



FLEXCITY

by  VEOLIA

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Brussels, 4th of January 2022

Subject: Flexcity's answer on the Public Consultation for the CRM Functioning Rules

Dear Sir or Madam,

Flexcity would like to thank Elia for organising this public consultation.

Following a review of the proposed CRM Functioning rules, the results of the Y-4 2025 auction, the volumes still to be contracted in the Y-1 auction and discussions with participants to the CRM via our pool, Flexcity would like to give the following remarks on the pay-back obligation. We gladly make ourselves available to clarify in person the raised points.

Summary

Imposing a pay-back obligation on existing CMUs with DSM-technology sourcing electricity on the day-ahead market might lead to a negative net financial outcome of their CRM participation in case of high day ahead market prices. Given the elevated power prices of the past months and uncertainty on future price evolutions, a scenario of a negative net financial outcome seems plausible. Moreover, imposing a pay-back obligation removes the incentive for DSM to reduce its consumption during scarcity moments, implicitly counteracting the goal of the CRM.

After discussion with participants in our pool, Flexcity fears that, if the current rules governing the pay-back obligation are not changed, considerable volumes might decide not to participate in the coming CRM auctions. Given that CMUs with DSM-technology played a considerable role in the past Y-4 auction, being selected for more than 350 MW (derated) at a price below or at the intermediate price cap, DSM-volumes not participating can lead to a significant cost increase of the CRM mechanism. Moreover, finding additional DSM volumes for the Y-1 auctions will be proven to be additionally complicated.

In order to ensure competitive and technology neutral future CRM auctions, Flexcity proposes to exempt CMUs with the DSM technology who are sourcing their electricity on the day ahead market from pay-back obligations.

Example

An industrial process with a flat consumption profile mostly consuming at maximum power¹ and fully sourcing on the day-ahead market (with conditional bidding) creating a marginal added value of 500 €/MWh could participate to the CRM with the following specifications:

Type	Existing
Connection	TSO Connected
Technology	Demand Side Response (DSR)
Category	SLA - No limit 100%
Marginal added value²	500 €/MWh
Shut down and start up costs + risks³	50 €/MWh
Conditional bid price (=Declared Market Price)	550 €/MWh

Statement 1: Imposing a pay-back obligation removes the incentive for DSM to reduce its consumption during scarcity moments, implicitly counteracting the goal of the CRM.

Zooming in into the situation where the day-ahead price is 700 €/MWh, we assess the net-position of the asset owner for 2 different Declared Market Prices:

	Day ahead price = 700 €/MWh	
	2 financially equivalent options	
	Option 1 (DMP = 3000 €/MWh)	Option 2 (DMP = 550 €/MWh)
Production	Yes	No
Added Value	500 €/MWh	0 €/MWh
Shut down and start up costs and risks	0 €/MWh	50 €/MWh
Sourcing cost	700 €/MWh	0 €/MWh
Pay back obligation	0 €/MWh	150 €/MWh
Net position	-200 €/MWh	-200 €/MWh

One can see that the net position of the DSM asset owner is independent from the Declared Market Price. Clearly, the pay-back obligation removes the incentive for DSM to reduce its consumption during scarcity moments, implicitly counteracting the goal of the CRM.

¹ Not consuming at maximum power in case of (un)expected outages and price spikes on the day ahead market.

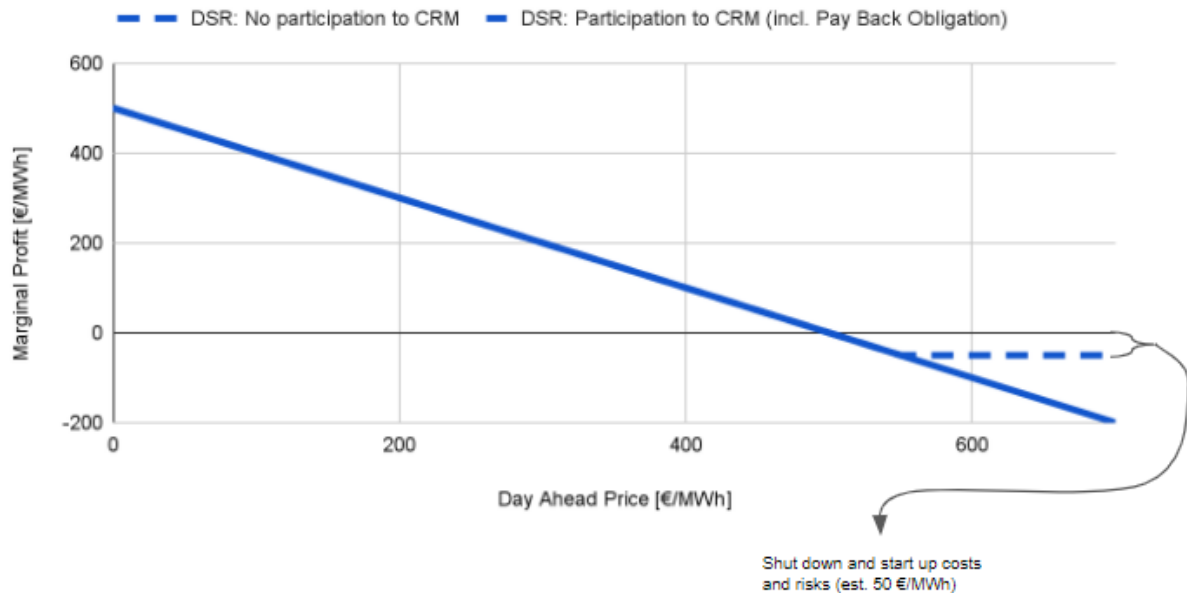
² Example, can be much lower.

³ Assuming a 1 hour stop and immediate start up

Statement 2: Imposing a pay-back obligation on existing CMUs with DSM-technology sourcing electricity on the day-ahead market might lead to a negative net financial outcome of their CRM participation.

The marginal profit, defined as the additional profit when one MWh is consumed depends on the day-ahead price in the following way:

Marginal Profit in function of Day Ahead price



Without participation to the CRM, the marginal profit cannot go below -50 €/MWh, coinciding with a day ahead price of 550 €/MWh and the conditional bid of 550 €/MWh. As when the day ahead price exceeds the 550 €/MWh, the DSM asset owner shuts down the installation and bears the shut down and start-up costs and risks of 50 €/MWh.

Participating to the CRM, the marginal profit can theoretically go till -250 €/MWh, coinciding with the maximal day ahead price of 3000 €/MWh and an added value of 500 €/MWh. Being exposed to such price spikes is not conducive for future CRM participation assessments. Ultimately, a DSM asset owner will do the following scenario analysis:

	Pre 2021 price levels in 2026	High price levels in 2026	Extremely high price levels in 2026
#hours DA price > 500 €/MWh	2	20	70
Average DA price when price is above 500 €/MWh	600	700	800
Availability Remuneration	18 000 €/MW	18 000 €/MW	18 000 €/MW
Pay-back obligation	-200 €/MW	-4 000 €/MW	-18 000 €/MW
Availability correction	-6 000 €/MW	-6 000 €/MW	- 6 000 €/MW
Pre-delivery control	0 €/MW	0 €/MW	0 €/MW
Net financial outcome	11 800 €/MW	8 000 €/MW	-6 000 €/MW

The existence of a scenario where participation in the CRM auction might lead to a net loss will negatively impact the appetite of decision makers to participate in the CRM auction with existing DSR assets, increasing the cost for society of the CRM.

In order to ensure competitive and technology neutral future CRM auctions, Flexcity proposes to exempt CMUs with the DSM technology who are sourcing their electricity on the day ahead market from pay-back obligations.

Kind regards,

Cedric De Jonghe
Managing Director
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