POSITION

Subject: Public consultation regarding a study on Transfer of Energy in DA and ID markets: Additional Comments on Pass-Through mechanism

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Introduction

As part of its Position (15.07.2019) to the consultation regarding the extension of Transfer of Energy (ToE) towards the Day-Ahead / Intraday timeframe, FEBEG expressed its appreciation for the Pass-Through (PT) regime proposed by Elia.

At the same time, FEBEG also expressed its wish that a similar mechanism would be included in a potential extension of the Transfer of Energy mechanism towards the DA/ID timeframe.

FEBEG would like to further clarify its position in this regard.

FEBEG clarification on Pass-Through Mechanism

The PT as proposed by Elia ensures that customers that have exposure to imbalance prices through the contract with their supplier, are not subject to the fallback formula foreseen in the ToE framework. As deviations from the nomination are directly settled between the Supplier and the consumer, such volumes can also be directly settled in a joint agreement by the FSP, BRPfsp and the grid user. Elia therefore does not have to perform perimeter corrections, and also no remuneration of the energy has to be performed through the ToE framework.

FEBEG supports the creation of a specific regime for the customers that are already able to valorize their flexibility through the contract with their supplier.

However, FEBEG asks the extension of the scope of the PT regime in two ways.

- The PT regime should be applied to all customers that can valorize their flexibility through the contract with their supplier on all short-term markets, and not only on the imbalance market. Customers may also adjust their consumption based on prices on the DA or ID market. Just as with the imbalance market, the supplier is not able to source such volumes that a customer buys or sells on the short-term markets on the forward markets.

Such volumes are often sourced 'back-to-back' (meaning on the same market instead of earlier markets) on these markets. As a result, the application of the ToE fallback formula does not reflect the sourcing costs of the supplier.

- The PT regime should be applied to a possible extension of the ToE towards the DA/ID market. The issue described in the previous point regarding the sourcing cost of customers with contractual flexibility on the DA/ID market, is also – and perhaps even more – relevant in case the ToE is applied to the DA and ID markets. If customers with a contractual flexibility and price exposure to DA/ID markets can also use the ToE framework, it could cannibalize and distort the contractual valorization of the flexibility that such a customer currently has. A customer could for example choose to buy more energy at times of high prices on the short-term market – instead of less energy that he would normally do – and valorize this through the ToE framework. This would imply that the supplier had to source this fully on the DA market – at elevated prices – while receiving only the regulated price where the DA prices are only a minority component. In this way, the supplier is impacted negatively and suffers financially from the normal application of the ToE framework. At the same time, an aggregator can benefit risk-free from 'recycling' energy that has already been purchased on the DA (or ID) market at a regulated price and resold by him at the elevated DA price. Such application of the ToE framework brings however no additional volumes to the market, but rather recycles volumes that have been sourced integrally by the supplier.

Example

FEBEG would like to illustrate the negative impacts of the current framework for the supplier with the following example:

- A customer could for example choose to buy more energy at times of high prices on the short-term market – instead of less energy that he would normally do – and valorize this through the ToE framework.
- The supplier sources this fully on the DA market – at elevated prices – while receiving only the regulated price where the DA prices are only a minority component.
- In this way, the supplier is impacted negatively and suffers financially from the normal application of the ToE framework.
- At the same time, an aggregator can benefit risk-free from 'recycling' energy that by purchasing it on the DA (or ID) market at a regulated price and reselling it at the elevated DA price.

- In 2018, volumes bought on Belpex by a supplier at moments the DA was above 150€/MWh, and then would have been valorized through ToE formula by FSP, would sum up to a total loss of around 5000€/MW or 130€/MWh for the supplier.

Conclusion

FEBEG therefore supports the PT regime proposed by Elia as a first, positive step to immunize existing flexibility arrangements in the market and to ensure that the ToE remains focused on bringing any additional flexibility to the market. However, the current application falls short in two ways to ensure the current contractual arrangements to valorize flexibility are not cannibalized by the ToE framework. It therefore asks that the PT regime is first extended to clients that have contractual exposure and flexibility to the DA and ID market. And in case the ToE is extended to the DA/ID market, the PT regime is also to cover this extension.
