POSITION

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| Subject: | FEBEG comments on ELIA's public consultation on the key elements of foreseen evolutions included in the tariff proposal 2024-2027 |
| Date: | 20 March 2023 |


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FEBEG thanks ELIA for having the opportunity to react to the public consultation on the Key elements of foreseen evolutions included in the tariff proposal 2024-2027[1].
The inputs and suggestions of FEBEG are not confidential.

## Executive summary

The grid tariff proposals 2024-2027 are based on massive grid investments to support the energy transition, consisting not only of projects to integrate the future offshore production but also of new interconnectors. However, FEBEG is convinced that the Belgian mix in the context of the energy transition must combine electrons and molecules while being low-carbon, together with a solid base of local production. Therefore, the investments must be balanced between these different vectors, and not only focus on new lines.

Stakeholders raised several concerns on the investment plan, especially as regards the untransparent and uncomplete cost-benefit-analysis. We also believe that it is essential that an investment plan of this magnitude is accompanied by a performance plan to monitor the economic, financial and operational performance of the investments to be made, while the societal benefits of these investments and their positive impacts should be quantified (e.g. in terms of expected reduction of electricity prices, reduction of system costs, reduction of $CO_2$ emissions, etc.).

FEBEG members are particularly worried about the evolution of the injection tariff: which could increase by 166% in 2024, reaching 1,65 €/MWh according to the benchmark performed by ELIA. However, FEBEG observes that injection tariffs of our neighbours (France, the Netherlands, Luxembourg and Germany) are expected to stay at 0 or close to 0 €/MWh. FEBEG rejects the conclusion of the benchmarking which is flawed by the considered countries and technologies and distorts the level playing field of the Belgian gas-fired power plants, ultimately undermining the Belgian security of supply of the country. FEBEG therefore pleads to keep the injection tariff at maximum its current level.

[1] https://www.elia.be/en/public-consultation/20230213_key-elements-of-foreseen-evolutions-included-in-the-tariff-proposal-2024-2027

In addition, FEBEG rejects the proposals to include a dynamic tariff component on energy-based offtake tariffs which has a significant IT-implementation impact for the suppliers while the direct link with the costs of ELIA and the supposed benefits are not demonstrated by a proper cost-benefit-analysis. Also, it merits a fundamental discussion if the TSO has the right to set a tariff in function of non-grid related parameters, and hence to intervene in market functioning.

Finally, FEBEG is pleading for a change of approach for the handling of Federal grid losses and proposes a phased approach to ensure visibility and predictability before moving to the procurement of grid losses directly by ELIA for the next tariff period.

## General comments

### FEBEG would welcome more details to be able to effectively evaluate the proposals

**When reading the ELIA consultation on elements determining the grid tariffs for 2024-27 and as a general remark, FEBEG notes that the proposed approach to support the energy transition is based massively on investments in "lines". FEBEG would like to remind that having a local and flexible production base is just as important. Moreover, it is essential to accelerate the development of renewable and low carbon production while maintaining the necessary flexible and back-up capacity to ensure security of supply. This will allow us to decarbonize and ensure greater energy independence. The Belgian mix must be low-carbon and combine electrons and molecules; investments must therefore be balanced between these different vectors, and not only focussed on new lines.**
**Moreover, given the importance of the grid investments that ELIA intends to make and the considerable impact on the transmission cost envelope, which will double over the next tariff period, and will be supported by grid users, it is essential that this investment plan is accompanied by a performance plan to monitor the economic, financial and operational performance of the investments to be made.**
**Therefore, it is crucial that ELIA is transparent about the societal benefits of these investments. FEBEG does not dispute that there will be positive impacts but would like to have more explanation on how they have been quantified (e.g. in terms of expected reduction of electricity prices, reduction of system costs, reduction of CO2 emissions, etc.).**

In addition, FEBEG is of the opinion that details of the calculation behind the expected increase of transmission costs are missing preventing stakeholders to effectively evaluate the proposals in the consultation document regarding the transmission tariffs for the period 2024-2027.

The high-level description of the 'key elements' in the consultation note are not supported by calculation details, actual tariffs or other relevant data (e.g. full list of capex, attributions of the extra FTEs needed, …). As a consequence, the information in the consultation note cannot be challenged:

- to allow stakeholders to assess the impact on their businesses (it is simply not possible to estimate how much a type of grid user will pay for the use of the grid and to assess in which order of magnitude the different tariffs will increase) which creates important uncertainties and risks (over investments and costing) for all market actors (generators, storage operators, BRP's, suppliers and end consumers);
- to inform suppliers so they can prepare and inform their customers as well;
- to allow stakeholders to challenge the applied distribution keys and principles (level playing field, non-discrimination, cost reflectivity, cost efficiency, no cross-subsidies, …).

## FEBEG comments and suggestions

### Evolution of costs, revenues, renumerations & volumes

ELIA foresees an increase of the transmission costs to be covered by the tariffs from around 760 MEUR on annual basis for the period 2020-2023 to 1350 MEUR on annual basis during the next tariff period.
A huge part of the increase is due to the investments costs which is estimated at 6.500 MEUR for the period 2024-2027 based on the Federal Development Plan 2024-2034 that is currently going through the approval process as well as the different regional development plans.

FEBEG wants to point out that it has reacted to the consultation on the Federal Development Plan. Stakeholders raised several concerns on the investment plan, especially as regards the untransparent and uncomplete cost-benefit-analysis.

Additionally, FEBEG is surprised by the planned steep increase of the TSO staff and would welcome further elements justifying such an increase. In particular, FEBEG wonders whether the Elia's Customer Centricity Market Design is part of the explanation. In this case, Febeg would like to know the financial consequences of CCMD on the tariff proposal.

### Evolutions of investments' costs

A significant increase of the costs for the next tariff period is driven by capex investments. These costs will actually have to be supported by Belgian consumers for an extended period as they will also be depreciated over time.

FEBEG recognizes that the energy transition, and more specifically the development of renewables, the electrification of some sectors and the further integration of the European energy market will require important investments in the networks, both at distribution and transmission levels.

However, FEBEG is of the opinion that grid operators first need to correctly prioritize projects and invest in non-regret solutions for the networks, taking into account optimizations of existing infrastructure – also at regional level – and development of new capacities in the Belgian system.

FEBEG fears that the 10-year development plan for 2024-34, that strongly influences the costs of the future tariffs for 2024-27, has been over-dimensioned compared to the needs of Belgian consumers – in particular when it comes to new interconnectors- and is over optimistic concerning the timing. As a result, Belgian consumers risk to finance interconnectors that may not bring the full benefits that are expected by ELIA to the Belgian consumers.

By adding too many interconnections, the position of Belgium as a transit country which accommodates flows for the rest of the region to the benefits of European consumers will be reinforced, but without guarantee for Belgian consumers of being supplied with reliable and affordable energy. Contrarily, the increased competition might increase the missing money for certain assets and, hence, the costs of security of supply.

Outages on foreign capacities but also political choices on the energy mix throughout Europe will strongly influence the export opportunities of our neighbouring countries. For this reason, the building of new interconnectors should be carefully designed, taking into account all costs and benefits for the Belgian market even in most extreme scenarios as the situation we are currently facing. There can be no question of investing only in new lines, knowing for example that the CRM has been undersized and presents obstacles to maintaining existing capacities.

Finally, we also encourage ELIA and the regulator to implement – given the importance of the investments to be made – a performance plan, next to the investment plan to ensure a good return of experience of the added value of the investments. This would allow to steer decisions in the future development plans.

## General principles for cost allocation and tariffs

FEBEG would like to emphasize the importance of a level playing field with neighbouring countries and a correct benchmarking according to conditions set out in the Belgian Electricity Law.

- **Importance of a level playing field**

According to FEBEG, all tariffs based on energy (MWh) or capacity (MW) that create cost components that increase the existing cost handicap of Belgian power plants compared to power plants in neighbouring countries are unacceptable.

The consequence of cost components based on injected energy (MWh) is that power plants with lower efficiency in neighbouring countries will be prioritized in the dispatch (merit order) before the Belgian power plants with higher efficiency. Hence, these costs distort competition, have a negative impact on the environment and discourage new investments in Belgium. On top of that, they will affect the economic profitability of existing power plants in Belgium leading to an increased cost of the CRM. Furthermore, such injection tariffs are also discriminatory as they favour import above generation in Belgium while Belgian generators have to contribute more to the costs of the Belgian system compared to foreign generators.

Cost components on offtake power (MW) and off-taken energy (MWh) are to be considered as an additional fixed cost and will increase the overall fixed costs related to a power plant: such tariffs will have a relatively larger impact on power plants with low running hours as the cost by produced MWh will go up. Those tariffs are thus again giving a signal contradictory to the need to keep such flexible and back-up power plants in the system for reasons of system balance and security of supply.

Therefore, FEBEG would like to emphasize that the introduction of any tariff for generators, in EUR/MWh or in EUR/MW, undermines the Belgian adequacy in a downwards spiral as it aggravates the competitiveness of Belgian power plants compared to power plants in neighbouring countries (Netherlands, Germany, Luxemburg and France ).

- **Carrying out benchmarking**

FEBEG deplores that grid users have not been involved in the implementation of this benchmarking, which would have considerably increased the confidence of the grid users in the methodology and the definition of the benchmarking.

- **FEBEG does not agree with the conclusion of the benchmarking study and with the proposal of ELIA to limit the injection tariff to 1,65 €/MWh.**
- First of all, FEBEG does not fully grasp why the Belgian injection tariff is not considered as a “direct” tariff.
- FEBEG observes that there is a great variety of tariff across Europe, with many neighbouring countries having no (or almost no) injection tariff like the Netherlands, France, Germany and Luxembourg.

- Some other countries have higher tariffs like in the Scandinavian countries for which the scope cannot fully be aligned with Belgium's injection tariff (e.g. for loss coverage).
- FEBEG observes that there are clear outliers in the benchmarking of ELIA. The case of UK is a clear example, as the tariff is 30 times higher than the current injection tariff in Belgium and 5 times higher than the second most expensive tariff in Europe (but no neighbour of Belgium!). The UK should clearly be removed from the benchmarking: due to its height, it has clear impact on the average. Furthermore, the fact that the UK is no longer part of the single day market coupling is an additional reason for removing it from the list.
- FEBEG also asks that the benchmark is based on the tariff applied in neighbouring countries for CCGTs and OCGTs as these assets are likely to be impacted by a loss of competitiveness in the European market. It is not relevant to use the high tariff applied on onshore/offshore wind or PV panels as these will never be marginal technologies.
- FEBEG highlights that a certain number of short-cuts and approximations of the real invoiced costs have had to be taken to perform the benchmarking. We estimate that it is difficult to draw concrete quantitative conclusions (such as caps for tariffs) based on this.

FEBEG also does not agree with the following statement of Sia Partners: *"With an injection tariff increase up to 1,65 €/MWh, which is the average tariff in the benchmark, Belgian injection tariffs would remain in line with neighbouring European countries, with an injection cost remaining lower than the average. The impacts on the overall generators' competitiveness should be deeply assessed*".
The level of 1,65 €/MWh is clearly above the one of France, Netherlands, Germany, Luxembourg (UK being an outlier not to be considered as explained above). This statement is therefore incorrect. However, we do support the fact that the competitiveness impact of such proposal has not been carefully assessed.

**FEBEG therefore require a benchmarking of neighbouring European countries based on the injection tariffs applied on CCGTs and removing the outliers such as UK.**

- **Tariff for the yearly peak for the offtake – yearly peak period**

FEBEG supports the tariff structure for yearly peak for offtake but wants to point out that operational errors causing an exceptional peak for a very short period are penalized in a disproportionate manner: all the efforts during the rest of the yearly peak period are voided which can be perceived as discouraging and counterproductive.

**FEBEG therefore proposes that peak values, after removing the 10 highest peaks of the month, which are higher than 4 times the average power during the yearly peak period are not taken into account for the yearly peak, with a limitation to the 4 highest peaks**. This proposition will allow to exclude very exceptional events during the yearly peak period from the computation of the yearly peak. Indeed, for consumers who do their best effort to reduce their offtake power during the yearly peak period, all the efforts can be in vain by a single event of higher offtake due e.g. by an operational error. The peak values during this event will probably not be amongst the 10 highest peaks of the month, and so not be excluded by ELIA without this new mechanism.

- **Tariff for the monthly peak**

The exclusions of certain period might not always be foreseen in the billing systems: therefore, such a new concept may have potential IT impact for the suppliers. A sufficient time for implementation is therefore requested.

- **Tariff for the power put at disposal – FLEX**

First, such a new concept may have potential IT impact for the suppliers. Additional details and a sufficient time for implementation is therefore requested. FEBEG members ask ELIA to provide some examples (preferably in excel) in order to assess the potential impact of this change into the systems and billing processes.

FEBEG proposes that the Flex PPAD tariff can also be applicable for existing capacities, by transferring part of their "Firm PPAD" into "Flex PPAD".

ELIA should also clarify if the Flex PPAD is compatible with the participation of a DSM or storage facility to ancillary services (reserves) and to the CRM : in case of a reduction of the offtake power imposed by ELIA, will a subsequent missing availability for the ancillary service or CRM (for which it can be demonstrated that it is a direct or indirect consequence of the curtailment imposed by ELIA) give rise – or not – to a penalty ?

FEBEG also takes the opportunity to highlight that the current exemption mechanism of grid tariffs for new storage and partial exemption for increase of power/energy of existing storage assets helps to incentivize the development of storage (capacity/assets) and is an acknowledgement of the positive impact of storage on the network and development and usage of renewable energy.
However, as (i) the exemption is limited in time and (ii) the double cost of grid tariff (off-take and injection) without exemption is an important operational cost of those assets, it can introduce an important market distortion between existing and new storage assets, possibly leading to an early dismantling, which will inevitably lead to higher societal costs.

In this context, FEBEG recommends the CREG and ELIA to review in the framework of the tariff methodology for grid tariffication of storage facilities and extend the exemption mechanism in place.

- **Tariff for additional reactive energy**

FEBEG members ask ELIA to provide some examples (preferably in excel) in order to assess the potential impact of this change into the systems and billing processes.

- **Tariffs applicable to net energy drawn down - dynamic component**

**FEBEG is very surprised that such a potentially fundamental change in the tariffs was not more thoroughly discussed with market parties and grid users before being proposed for implementation in Belgium**. The topic first came in the framework of the consultation of CREG on the tariff methodology but was no longer debated afterwards.

With regards to this proposal, **FEBEG has several concerns**:

- **FEBEG does not see why "dynamic tariffs" would be needed/beneficial at TSO level**: there is limited link between the Day-Ahead market price and the costs of ELIA. Therefore, FEBEG wonders to which extent the tariffs would still be cost-reflective if such dynamic tariff is introduced. Indeed, it is logic that tariffs are set to optimize the use of the grid in order to limit investments: a tariff that is dynamic in function of the day-ahead market price is not directly related with the use of the transmission grid. A high price can, for example, be caused by an incident in another country of by high gas prices while ample transmission capacity is available. So, it seems that ELIA wants to set a tariff to influence the market behaviour of the end consumer: this is rather an intervention in market functioning.
- Electricity prices can be very volatile and the regulatory framework can be uncertain; **having transmission tariffs linked to electricity prices would add an additional layer of uncertainty for all grid users**. FEBEG considers that it will increase the instability and decreasing predictability of tariffs. FEBEG wonders in which extent the tariffs would still proportionate if such dynamic tariff were introduced.
- **A high electricity price in Belgium doesn't necessarily imply a high usage of the grid in Belgium**. For loads that are flexible, they have more incentive for the energy component of their invoice to be dynamic – i.e. in the supply contract. FEBEG wonders in which extent the tariffs would still be cost-efficient if such dynamic tariff is introduced.

FEBEG therefore considers that there could be potential conflict of interest with the fundamental principles of tariff purposes.

Without a proper study and CBA (proving the real benefits for Belgian system as a whole), it is very dangerous to propose such a fundamental change in the establishment of tariffs. Moreover network investments have been done without dynamic tariff. It would then have made more sense to first implement dynamic tariff and then see if network investments are necessary.

For the reasons mentioned above, **FEBEG is not convinced of the added value of the dynamic tariff and draws the attention of ELIA and the authorities on the collateral effects**.

Finally, the **impact of such a change is considerable in terms of systems and billing processes**. It will also imply a financial cost for the suppliers. In this respect, **FEBEG cannot accept that**:

- **such a change is being decided unless it has proven to have a real societal benefit for Belgium** (cf. CBA mentioned above).
- **such a change would only be communicated officially in mid-November 2023 for an implementation as from January 2024**. FEBEG requires that such an evolution is at least communicated one year in advance.
    - The implementation of such change could, in practice, not be done before January 2025.
    - FEBEG members ask ELIA to provide an example (preferably in excel) in order to ensure a good understanding of the computation.

## Additional considerations

### Grid Losses

The electric system management tariff also provides for the cost of covering grid losses. At present, federal grid losses on the transmission system are compensated in kind by the BRPs: they increase the injected volume by a percentage that ELIA sets annually. However, the regional grid losses are sourced by ELIA via tenders.

The increase in the percentage of federal grid losses observed recently implies a cost increase for BRPs as they will have to produce or buy the required volumes on the market. They have no choice but to pass it on to their customers. However, an automatic passing on is not self-evident and even impossible in the short term as BRPs and suppliers have to comply with all legal and contractual provisions in this respect. Compensation of network losses by BRPs in kind therefore entails both an economic and a regulatory risk for BRPs.

FEBEG therefore reiterates its plea for an in depth study to compare the current system with an approach that would result in ELIA compensating (via procurement) the grid losses, both

at the federal and regional level, under the supervision of the CREG and then passes them on via the transmission tariffs. Indeed, in the current context of energy transition and energy savings, and with ever increasing grid losses to be expected in the coming decades, FEBEG sees a strong argument for ELIA to be much more incentivized to reduce both federal and regional losses.

The big jump in the Grid Losses as experienced last year had a strong negative impact on the FEBEG members and should be avoided in the future. Therefore, FEBEG requires the following:

1. **In the short run**, we ask ELIA to provide **more visibility and transparency in the manner how the Federal grid losses percentages are determined and how the regional supply gap is recouped from one year to another**.
2. **For the upcoming tariff period** (2024-2027), **we request ELIA to fix the Federal yearly grid losses percentages for the whole tariff period** (note: that does not necessarily mean that the percentage must be the same for the whole period). Indeed, we consider that as for all the other elements used for the determination of the tariff proposal, the grid losses could also be fixed for the tariff period. Eventual over- or underestimation of the grid losses could then be carried over to the next tariff period as it is the case for all other elements. This approach would remove the uncertainty of the BRPs and thus remove the applied risk premium at the benefit of the end-user.
3. **In the long run**, i.e. for the tariff period 2028-2031, FEBEG pleads to **replace the existing compensation in kind system for the federal grid losses by a procurement system**.

## Alfa component

FEBEG also wants to repeat its principle objections to regulated administrative 'incentivizing components' such as the 'alpha component' being used in imbalance pricing. Indeed, art. 44.1(b) EBGL states that the imbalance settlement price should reflect the 'real time value of energy'. The real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EBGL principles, the imbalance settlement price mechanism should de facto provide an adequate price in situations of scarcity.

As a result, adding an administrative component would be distortive since it would reduce the ability of imbalance prices to effectively reflect the real time value of the energy and would jeopardize the proper signalling function of an efficient imbalance settlement price. It would create counter-incentives and thus trigger inefficient behaviours by BRPs.

In addition, since the imbalance settlement harmonization proposal recently proposed by ENTSO-E did not provide any harmonized methodology for such an administrative scarcity component, FEBEG is concerned to see national uncoordinated adders to be developed. The EBGL foresees an integrated balancing market. Implementing such administrative

component in a non-coordinated way would lead to different imbalance price behaviours with similar imbalance volumes in the different control areas. This would be a threat to the level playing field in the European electricity markets.

Finally, the Pricing Proposal currently under consultation by ENTSO-E introduces the new concept of a Balancing Energy Pricing Period (BEPP). One of the objectives to introduce the BEPP is to reduce the occurrence of price spikes. FEBEG questions why on one hand measures are being formulated to suppress the real-time value of energy, while on the other hand 'incentivizing components' such as the alpha component are necessary to artificially increase the imbalance settlement price.

It would be more efficient, more market-based and more transparent to avoid all such artificial interventions into the balancing prices and instead allow the market to function properly.

**FEBEG therefore requests that the alpha component is removed from the next tariff proposal.**

The same reasoning applies regarding FEBEG's opposition to the proposed introduction of a scarcity pricing mechanism[2].

In general, FEBEG is very concerned about some of the proposals of ELIA in the context of the Consumer Centric Market Model. Again, ELIA is setting up a market design that might reduce costs for ELIA (less capacity reservations for ancillary services, …) but that is at the same time increasing risks and costs for market parties (forecasting risk, balancing risk, overhead cost, bad debt risk, …).

FEBEG, therefore, is of the opinion that **new initiatives should be justified based on a transparent and complete risk analysis that not only looks at impacts on ELIA, but on all market actors.**

## Bad debt risk

FEBEG considers that the increased electricity tariffs will entail an additional bad debt risk for the suppliers.

In Belgium, customers receive only one bill from their supplier, covering the cost of the electricity they consume but also the costs of transmission and distribution as well as a number of government taxes, levies and policy support costs (such as VAT). This single bill system has a downside for suppliers as they have to pay network operators, national authorities etc. irrespective of whether customers pay their bills or not.

[2] We also refer to FEBEG's comments on ELIA's Public consultation on the study regarding the design of a scarcity pricing mechanism for implementation in Belgium (30/10/2020)

**FEBEG takes the view that the risk of unpaid bills should be fairly borne by the various players of the electricity market**: i.e. the suppliers bear the risk relating to the non-payment of the "energy component" of the bill, the grid operators the risk relating to the "transmission and distribution component" of the bill and the government the risk relating to the "taxes and levies component" of the bill.

Currently, this risk relating to unpaid customer bills is borne entirely and solely by the suppliers, which is unbalanced to the disadvantage of the suppliers.

**FEBEG is of the opinion that suppliers should be compensated for the full risk related to their obligation to pass through several costs, taxes and levies on behalf of other players of the electricity market.** The suppliers should be able to pass through their actual losses relating to unpaid bills to the relevant market player. This is even more relevant in a context of increasing grid tariffs.

## Incentives

The tariff contains an incentive mechanism to monitor and improve the quality of the system operator's services.

**FEBEG is of the opinion that:**

- **no incentives** should be imposed **for activities that are part of the core task of the system operator** and that the system operator has to perform anyway.
- **not only a bonus, but also a malus should be provided**.
- **the incentives should also be measurable and verifiable**: for example, it should be clear that the system operator will not receive a bonus if it does not improve its service, but only maintains it at its current level
- **market parties should be more involved in the establishment of the incentives** (no "pro-forma" consultation) so that the proposed measures actually benefit for the whole society.

Finally, the methodology foresees between 4 and 6 projects to be considered for the incentive. FEBEG does not see any reason why ELIA should not submit six projects per year.