

Feedback in response to the public consultation on the “Key elements of foreseen evolutions included in the tariff proposal 2024-2027”

In this reaction, Belgian Offshore Platform responds to the public consultation on the “Key elements of foreseen evolutions included in the tariff proposal 2024-2027” as launched by Elia on 14th of February 2023.

General remarks

1. The energy transition comes with an investment cost, but lean budgeting is required

BOP is committed to contribute to the energy transition towards a net-zero carbon society in a cost-effective way for the Belgian society. We therefore support Elia in its initiatives to create hosting capacity in the Belgian grid, especially for renewable technologies and offshore wind developments in specific. This requires an extensive investment program for reinforcing the electricity grid offshore as well as onshore, which in the end should lower the energy bills of the consumers by integrating low-cost renewable energy from the North Sea. To limit the impact of the grid investments on the energy bills of the Belgian consumers to the maximal extent achievable, it is key to develop, maintain and operate the electricity grid in the most *cost-effective* way possible .

In this respect, we call for tight budgeting and rigorous monitoring and controlling of the costs of the TSO. As a regulated monopolist with a cost+ model, she has intrinsically little incentives to make lean budgets and has the possibility to transfer excess costs to the next tariff period. Also the offshore wind developers engaged to add new developments in the North Sea in a “lowest cost to society”-approach via a regulated 2-sided contract-for-difference, which will require lean budgeting on the production side as well.

2. Avoid pulling people away from the grid users

Elia requests to increase its internal work force with 600 people. Without any detailed analysis and argumentation it is not possible to assess this number. But an increase of 40% (based on the current ~1500 employees) in the next four years seems particularly high and is to be justified in great detail by the TSO. BOP would like to point out that, given this very high number, there is a threat the TSO will be pulling expertise away from the grid users to the TSO, leading to further heating up the scarcity in the job market.

3. Lack of clarity on the effective tariff impact

BOP regrets that the public consultation documentation does not contain any concrete figure on the new tariffs and lacks the required amount of details to properly assess the key elements . Without such information, it is not possible for the grid users and market players to quantify the actual impact of changes in the tariffs nor can they formulate specific comments with a view to achieving a balanced tariff proposal.

BOP therefore proposes that at least the completed tariff matrices (with draft numbers) are published in the consultation report of this public consultation on the decisive elements and that a procedure on the determination of the tariffs is adapted to include a consultation on the completed tariff matrices.

Injection tariff

BOP supports the reasoning that the production units are operating in an international market and that the competitiveness of these units is to be safeguarded. This justifies the introduction of a cap on the injection tariff based on a benchmark study.

To stay competitive, production units require long-term stability and predictability of the grid tariffs. This is particularly important for production units with fixed or variable support systems, as for these producers, grid costs are unavoidable and uncontrollable costs which cannot be recovered from end-customers. In this respect, it is surprising to notice the evolution of the injection tariff: in 2020 it had a decrease from $\sim 0.96\text{€}/\text{MWh}$ to $\sim 0.62\text{€}/\text{MWh}$, however accompanied by the introduction of a MVARh tariff in injection mode; now an increase potentially by more than 150% (see below) due to the evolution of the benchmark, whereby it is unclear what will happen with other cost components.

We regret the lack of details provided in the report of the benchmark study (in Annex 1), especially compared to the report of the benchmark study of 2019. We therefore question if the proposed benchmark is comparing apples with apples, as the different countries apply strongly different tariff structures to allocate grid related costs. In Belgium, producers for instance also pay a fixed annual connection tariff per bay and (offshore) wind farms also pay for the offtake of energy and the power put at disposal to secure operational availability during low wind periods. In the UK, on the other hand a capacity tariff ($\text{£}/\text{MW}$) is applied for producers. The 2023 benchmark study report is not clear in what costs of producers are taken into account when considering competitiveness.

The 2023 benchmark study clearly shows that the injection cost in the UK is an outlier ($20.51\text{€}/\text{MWh}$) compared to all the other countries, and 31 times higher compared to the current Belgian tariff. Also notice that the 2019 benchmark study only determined $8.19\text{€}/\text{MWh}$ as average injection tariff in Great-Britain. UK clearly has a different way of dealing with grid costs and tariffs. It is therefore not straightforward to include UK in the benchmark. We would also like to remark that the UK applies charges for the balancing services to the generators (BSUoS). The 2023 benchmark study indicates that these balancing charges are taken into account into the injection tariff (cf. slide 15: *“High grid tariffs applied in Great Britain also results in important injection costs. Charges related to the balancing services have quadrupled since 2017, mainly due to increased prices for gas and electricity.”*). Also notice that these BSUoS charges will be removed for generators, starting from the 1st of April 2023¹.

The weighted average of the injection tariff in the countries under investigation is more than halved (from $1.65\text{€}/\text{MWh}$ to $\sim 0.7\text{€}/\text{MWh}$) when excluding UK. Furthermore UK is no longer in the EU, nor in the implicit market-coupling. BOP does not see good arguments to include UK in the benchmark.

The proposed cap means that the injection tariff can increase overnight with +166% (from $0.62\text{€}/\text{MWh}$ to $1.65\text{€}/\text{MWh}$). More than doubling a tariff in a single year is not a good practice for creating a stable investment climate. BOP therefore proposes that, if an increase in the injection tariff is justified, a more gradual adjustment (year by year) is applied throughout the next tariff period.

BOP proposes to:

- Exclude UK from the benchmark
- Offer full transparency on the methodology of the benchmark, taking into account all elements of grid costs
- An gradual annual adjustment of the injection tariff

¹ CMP308: Removal of BSUoS charges from Generation: <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp308-removal>

Dynamic price component for active energy offtake

Offshore wind parks rely on energy offtake from the grid to secure operational availability during periods with low wind conditions, when the active energy production of the turbines is not sufficient to cover for the consumption and losses of energy behind the meter and within the scope of the wind parks. On an annual basis the offtake of energy is about 30GWh.

The purpose for introducing a dynamic price component in the offtake of active energy is to enable further integration of renewables into the energy system and to create the right incentives to adjust demand as much as possible to periods with high energy production from renewable sources.

The active energy offtake of offshore wind farms, on the other hand, happens at low wind periods and is under no circumstances steerable, controllable or shiftable. In other words, offshore wind farms cannot help the energy system via any dynamic price component or alternative with similar intentions and is to be considered as a penalization for the renewable energy producers. Applying the dynamic price component to renewable energy producers will further increase the cost of introducing renewable energy into the system. This is exactly the opposite of what the dynamic price component intends to achieve.

On top, we would like to remark that,

(1) the price signal to be considered by grid users to adapt their behavior is the price of the energy, such as the hourly spot prices or the imbalance prices. This energy price must in no way be repeated in the grid tariffs, as the grid costs are not at all impacted by it. This is clearly different from the dynamic grid tariffs based on peak usage of the grid, which we can support, as grid users are incentivized to limit these peaks, and by consequence lower grid investment needs and thus the total cost of energy delivered at the doorstep of grid users;

(2) the dynamic price component adds an additional layer of complexity in the already complex grid tariffs. One can wonder if there are no better straightforward solutions to achieving its objective. Keep it simple.

BOP does not support a dynamic price component in the active energy offtake tariff which is based on energy prices, such as day ahead spot prices. If such a dynamic price component or alternative incentive is to remain, BOP sees no arguments to apply this component to renewable energy producers as that counteracts with the purpose of the incentive to facilitate the introduction of renewable energy.

Offshore connection tariff

In the period 2020-2023 a new and specific tariff for offshore connection fields was introduced. BOP still believes that the creation of such a specific tariff is unreasonable and discriminatory for grid users with offshore connection fields, especially as the tariff methodology takes into account an additional risk premium to cover additional risks during the depreciation period of the Modular Offshore Grid I.

In the context of the new developments in the Princess Elisabeth Zone, with tendering of the offshore wind plots and a planned connection to an energy island, it is essential for the prospective developers to get visibility on the long-term grid tariffs in order to be able to properly budget for these costs in their offer. If the intention is to re-develop a specific tariff for the parks connected to MOGII, the specific costs that will be passed on to the affected grid users should be defined in a transparent manner. This increases the LCOE and thus, again, the cost for the end consumer. A proper and fully transparent breakdown becomes all the more important if parts of the MOGII project will also be operated as an interconnector by Elia in the context of a hybrid project. Moreover, the energy island is touted by Elia as a more cost-efficient solution compared to a multi-platform solution. It therefore seems logical to us to see this reflected in the relevant tariffs.