

**Advice from Elia on the CREG proposal
(C)2734 for the auction parameters to be
used in the 2024 Y-1 CRM auction for
delivery period 2025-26**

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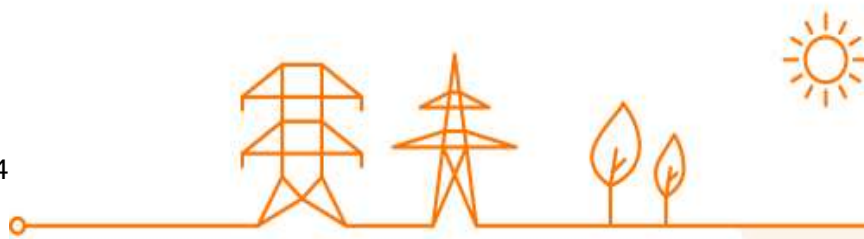


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1. Introduction

Following the proposal (C)2734 “Voorstel van de parameters waarmee de aan te kopen hoeveelheid capaciteit wordt bepaald door de Y-1 veiling in 2024 met leveringsperiode 2025-2026” provided by the CREG, Elia is required to provide its advice to the Minister in accordance with Article 7undecies §5 of the Electricity law¹:

“§ 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 Methodology². 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 elektriciteitsmarkt](#)
[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)2734.

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.

Elia highlights that the reference scenario set out by the Minister, which is used as the underlying assumption for the construction of the demand curve, considers the availability of Doel 4 and Tihange 3 (Flex LTO) and the availability of the already contracted capacity in the Y-4 auction for delivery year 2025-2026. At this moment in time Elia has no indication that any of those capacities would not be available during the delivery year. Nevertheless, Elia identified following risks that need to be monitored closely:

- Availability of the two nuclear units under the Flex LTO (Doel 4 and Tihange 3): in the framework of this advice, Elia requested to the Committee de liaison an update of the planning of the Flex LTO works. Their answer indicated that these units should be available during the delivery period 2025-2026. Given the complexity of the project, a close follow-up of the progress of these works is needed in order to identify changes in planning in an early stage.
- Elia highlights the need for obtaining, in a timely way, the permit required for the reinforcement of the connection (Gramme-Rimière) for the CCGT of Flémalle. Elia has initiated the necessary actions in order to achieve this deadline. However, no final decision has been taken yet by the competent regional authorities.
- More in general, the demand curve proposal from CREG requires that all new capacities that were contracted under the CRM (Y-4 and Y-1) for delivery period 2025-2026 will be available in a timely way. A close monitoring in this respect is organized as part of the pre-delivery control framework of the CRM. As for any industrial construction project, (future) delays in planning cannot be fully excluded ex-ante.

Elia recommends the government to monitor these risks in a close way and advises the Minister to consider intervening in the demand curve in a later stage in case one of the above risks materialises. Elia understands that a law change, enabling this option, is under discussion.

Furthermore, Elia recommends the government to remove identified barriers for participation in the CRM, and in particular the payback obligation for DSM. Lowering barriers for DSM will increase the attractiveness of the CRM for DSM, thereby fostering their participation. This will not only result in more competition but also (especially if the demand curve is to be reviewed upwards at a later stage in case one of the above risks materializes) cancel or reduce the remaining volume gap to cover the demand curve.

3. Demand curve proposal: price parameters

Elia acknowledges the calculations of the derated net-CONE for the different technologies made by the CREG and presented in the table at point 73 in proposal (C)2734.

In particular, Elia agrees with CREG's proposal to not determine the Global Auction Price Cap (GAPC) solely based on the cheapest DSM segment of 300 MW. Instead, the CREG proposes a GAPC of 50 €/kWd/y. However, based on the net-CONEs calculated by the CREG in point 74 of (C)2734, this would still only allow for the participation of the lowest segment of DSM. All other technologies still have significantly higher "missing money". The exception is IC Gas Engines, but as shown in the recently published Entras study³, the costs for this technology seem to have been underestimated. Elia observes that a GAPC of 50 €/kWd/y would exclude other technologies from participation in the auction.

The cheapest segment of DSM is estimated to only cover a volume of 300 MW. In the Y-4 auction concluded in 2021, a volume of 287 MWd of DSM was already contracted. It must be stressed that this is a derated value, and that the nominal contracted amount of capacity actually exceeds 300 MW. It can thus be argued that this first segment of DSM has already been exhausted and should therefore not be relied upon for the determination of the GAPC.

In addition, as indicated by the CREG in its proposal (C)2734, a higher GAPC would not per se lead to a higher cost for the CRM due to competitive pressure. However, setting the GAPC too low could reduce participation (and hence competition) in the auction, especially for those players estimating a missing money above the proposed GAPC.

It must also be noted that this is the first Y-1 auction of the Belgian CRM, and as such sets an important precedent for future Y-1 and Y-2 auctions. The CREG highlights that a significantly lower GAPC can be justified due to the limited volume that is to be auctioned. Be that as it may, being the very first Y-1 auction these auction parameters give a very important signal with regards to the calibration of future Y-1 auctions. Indeed, the GAPC for this Y-1 auction provides for an important "signalling" function for future Y-1 and Y-2 auctions for which investors need to start preparing already now. A too low GAPC (based on the rationale that low volumes are needed in this Y-1 auction) could discourage them to engage in project development which may lead to a lack of liquidity in these future auctions.

Given this background, it is paramount to provide investment signals that will not refrain capacity providers from participating in not only this, but also future Y-1 auctions.

Additionally, in the course of the last couple of months the regulatory framework of the Belgian CRM has evolved so as to include Y-2 auctions on top of the existing Y-4 and Y-1 auctions. This auction was introduced to cover concerns regarding insufficient lead times for new capacities to participate in the Y-1 auction, whilst at the same time allowing to better cope with sudden fluctuations in the capacity that is to be contracted (e.g., increase of need of capacity identified after the Y-4 auction). Setting a significantly lower GAPC for this Y-1 auction sets a precedent for future auctions, and could discourage capacity providers from participating in not only this auction, but future Y-1 and Y-2 auctions as well.

Elia agrees with the CREG that, in order to facilitate market participation in the CRM, auction parameters should be relatively stable over time. In both its proposal (C)2733 (which concerns the 2024 Y-4 auction

³ [Entras Cost of Capacity study](#)

with delivery period 2028-2029) and (C)2734 (to which Elia reacts here) the CREG expresses its desire for stable auction parameters.

Moreover, in the aforementioned proposal (C)2733 concerning the Y-4 auction with delivery period 2028-2029 the CREG also determines a significantly lower net-CONE based on the cheapest segment of DSM, but disregards setting a low GAPC based on this technology seeing as the volume to be contracted is more considerable. As highlighted above, auction volumes in future Y-1 auctions can be significantly higher given that the volume for this particular Y-1 auction is lower due to the nuclear extension, as indicated by the CREG. This means that in future calibrations the Y-1 GAPC would increase compared to its current proposal to account for this higher volume. For the sake of a more stable evolution of auction parameters, a more elevated value for the GAPC, in line with the price parameters of the 2021 Y-4 auction for this Y-1 auction could be envisioned. Given all of the above, Elia believes that a potential refinement of the methodology to determine the GAPC might be investigated.

Elia agrees that the price parameters should be expressed in €2025 to reflect the Delivery Period of the auction.

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 the electrification assumptions were part of the public consultation on the reference scenario and that the total load in the reference scenario for the 2028-2029 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 iterations. 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 reference scenario proposals take into account the latest evolutions in the energy market which have been heavily influenced by the changing geopolitical context of the recent years. As also indicated by the CREG, the evolutions in the energy markets resulted in significant changes in the scenario assumptions for the different auctions.

5. Conclusion

Elia agrees with the volume parameters proposed by the CREG in its proposal (C)2734. With regards to the price parameters, Elia agrees with the CREG's opinion that a GAPC set solely by DSM could lead to a decreased auction participation. However, Elia notes that the CREG's proposal of 50 €/kWd/y does not fully solve this problem. As a result, and also based on the arguments put forward in section 3, Elia believes that a higher GAPC than the one proposed by the CREG should be envisaged (and hence in line with price caps from previous auctions).

Setting a higher GAPC, which is in line with previous GAPC values, should not lead to a more expensive auction. On the contrary, it should result in more competition. Due to the important signalling function it provides for investors to start preparing projects for participation in future Y-1 and Y-2 auction, the level of the GAPC of this Y-1 auction is paramount.

Finally, Elia would like to reiterate the need for the government to closely monitor the highlighted risks on the availability of Doel 4 and Tihange 3, as well as other new-built capacities for winter 2025-2026 and to take appropriate action in case these risks materialise.