EDF SA answers on Fluxys Belgium's Consultation on tariffs proposal for transmission tariffs 2024 - 2027

(December 6th 2022)

Comments of EDF S.A.

This document is the reaction of the company EDF S.A. ("EDF") to Fluxys proposal for 2024-2027 transmission tariffs. The answer has been set up with the support of EDF's affiliate Edison, currently responsible for EDF gas assets management, in particular those implying EDF's transport capacity subscriptions on the Fluxys Belgium ("Fluxys") transmission network.

EDF welcomes this Fluxys consultation on transmission tariffs and notes that no major changes have been introduced with a tariff methodology in the continuity of the previous period.

If this gives a certain stability to the tariffs, EDF would have expected some changes that could have contributed to improve the consequences of the current energy crisis due to high energy peaks and the consequence of the war in Ukraine for gas supply coming from Russia.

- **LNG terminals competitiveness and Security of supply**

In particular EDF is concerned about the maintain of LNG terminal competitiveness over the next tariff period. EDF would like to remind that LNG is an essential mean for supply diversification and security, especially since the drastic lowering of Russian gas supply. This change in supply scheme has made LNG a pillar of the supply diversification and security, and this phenomenon is also important since European indigenous gas resources are declining on the medium to long term. Therefore, to substitute the gas import from Russia, Europe must diversify its supply and for that, it is important to encourage and support at least over the next 2 to 3 years the attractiveness of the LNG in Belgium for the benefit of the Belgian and European markets.

We consider that the Belgian gas network is as crucial for Belgium as for the European market since about half of transmitted gas volumes in Belgium regards international transit. In this contest this network plays a key role for LNG imports in Europe since it is directly connected to the two major LNG terminals that are Zeebrugge and Dunkerque LNG.

Regarding the competitivity of the LNG terminals, EDF observes with respect to Article 9 of TAR NC (" *At entry points from LNG facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, a discount may be applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply*."), that **no discount is applied at entry points from LNG terminals** (both Dunkirk LNG and Zeebrugge LNG terminals entry points). This choice has been made without any reason given.

Regarding the 100% discount applied to storage, EDF understands this measure as an incentive for market players to use storage (as it is proposed to be been done in France as well), ***nevertheless*** EDF would also mention that the missing revenues coming from this discount, should not have an impact on cross-border tariffs or other entry tariffs (for example entry tariff from LNG terminal) in an objective of overall coherence with security of supply measures.

- **Removal of the discount on Operational Capacity Usage Commitments "OCUC"**

One of the adjustments of the new Fluxys proposal is the removal of the OCUC's discount, as this discount was the result of reduced use of the flexibility of the network for OCUC services which seems to be no longer the case.

EDF can understand the reason of such a change, but in that case, it should come along with the release of the constraints that OCUC infers as a "bundle product", i.e. the obligation to nominate the **same volumes on the relevant Entry and Exit points of the OCUC.**

- **Drastic Increase on exit points (VIP BENE, VIP THE-ZTP)**

EXIT		Tariffs in €/kWh/h/year		2024 tariff vs 2023 inflated
Border with	Interconnection Point	2023	2024	
France	**Virtualys**	1,254	1,388	+7,7%
	Blaregnies L	1,387	5,063	+262%
Germany	**VIP THE-ZTP**	1,451	2,253	+52,3%
The Netherlands	**VIP BENE**	0,935	1,410	+47,8%
United Kingdom	**IZT**	0,778	0,359	-50,9%
Zeebrugge Area	**Zeebrugge**	0,778	0,359	-50,9%
Storage	**Loenhout**	0,000	0,000	-

Comparison of Exit tariffs in current and next tariff period

"The changes in the exit IP tariffs come from the change in the flow patterns since the Ukraine crisis. Indeed, the flows drastically change from East/West to West/East. Given this change the CWD Method leads to a decrease of the West exit IPs which are less used and closer to the entering flows and an increase of the East exit IPs or the ones seeing high exit flows and further from entering flows. The Entry capacity tariffs and the tariffs for HP Domestic Exits remain stable as presented in the tables hereunder."

Even if EDF understands the change of the flows as a consequence of the current situation, EDF does not support such an increase on Exit towards Germany or the Netherlands. In the opposite, the exit tariffs should be maintained at the same level in order to support the interconnections between the countries ensuring and helping the European Security of Supply. Moreover, we consider such increase (around +50%) particularly significant also considering that some operators invested in transmission capacity transits during the recent transmission capacity auctions with the aim to contribute to help the EU gas system

- **Commodity based transmission tariffs: Energy in cash**

Regarding the commodity fee (so-called Energy In Cash) applied by Fluxys, EDF has already raised the problem regarding this fee which has increased drastically over the last months, without transparent justification. Indeed, according to our understanding of Fluxys income statement one cannot see a very clear increase of the "purchase of gas related to operational needs". Still, this tariff term being proportional to the gas price reference, it has drastically increased for Fluxys customers. Fluxys proposes to keep this fee unchanged.

With an objective of increased transparency, EDF would like first better understand the nature and volume of gas involved for Fluxys and the cost supported to be covered.

Secondly, in order to mitigate this cost, Fluxys could consider different possibilities:

- Analyze the nature of the cost and consider the possible investments that could reduce the cost, establishing a business plan accordingly;
- Modify the current formula to limit the effect of the increase of the gas reference price, for example the proportionality factor (0.08%) could decrease once the gas reference price reaches a certain level, the higher the energy price, the lower the ratio factor. Another solution would be to consider a cap to the Energy in cash term, in order to avoid excessive impact of the tariff on shippers. This cap would be chosen by Fluxys based on its actual costs to be covered.

In any case, in a purpose of transparency, more information should be disclosed regarding Fluxys energy expenses.

- **Use of the regulatory account:**

The Tariff proposal underlines the fact that the regulatory account will be set at -50M€ at the end of the regulatory period. Considering the current and situation of the energy sector, EDF would find it relevant to reinject this amount (or a part of this) in the current tariff period in order to reduce the unitary terms. Furthermore, it would be interesting to understand better the forecasted level of the premium regulatory account due to the capacity sales to support the German gas system for example and how it will be used by Fluxys.

- **General remark regarding the tariff proposal**

Considering the difference between the current tariff and the Fluxys proposal from 2024, there is a huge gap in the tariff for L gas transmission due to the decision to accelerate the L/H conversion (+ 262% on the Baregnies L release), with an indisputable drastic impact on market players. EDF considers that such choices must be appropriately accompanied by discussions and dialogue before making decisions, in order to find the best solution for the parties and to avoid drastic movements and changes that are detrimental to market players.

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