unit in a day in an individual bidding zone or in multiple bidding zones, the harmonised maximum clearing price shall be increased by 1,000 EUR/MWh.

In application of this decision and following the high prices of 2,712.99 and 2,987.78 EUR/MWh reached on 3rd April 2022 (delivery date 4th April) in France, in hours 8 and 9, the harmonised maximum clearing price for SDAC was increased to +4,000 EUR/MWh. This new maximum clearing price was applicable in all bidding zones that participate in SDAC, from five weeks after the day the event referred to has taken place. In this case, therefore, it was applied from 10th May 2022 (first trading session).

For single intraday coupling (SIDC), harmonised technical price limits are set between -9,999.99 EURO/MWh and +9,999.99 EURO/MWh. The decision No 05/2017 of ACER of 14 November 2017 states that in the event that the harmonised maximum clearing price for SDAC is increased above the harmonised maximum clearing price for SIDC, the harmonised maximum clearing price for SIDC shall be increased to be equal to the harmonised maximum clearing price for SDAC.

4.1.2. Offers in the wholesale market

Generators have limited restrictions on their ability to freely price their offers in the wholesale market. Beside the fact that offers by generators have to be compliant with the above mentioned price limits, the offers should comply with REMIT-obligations (Article 2.2(a) and 2.3(a) and article 5). In order to have a functioning market, anti-competitive bidding is prohibited. Furthermore, generators wishing to offer in wholesale markets have to comply with admission criteria of the NEMO's in the relevant markets.

4.1.3. Generation reserves released by TSOs

In the Belgian legislation, no rules or provisions require the TSO to release generation reserves in the market when market prices rise above a certain level.

4.1.4. CWE flow-based market coupling improvement

The CWE flow-based day-ahead market coupling has been gradually improved since its introduction in 2015. Particularly, in April 2018, the “minRAM 20%” rule has been implemented. This rule guarantees that, for all the elements considered in the capacity calculation, at least 20% is made available for cross-border exchanges within the CWE region.

Since April 2020, more capacity is made available thanks to the implementation of the rules of the new Electricity Regulation (the “70% rule”, adapted at national level based on the approved derogation or the national action plans, depending on which bidding zone is considered).

By 2025, a minimum of 70% capacity on all network elements should be available for cross-border exchanges.

4.1.5. CORE region

ACER took a decision at the beginning of 2019 with respect to the day-ahead and intraday capacity calculation methodologies. Outcome of the first days after the go-live showed that some TSOs are not compliant with the “minRAM 20%” rule by offering less than 20% on some critical network elements. The development and implementation of the coordinated redispatching and countertrading methodologies (including cost sharing) are expected to bring additional improvements with respect to the capacity offered to the day-ahead market.

Nevertheless, these methodologies can also have a negative impact on the cross-border capacities available in intraday and balancing. Indeed, these methodologies request TSOs to offer all their remedial actions in order to minimize the redispatching cost.

Based on the findings of – amongst others – the CREG during the parallel runs prior to the initially foreseen go-live of the Core flow-based market coupling in April 2022, further improvements have been identified and will be implemented, in particular with regards to the further stabilization of the capacity calculations processes, measures to ensure a non-discriminatory capacity calculation and increases in the available intraday capacities.

4.1.6. Integration of HVDC interconnectors:

The current and future HVDC interconnectors will allow an improved access to the cross border day-ahead and intra-day markets.

On Nemo Link, the interconnector between Belgium and the UK, Elia (together with National Grid and Nemo Link Limited) has launched an explicit capacity product on the BE-GB border for different timeframes, from the long-term (yearly, quarterly, monthly) to the short term (day-ahead and intraday). Following Brexit, a trade Agreement was concluded between the European Union and the UK, containing a proposal for an allocation mechanism called the “Multi-Region Loose Volume Coupling”. This mechanism is being further developed by the TSOs.

ALEGRO, the interconnector between Belgium and Germany, is integrated in the existing CWE processes through the implementation of the so-called Evolved Flow-Based approach. Since 18 November 2020, the day-ahead allocation has started, and since 8 December 2020 the border between Belgium and Germany is integrated in the Single Intraday Coupling (SIDC). Long-term (yearly and monthly) financial transmission rights have been sold for the first time in December 2020 for delivery in January 2021.

4.2. Balancing markets and ancillary services

4.2.1. Improved balancing publications

The changes foreseen towards improved balancing publications have been implemented as planned, including the development of an IT tool allowing Elia to communicate the relevant information to (registered) BRPs within 15 minutes after the respective quarter-hour. This development helps BRPs to determine their imbalance.

Additional evolutions of the balancing publications are foreseen in the context of the connection to the European balancing platform to provide BRPs with the best possible view on the system and market conditions.

4.2.2. Revision of the alpha component

As for the balancing publications, the improvements foreseen regarding the alpha component have been implemented to continue the evolution towards a fully single-pricing balancing mechanism. This includes:

- a refined way to calculate the alpha component in order to avoid unjustified costs for BRPs during high and structural imbalances (i.e. when the imbalance price is already sufficiently high).
- Asymmetrical application of the alpha component to BRPs in order to both reward BRPs helping the system and punish BRPs acting against it.

Elia and the CREG are currently discussing the evolution of the alpha component in the context the European balancing platforms and the objectives of the EB-GL.

4.2.3. Further implementation of frequency-related ancillary service Product Roadmaps

Various actions related to the evolution of the different balancing products were implemented step by step, after a close interaction with the market :

- **FCR** : FCR is open to all technologies and all players. Tendering is taking place on a daily basis and at regional level since July 2020.
- **aFRR**: Since September 2020, aFRR is open to all technologies and all players except for active consumers at low voltage level. Tendering takes place as well on a daily basis. The design of the aFRR capacity auction has been improved in 2021 and the changes implemented in May 2022 to facilitate the efficient competition between CCGTs and other technologies in the same market. However, there are still improvements to be made in determining the aFRR dimensioning needs based on the FRCE-quality and the cost for procuring aFRR reserves. The CREG formulated various potential improvements in its Decision (B)2366 in order to fully achieve an efficient functioning of the aFRR balancing markets. These improvements will be analysed and implemented unless the analysis justifies not to do so.
- **mFRR**: mFRR is open to all technologies and all players, except for active consumers at low voltage level. Sizing & Tendering are taking place on a daily basis. Marginal pricing for activated balancing energy is enabled since February 2020. The contribution of reserve sharing to cover part of the FRR needs has been increased from 50MW to 250MW in January 2021, resulting in a reduction of procured mFRR capacity.

4.2.4. Participation in EU Balancing Projects

FCR is already tendered and procured at regional level since July 2020. With respect to the other products:

- **aFRR:** accession to PICASSO is foreseen for September 2022, depending on boundary conditions and subject to approval of the terms and conditions for balancing. Marginal pricing of activated energy will be implemented for each optimization cycle when connecting to PICASSO.
- **mFRR:** accession to MARI is foreseen for the fourth semester of 2023.

4.2.5. Regional imbalance settlement harmonization

The regional imbalance settlement harmonization is ongoing. The calculation of the Belgian Imbalance Price will further evolve at the accession to PICASSO and MARI.

4.2.6. Internet of Energy

In February 2019, Belgium's energy system operators teamed up with 60 companies, public bodies and academic institutions to launch a collaborative innovation initiative called IO.Energy⁹.

In May 2021, some 30 companies from various industries have tested out new energy services as part of the Internet of Energy (IO.Energy). IO.Energy is an ecosystem of market players working together on new consumer-centric services.

Five projects which successfully underwent the workshop phase are now being moved onto the pilot phase. The projects involve electric mobility, local energy communities, green tracking and grid support services.

4.3. Flexibility

4.3.1. Transfer of Energy

Transfer of energy for participation to wholesale market (DA and Intraday markets) has been implemented and has entered into force on July 1st 2021.

The assessment of the need for transfer of energy in the aFRR market segment has taken place but revealed that potential benefits on high and medium voltage are highly limited, whereas there are significant challenges for successfully applying the design on low-voltage. For this reason, other promising design schemes are being investigated by the TSO. These are centered around the consumer and aim at reducing entry barriers and fostering the development of DSR (especially at low voltage and among others for the aFRR market segment). These schemes are tested in pilot projects in 2022.

4.3.2. EMD

The transposition of directive (EU) 2019/944 of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (hereafter "Directive 2019/944") is under process.

Federal

On the federal level, the legislation is being altered to create the legal basis in relation to Regulation 2019/943 and Directive 2019/944. In particular, the federal bill provides for:

- strengthening the position of consumers by informing them better about their consumption and their rights. The consumer *+connected to the transmission grid+* plays a more active role and thus becomes a central player in the electricity market.

⁹ <https://www.ioenergy.eu/>

- new obligations for the transmission system operator regarding the management of end-user data and clarification of electricity storage.
- a reform of the electricity market by introducing new players and increased supervision by the CREG.
- international and regional cooperation strengthened by the creation of regional coordination centres. the transposition process is still ongoing, it has been submitted to the parliament and will be discussed in the parliament after the summer recess.

Flemish region

The 4rd Energy Package, adopted on July 14, 2019, has been transposed in Flemish legislation by the Decree of 2 April 2021¹⁰. Especially the transposition of the Directive 2019/944 brings new rights and obligations for consumers, introduces new market roles such as the flexibility service provider and energy communities. DSO's will be able to use flexibility as an alternative to network investments to tackle local congestions and use flexibility for voltage regulation.

Walloon region

On May 4, 2022, the Walloon Parliament has approved a new Decree ensuring the transposition of RED II and MD¹¹ directives and bringing novelties in Walloon legislation, among which the creation of new legal notions and their resulting rights and obligations, notably:

- **Aggregation:** consists of combining multiple consumption or production loads of electricity for sale, purchase or auction on the different markets and can be performed by different actors, including suppliers, flexibility service providers or intermediaries.
- **Collective Self-consumption:** self-consumption of renewable energy exercised collectively by a group of active customers located or established in the same building;
- **Peer-to-Peer Exchanges:** the sale of electricity produced from renewable energy sources between active customers or energy communities on the basis of a contract containing pre-established conditions governing the automatic execution and settlement of the transaction either directly between the active customers or energy communities or through an intermediary;
- **Energy Communities (Citizen and Renewable):** legal persons in which ones may openly and voluntarily participate, destined to deliver economic, social and/or environmental to its members and/or region and allowed to produce electricity, to supply electricity, to self-consume electricity produced within it, to practice aggregation and participate in flexible supply services, to store energy, to provide recharging services for electric vehicles, to provide energy efficiency or other energy services and to sell self-produced and not self-consumed electricity, where appropriate in the case of electricity from renewable energy sources, through a power purchase agreement or through peer-to-peer trading.

Brussels-Capital Region

The 4th European package, in particular Directive 2019/944 (and also Directive 2018/2001), has been transposed by a new legislative order published on April 20, 2022¹².

The main aspects of this transposition in the Brussels legislative project are:

- the creation of energy communities as a new market player and of an operating framework regarding this new actor;
- a regulatory framework for emerging activities on the regional energy market: electric vehicle charging, sharing of self-produced electricity, flexibility, aggregation and electricity storage;
- granting new rights and obligations to final consumers and active consumers in particular, and

¹⁰ This new Decree can be found on the website of the Belgian official Journal: <http://www.ejustice.just.fgov.be/eli/decreet/2021/04/02/2021041519/staatsblad>

¹¹ MD = Market Design

¹² The text of this new legislative order can be found under the following address: https://www.ejustice.just.fgov.be/mopdf/2022/04/20_1.pdf#page=113

- complementary aspects to the deployment of smart meters on the regional territory and to the DSO's facilitating role for the development of above-mentioned new players and emerging activities.

4.3.3. Smart Meters

The deployment of smart meters in line with articles 19 to 22 of Directive 2019/944, which is a competence of the Regions in Belgium, is explained in this section.

Each of the regional governments has specific targets for the installation of smart meters. In the Walloon Region and Brussels-Capital Region, complete or near-complete coverage is not expected until after 2030.

Flemish region

In 2020 the Flemish Government decided to speed up the roll-out of smart meters, aiming to replace 80% of all energy meters in Flemish households by the end of 2024. Moreover, in the amended energy decree of 17 July 2020, the Flemish government set the ambition that all traditional meters in Flanders should be replaced by digital energy meters by 1 July 2029. At the end of April 2022, 1 601 032 or 26% of the meters were already replaced with a smart meter.

The Flemish DSO Fluvius works actively to promote 'smart' applications for end-users. Today, every Flemish household with smart meters can consult their personal energy usage or feed-in via a new free online consumer portal. The data can be consulted in great detail: per 15 minutes for electricity and per hour for natural gas. These data are also available to commercial companies for tailor made energy advice. The Flemish smart meters also offer a local data port for commercially available smart energy applications.

Walloon region

Roll-out is pursued as specified in the Implementation plan.

Brussel-Capital region

The Brussels-Capital Region has been organising the deployment of smart meters since 2018.

The ordinance of 17 March 2022 amending the electricity ordinance completes the framework applicable to the deployment of smart meters. Indeed, this ordinance completes the list of network user segments for which the distribution system operator must systematically provide for the installation of a smart meter.

All the segments in question (as defined in 2018 and as added by the 2022 ordinance) concern, on the one hand, network users who potentially make a particular use of the network which may generate additional constraints on managing the distribution network. On the other hand, there are also network users for whom the smart meter may be of interest - for example, large consumers or those who wish to have it. In this way, the roll-out will allow the network users for whom smart meters offer advantages to be equipped as a priority, while taking into account the technical constraints of the distribution network operator.

These mandatory segments are the following:

- connections of new buildings and major renovations;
- replacement of an old or faulty meter;
- existing or new prosumers;
- modification of the power of the connection;
- electric vehicle charging;
- participation in electricity sharing, purchase of self-generated electricity;
- participation in flexibility or aggregation services;
- electricity storage;
- annual consumption over 6,000 kWh;
- heat pump;
- customers who apply for a smart meter;
- indivisible set of meters.

The ordinance of 17 March 2022 also requires the distribution system operator to offer a smart meter to each network user.

In order to guarantee transparency on the state of deployment, the ordinance also introduces an obligation for the distribution system operator to report annually to the Government and to Brugel – the energy market regulator, as well as an obligation to draw up a deployment roadmap, established for the period up to 2030 in accordance with the spirit of the Directive 2019/944.

As of May 2022, 32,170 meters have been installed by the distribution system operator on the distribution network.

4.4. Regulated prices

Belgium has no exemptions from network or energy-related costs for specific classes of consumers which might affect demand response incentives.

Belgium has a social tariff system, which contributes to the European objectives aiming at i) guaranteeing the right of access to energy (essential good) for all; ii) protecting vulnerable consumers and (iii) fighting against energy poverty, of which a key explanatory factor also lies in the level of energy prices (in addition to the two other key factors; i.e. income level and energy efficiency of housing and equipment), and this without preventing electricity and gas bills of social tariffs beneficiaries from following downwards as well as upwards price market developments.

Social tariffs have the following economic properties :

- Identical through the whole Belgian territory, social tariffs are based on the cheapest commercial tariff offered in the cheapest distribution area and corrected with the application of a maximum increase per quarter and per year, to dampen energy price shocks; a link with the supply market conditions is therefore structurally guaranteed (supply market-based);
- they are transparent (published by the CREG) and subject to continuous monitoring by the CREG;
- they do not disturb competition and do not create market distortion;
- they do not restrict the freedom of the beneficiaries to change suppliers if they wish;
- they provide a rough indication of the competitive potential in the supply market.

Social tariffs have been set up in the law in 2004 and these preferential commercial rates have been reserved to certain categories of consumers commonly called "protected residential customers with modest incomes or in a precarious situation". The system is financed through an excise duty. Improvements have taken place over time to improve the efficiency of the system.

Since 2021, in answer to the very high prices, the group of beneficiaries of the system has been extended to more categories of vulnerable consumers. Other price-related measures that have been decided to tackle the energy crisis consist of, amongst others, lowering VAT from 21% to 6%, and the allocation of energy cheques.

4.5. Interconnections and internal grid capacity

On the internal grid side (reinforcements), there are no changes as compared to the Federal Development plan. The next plan will be adopted in 2023.

Elia is still actively developing the proposed projects: HTLS reinforcement of the 380 kV backbone and new corridors Ventilus and Boucle Du Hainaut.

On the interconnection side, Elia is also actively working on projects as put forward in the Federal Development plan. Some major changes are the following:

- Reinforcement Zandvliet-Rilland: One year delay on the HTLS reinforcement on the Dutch side, due to impact of the regulation 2019/943. Belgian side (4th PST) will proceed in 2022 as planned.
- Nautilus: Rescoped from a HVDC point-to-point interconnector to a hybrid system, combining the function of connection of an offshore windfarm with an interconnector.
- Alegro: taken into service at the end of 2020.

- Germany - Belgium II: Latest studies, taking into account the CEP regulation, have led to an updated commissioning date of ~2035.
- Triton Link: Elia actively investigates a new hybrid system (wind + interconnection) between Belgium and Denmark. A memorandum of understanding (MoU) has been signed on February 2021. The objective of this MoU is to initiate cooperation on the planning of a possible interconnection with an energy hub in the Danish economic zone in the North Sea with mutual benefit to the two countries. The preliminary study has shown that the project is both socioeconomically and technically feasible and will result in significant CO2 reductions at a European level. Following this positive result, in November 2021, a Memorandum of Agreement has been signed by the Belgian and Danish ministers of Energy and a new cooperation agreement between the two system operators Elia (Belgium) and Energinet (Denmark) on the implementation of what could become a world first: the first undersea connection between two artificial energy islands which will be able to exchange power between the two countries and at the same time transport electricity from offshore wind farms to the mainland.

4.6. Scarcity pricing

In the final implementation plan submitted in 2020, no decision had been made regarding the implementation of a scarcity pricing in Belgium. Previous studies had demonstrated that there was a need for further research. In the monitoring report published in July 2021, references to Elia and CREG's studies were made.

Since the last report, CREG published a new study on the implementation of a scarcity pricing mechanism in Belgium¹³. The study proceeds successively to the presentation of the relevant legal framework, the description of the reasons which have led to the examination of a scarcity pricing mechanism for Belgium, a description of the chronology of the potential development of this mechanism in Belgium, a presentation of the theoretical background, the justification of the choices made for the proposed design, a detailed description of the proposed design, an estimation of the expected impact of the proposed design, the justification of the legal compliance of the proposed design and the provision of responses to Frequently Asked Question related to scarcity pricing mechanisms. Feedback of market participants on this study is expected and a workshop was organized on 29 April 2022. During the workshop, several stakeholders had interrogations about the precise design and the motivations for the introduction of a scarcity pricing mechanism in Belgium. Several concerns about the benefits a scarcity pricing would bring to the Belgian market were also raised. Some market participants believe that if a scarcity pricing is implemented in parallel to the CRM, there is a high risk that the customer ends up paying twice and also would distort the well-functioning of the EU energy markets. These doubts regarding scarcity pricing were reaffirmed in July, at the last plenary meeting of Elia's Users' Group where an official position on scarcity pricing was adopted and sent to the Minister¹⁴. Members of this Users' Group request that primary focus should be put on the removal of non-price related barriers to support flexibility and argue that the appropriateness of introducing a scarcity pricing should at least be studied at the regional level (CORE).

Given the differing views on scarcity pricing, given that the combination with a CRM was not yet studied, and given remaining open questions, the Belgian State is now working on a new study. The objective of the study is twofold: (i) identify and analyze under specific aspects, countries, states or regions (e.g. UK, PJM, ...) that have implemented both a CRM and a scarcity pricing mechanism and identify for each of them the success or failure in a qualitative and quantitative way (ii) formulate an opinion on the introduction of a scarcity pricing mechanism that complements the Belgian CRM taking into account the design elements of the complementary scarcity pricing mechanism, legal/regulatory, economic and social framework conditions for implementation, key performance indicators for the effectiveness of the scarcity pricing mechanism in combination with the CRM and an implementation plan..

In the actual context of price volatility and as the discussions with stakeholders are still ongoing and studies are still in progress, it is difficult at this stage to draw any conclusion about the implementation of a scarcity pricing mechanism in Belgium.

¹³ <https://www.creg.be/sites/default/files/assets/Publications/Studies/F2203EN.pdf>

¹⁴ See Appendix 1.

4.7. Self generation, energy storage and energy efficiency

4.7.1. Self generation

CEER has defined self-generation as the use of power generated on-site by an energy consumer in order to reduce, at least in part, the purchase of electricity from the grid. Be it with rooftop photovoltaic, small wind turbines or other small scale electricity generation, Belgium has seen a regional progression in consumers' empowerment for self-generation.

Flemish region:

No change reported.

Walloon region

No change reported.

Brussels-Capital Region

In 2020, despite the adverse effects from Covid, solar photovoltaic installed capacity has increased by 51% to reach 197 MWc. With an estimated potential of 2500 MWc, this corresponds to 8% of the region's potential. Those installed capacity generated 129 GWh of renewable electricity or the equivalent of 70% of the 2030 target of 185 GWh of production for solar PV.

The Brussels Government committed itself in the NECP to refine the support for Building Integrated Photovoltaics via the mechanism of green certificates, which has been implemented at the end of 2021.

The implementation of modifications to the electricity ordinance in 2022 is now allowing to share electricity between prosumers and consumers through energy communities. This should improve self-consumption of electricity and help the market to better balance production and demand.

4.7.2. Energy storage

Federal

The storage of electricity in batteries (or indirectly via heat pumps in boilers, for example) has already been technically developed and can be used to absorb short-term fluctuations. Energy storage in the form of hydrogen or other synthetic fuels offers an alternative for long-term storage.

As previously mentioned, with regard to pumped hydro, the owner has decided to expand the existing largest pumped hydro storage plant Coo by 2024. This will increase the energy storage by 425MWh and the power output by 84MW.

On the grid level, the federal grid development plan 2020 – 2030 describes multiple projects to enhance the integration of large scale offshore wind production in combination with an increase in interconnection capacity. The expansion of the transmission grid is described in other sections of this document, the main driver is to tackle large fluxes within the transmission grid originating from large renewable energy production in Belgium and Europe.

With regard to pumped hydro, the owner has decided to expand the existing largest pumped hydro storage plant Coo by 2024. This will increase the energy storage by 425MWh and the power output by 84MW.

Walloon region

No change reported.

Brussels-Capital Region

No change reported.

Flemish region

Encouraging energy storage through an incentive

Flemish authorities are encouraging the Flemish market for energy storage and management systems by supporting investments in electricity storage through a purchase incentive. Such energy storage systems will help to ensure system stability during peaks in demand and generation. They form a temporary alternative to additional investments in the system.

The purchase incentive for home batteries was launched in August 2019. In the early months, interest in this purchase incentive was below expectations. At the end of 2020, approximately 160 applications were submitted for a total battery capacity of about 1,5 MWh. On the contrary, the purchase incentive did experience a great success in 2021: approximately 18 000 applications were submitted for a total battery capacity of about 150 MWh. This increased success can, among others, be explained by the increased electricity prices in 2021.

Establishing a regulatory framework for energy storage

A regulatory framework for energy storage will be developed in Flanders in order to increase storage capacity. The new style of electricity market requires energy services such as storage to be market-based and competitive. For that reason, Flemish authorities will not allow system operators to own, develop, manage or operate energy storage installations. In addition, studies will be conducted regarding the role of energy storage within districts, and any obstacles to this, and support measures will be adopted or initiatives if needed. This framework will be closely linked with the regulatory frameworks for flexibility, and with the local energy communities that are currently being developed as a result of the transposition of the European Directive on electricity and renewable energy, within which energy storage (at district level) may play an important role.

Demonstration projects for power-to-x

Electricity can be stored in batteries or converted to hydrogen and other molecules. Decreasing the cost of such technologies takes a lot of RD&D effort. The Flemish region is therefore going to launch new pilot and demonstration projects for power-to-x.

4.7.3. Energy efficiency

Flemish region

No change reported.

Walloon region

The energy efficiency strategy of Wallonia is aligned on the Energy Efficiency pillar of the European Energy-Climate frame and is contributing to the Belgian commitment. Wallonia contributes to the national Energy Efficiency Plan according to Energy Efficiency Directive 2012/27/EU, and reports annually, including progress towards energy sales reduction (art.7) obligation.

The ESD 2006/32 Directive requested an annual reduction of final energy consumption by 1%. The EE 2012/27 directive introduced an additional final energy target corresponding to a 0.8% yearly reduction of the energy sales from 2014 onwards to 2020, i.e. 917GWh each year.

For 2030, the Walloon specific targets and milestones are -23% of final Walloon energy consumption vs 2005 & -36% of Walloon primary energy consumption vs 2005. According to the Energy Efficiency directive 2018/2002, there is also an obligation to reduce the final energy consumption by 1.5% every year from 2021 to 2030, i.e. 970GWh each year for Wallonia, leading to a cumulative target of 53.3TWhcum for the 10 years period till 2030.

For 2050, the energy consumption must be reduced by 50% compared to 2005. Every sector has to cooperate:

- a) for Industry, decarbonation of the economy is the overarching target. Since decarbonated fuels production is very energy-intensive, the actual challenges for the industrial sector will be to ensure significant improvement of energy intensity of their production, and to develop

mutualisation of their needs (energy and materials), sector coupling and promote the circular economy, so that affordable renewable energy sources are available.

- b) for buildings, the targets are
- for residential: the PEB A label (Especc $\leq 85\text{kWh} / \text{m}^2\text{year}$) on average for the entire housing stock by 2050;
 - for the tertiary sector: an energy-neutral (zero energy) tertiary building stock for heating, domestic hot water, cooling and lighting by 2040.
- c) for transport, three axes will guide the efforts:
- rationalise and reduce mobility and transport needs by a better layout of the territory and by encouraging local production of goods, circular economy, and shortening supply chains
 - shift towards means of mobility consuming less energy and emitting less CO₂ like public transport, car sharing, electric bikes and encourage modal shift for freight
 - improve the transport modes for the energy efficiency point of view and by using zero CO₂ emission fuels like renewable electricity, green hydrogen, biofuels, e-fuels and even ammonia for maritime transport.
- d) for agriculture and forestry: the carbon sink of forestry will be enhanced, and smart farming will be developed.
- e) Major regulatory measures regarding energy efficiency:
- Various sectoral regulatory measures are implemented to reach the overarching EE target of -23% of final Walloon energy consumption vs 2005 & -36% of Walloon primary energy consumption vs 2005
- buildings : The reinforcement of the EPBD regulation, and the Long Term Renovation Strategy of Buildings - Energy Performance Contracting - public building exemplarity- energetic independence for new buildings (QZEN)- behavioural changes;
 - transport : Regional Mobility Strategy for passengers and freight, implementing the Fast vision (Avoid - shift - improve)¹⁵¹⁶;
 - industry : European ETS scheme - Financial support to companies in their decarbonation transition - new generation of Voluntary Agreements - mandatory measures like the audit obligation

The Walloon Energy and Climate plan as approved by the Government and included in the Belgian National Energy and Climate plan of December 2019 resumes the regional engagement in the Belgian Contribution to the Energy Union Frame 2030.

Brussels-Capital Region

In 2016, the Brussels-Capital Region adopted its integrated Air-Climate-Energy Plan (known as PACE) . The Region is currently renewing this plan.

The PACE 2.0 will be adopted by the Brussels Government in third reading by the end of April 2023.

This new version continues to raise Brussels' climate and energy objectives to match the European ambition, including improved energy efficiency.

The PACE addresses the major objectives pursued by the Government in the areas of air, climate and energy. It establishes a series of sectoral actions (buildings; urban environment; transport; renewable energy production; production and consumption of goods) but also transversal actions.

The PACE has already been adopted at first reading in June 2022.

4.8. Reliability standard

On 15th September 2021, a new reliability standard of 3h entered into force. This value was set by applying the VoLL and CONE values as calculated by the competent authorities in accordance with Article 25 of the Regulation 2019/943.

¹⁵ http://mobilite.wallonie.be/files/eDocsMobilite/politiques%20de%20mobilit%c3%a9/SRM_PERSONNES_2019.pdf

¹⁶ <http://mobilite.wallonie.be/files/politiques-mobilite/SRM-marchandises-2020.pdf>

As stated in the Commission decision on the aid scheme SA.54915, Belgium committed to update the VOLL based on a new survey regarding willingness to pay, in line with the CONE/VOLL/RS methodology and, if needed, set a new reliability standard before September 2022, with a view to using the new reliability standard to determine the volume to be procured at the latest for the 2023 auction.

Accordingly, the DG Energy of the FPS Economy, in collaboration with CREG and Federal Plan Bureau, conducted a new survey regarding the maximum electricity price that customers are willing to pay to avoid a supply interruption in situations where capacity resources are insufficient to meet the demand. Based on the results of the survey, DG Energy of the FPS Economy, the competent authority to determine the value of lost load, estimated that the Belgian VoLL amounted to 12.832,48 €/MWh.

In parallel, DG Energy of the FPS Economy updated the estimation of the cost of new entry. The changes from the previous report (May 2021) are as follows:

- replacement of the technology IC engine Diesel by IC engine Gas: this choice was a.o. motivated by the decision of the European Investment Bank (EIB) to limit funding for new fossil fuel projects since the end of 2021;
- CAPEX, FOM and economic lifetime of batteries were updated based on more recent studies¹⁷;
- derating factors were updated based on the ones determined for the CRM-auction 2022.

The new values of CONE for the different reference technologies are shown in the table below:

Reference technology	EAC - [€/kW/y]	Derating Factor - [%]	CONE _{fixed,RT} - [€/kW/y]
Open cycle gas turbine (OCGT)	60,7	91%	67
Combine cycle gas turbine (CCGT)	88,4	92%	96
Internal combustion engines (IC engines) - Gas	60,3	65%	93
CHP	141,4	93%	152
Photovoltaics (PV)	88,2	1%	8823
Wind onshore	163,3	9%	1814
Wind offshore	360,6	13%	2774
Battery storage	43,3	31%	140
Demand Response	20	66%	30

Based on the new value of lost load and the new estimations of cost of new entry, the Regulator (CREG) had to make a proposal for a new reliability standard. Based on this proposal, ELIA and the Ministry have sent their advices to the Minister. Based on this proposal and these advices, legislative work is now in progress and the updated values for VOLL, CONE and the reliability standard will enter into force in September 2022.

5. Conclusion

As is foreseen in article 20.3 of Regulation 2019/943, Belgium shall monitor the application of its implementation plan and shall publish the results of the monitoring in an annual report and shall submit that report to the Commission.

To elaborate this monitoring report, the DG Energy of the FPS Economy collaborated with CREG, ELIA and the Regions who provided input in their field of expertise.

As shown in Chapter 3, based on the most recent NRAA and with a limited number of sensitivities materializing, the need for new capacities in the Belgian electricity system remains significant even after the lifetime extension of two nuclear power plants.

Through this document, Belgian authorities provide an explanation of the changes from the last monitoring report and demonstrate that the implementation of the measures to eliminate any identified regulatory distortions or market failures and to alleviate resource adequacy concerns in Belgium is on track.

¹⁷ <https://www.nrel.gov/docs/fy21osti/79236.pdf>

APPENDIX

APPENDIX 1: Viewpoint of Elia's Users' Group on the introduction of a scarcity pricing mechanism for the Belgian electricity market – 20/07/2022

Point de vue du Users' Group d'Elia concernant l'introduction d'un mécanisme de « *scarcity pricing* » pour le marché belge de l'électricité

Le Users' Group est d'avis que l'introduction d'un mécanisme de « *scarcity pricing* » en Belgique, comme étudié par la Belgique à la demande de la Commission européenne¹, comporte aujourd'hui plusieurs risques étant donné les fortes turbulences sur le marché de l'énergie et sa volatilité sans précédent. Des incertitudes additionnelles ne sont donc pas souhaitables. Les risques identifiés sont, entre autres, un double paiement et la perturbation du marché européen (les marchés belges day-ahead et intraday sont déjà intégrés et les marchés belges de l'énergie d'équilibrage devraient l'être prochainement² avec les autres marchés européens). Le caractère opportun de l'introduction de ce mécanisme devrait au moins être étudié au niveau régional (CORE).

Le Users' Group invite Elia à poursuivre le développement et la valorisation de la flexibilité des consommateurs finaux (nécessaire à la fois pour intégrer efficacement en termes de coûts les énergies renouvelables et pour offrir des opportunités au consommateur final de faire baisser sa facture d'électricité), dans un premier temps en faisant disparaître les barrières « *non-prix* ». Le Users' Group demande également avec insistance qu'Elia poursuive avec diligence les discussions et travaux à ce sujet avec toutes les parties impliquées.

¹ C(2020) 2654 final, *Avis de la Commission du 30.4.2020 en application de l'article 20, paragraphe 5, du règlement (UE) 2019/943 concernant le plan de mise en œuvre de la Belgique.*

² Le planning actuel prévoit que le marché d'énergie d'équilibrage aFRR soit couplé à la plateforme européenne Picasso en septembre 2022 et que le marché d'énergie d'équilibrage mFRR soit couplé avec la plateforme européenne MARI courant 2023.