POSITION

Subject: FEBEG reaction to Fluxys Belgium consultation 59: tariffs proposal for transmission tariffs 2024-2027

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Introduction

FEBEG wants to thank Fluxys Belgium for the opportunity to react to the tariffs proposal for the transmission tariffs 2024-2027. The deadline for this consultation is 6 December 2022.

The remarks of FEBEG are not confidential.

Remarks on the content

The present consultation deals with the transmission tariffs for 2024-2027, not the storage or LNG tariffs. The method used is CWD (capacity weighted distance methodology) with an entry/exit split of 33/67.

1. On regulatory account transmission (p.4 and 21)

FEBEG notes that the expected regulatory account at end 2023 and the collected auction premia at that date will allow to substantially support the tariff in the 2024- 2027 tariff period. From the ~510M€ returned to the tariffs, an amount of ~460M€ will be returned directly to the 2024-2027 tariffs through a reduction of the allowed revenue, and a ~50M€ will be kept to mitigate the risks linked to today's market uncertainties and to partially dampen the expected tariff increase the following tariff period.

FEBEG is of the opinion that, when preparing the tariff proposal, the natural gas transmission system operator must determine its tariffs in order to have a regulatory account as close to zero as possible at the end of the regulatory period. This is in line with the tariff methodology as decided by CREG on June 30th 2022: " This trajectory must include a gradual decrease in the accrual account until it reaches a balanced, neutral balance, i.e. neither positive nor negative, at the end of 2027." However, in a disruptive market situation, this balance at the end of 2027 may vary between + or - 50 million euro.

We invite CREG and Fluxys Belgium to compare the ratio of the regulated account and the allowed revenue with foreign examples, and make sure that Fluxys Belgium is in line with the European average.

In addition, FEBEG has the following questions regarding Fluxys' regulatory account :

1) Can we assume that the regulatory account level will be at 510 M€ ? Does Fluxys intend to use part of the regulatory account for investments ? If yes, are these investments already deducted from the regulatory account amount to be returned to the tariffs over 24-27 ?

2) What is the forecasted level of the premiums regulatory account ?

3) Is the money to be returned to the market, coming from the premium regulatory account or the "regular" one ?

4) How will the returned amount of the regulatory account be divided between the L-gas and H-gas transportation tariffs ?

2. On future investments (p. 5)

The document states that the investments contemplated by Fluxys Belgium during the next tariff period include investments reducing the congestion (reinforcement of the West-East axis to ensure gas flows from the West to the Belgian market, especially in the context of the L to H conversion and to support the gas flows from the West to Germany) and investments needed in the context of energy transition.

We recommend a clear distinction between natural gas transmission grid H, natural gas transmission grid L, natural gas storage facility and LNG facility. FEBEG considers this to be extremely important as the necessary safeguards and transparency must be built into the methodology to avoid cross-subsidisation between the various activities (including gas and H_2/CO_2 networks).

3. On 4.1.1.2 OCUCs and Wheelings (p.9)

We note that Fluxys wants to delete OCUC's, as they are not considered relevant anymore, and do no longer contribute to simplifying the management of the Fluxys transmission grid. Since OCUC's and Wheelings will no longer benefit from a tariff discount, FEBEG requests that all OCUC capacity to be transformed back into the underlying Entry and Exit services to/from ZTP. FEBEG does not support the end of OCUCs discounts unless the OCUC holders are relieved from the constraints that OCUC infers, i.e. the obligation to nominate the same volumes on the relevant Entry and Exit points of the OCUC.

Moreover, the Reference price for 2024 for the OCUC "Dunkirk LNG Terminal/Virtualys - IZT/Zeebrugge" is equal to the Reference price of Firm Entry capacity at Dunkirk LNG Terminal/Virtualys + Firm Exit capacity at IZT/Zeebrugge, while some grid users contracted this OCUC as the combination of Interruptible Entry capacity at Dunkirk LNG Terminal/Virtualys + Firm Exit capacity at IZT/Zeebrugge. When the OCUC is "broken" back into Entry & Exit capacity, either the underlying Entry capacity that the user gets is made firm, or the tariff that the user will have to pay for its Interruptible capacity should be equal to the Interruptible Entry capacity at Dunkirk LNG Terminal/Virtualys, and therefore benefit from a the interruptible capacity discount.

In the deletion of the OCUC's, or any other future services, FEBEG is of the opinion that shippers should not pay more than before the deletion. Ideally this is organised by the option of an annulment of the underlying contract, but we are open to discuss other options.

4. On 4.1.2.1 Article 9(1) – proposed discount(s) at Entry points from and Exit points to storage facilities (p.16)

FEBEG takes note of the new 100% discount at Entry point from the Loenhout storage facility in accordance with Article 9; adding to the existing 100% discount at the Exit point to the Loenhout storage facility.

Although we are not opposed to this measure, we should point out that this is a political decision. European law permits member states to do this, but it should not be the storage owner who should propose it.

Additionally, we are of the opinion that any missing revenues that arise from this discount, intended to increase the security of supply in Belgium, should be covered by the domestic market, being the beneficiaries of this measure. Recovering these costs differently would have an impact on cross-border tariffs and thus other markets, which should not be bearing the costs of the Belgian security of supply.

5. On 4.2.2 Article 30.1(b)(iv) and 30.1(b)(v) – Transmission services revenu (L-gas, p. 21)

FEBEG notes that the Fluxys revenue for transporting L-gas slightly increases during the 2024-2027 period. Given the fact that the transported volumes will decrease, this implies that the unit tariffs are exploding.
Once the conversion into high calorific gas will be completed, the 2024 Hilvarenbeek L entry reference price changes to 2,494 EUR/KWh/h/year. In other words: due to a political decision shippers are stuck with capacity they cannot longer use and for which Fluxys then increases the tariff with 262 %. This is unacceptable, and in such situations shippers should be allowed to terminate their contract (see further).

FEBEG is also in favor of maintaining the L to H quality conversion service until 2029.

6. On 4.3.1 Article 26.1(c)(i) – Commodity based transmission tariffs (p.22)

FEBEG notes that "Fluxys Belgium applies a commodity fee (the so-called Energy In Cash) which will still be charged to reflect the variable costs related to gas transmission. This fee is kept unchanged compared to the currently applicable tariff, i.e. 0,08% of the allocated quantities at the Gas Price Reference, as published on Fluxys Belgium website."
In the "Tariffs for transmission and non-transmission services of Fluxys Belgium SA for year 2021" we do read, however, that "Fluxys Belgium reserves the right to correct that price

reference in case it would no longer be representative for the gas purchase price of Fluxys Belgium." In any case, FEBEG would welcome a level of user concertation in case Fluxys would be planning to change this price reference.
But, considering the current market circumstances, FEBEG is wondering if the Energy in Cash is still proportionate and urges for an evaluation and adjustment of this commodity fee. FEBEG therefore invites Fluxys Belgium to consider the following actions:

- Transparency and cost-reflectivity: FEBEG would welcome more insights, details and clarifications on which 'variable costs related to gas transmission' are exactly covered by this fee and how the fee relates to these costs;

- Adjusted percentage: FEBEG urges Fluxys also to investigate a more clever approach for the definition of the fee. E.g. adding a formula to the current percentage linked to thresholds in function of the gas price – the higher the gas price, the lower the percentage – would already mitigate the impact of the tariff on shippers;

- Cap: Fluxys could also consider a cap to avoid to excessive impact of the tariff on shippers.

7. H to L quality conversion tariffs

FEBEG was surprised to see a tariff forecast on the H to L conversion service on the period of 24-27, while the service was deemed to cease to be offered on March 31st 2023.

8. Forecasted contracted capacity and future tariffs

Fluxys forecast zero bookings on the Exit IZT/Zeebrugge point for the period of 2023 – 2027, whilst market spreads show a potential of gas exports to the UK during the winter of each year. FEBEG requests that Fluxys' take into account a reasonable forecasted contracted capacity at Exit IZT/Zeebrugge point in the calculation of its transmission tariffs.

The Exit capacity tariffs at VIP-BENE and VIP-THE ZTP are to increase by more than 50% between 2023 and 2024. This instability in tariffs is not appreciated by the market as it increases the risks of booking long term capacity in advance.

9. L-zone tariffs

Article 20.1 of the Tariff Network Code states that "The full or partial reconciliation of the regulatory account shall be carried out in accordance with the applied reference price methodology and, in addition, by using the charge referred to in Article 4(3)(b), if applied." Since Fluxys is splitting the revenues of the H and L zones, we request that the 460 M€ that Fluxys intends to return to the market over the period of 24-27 be returned on both L and H tariffs, in respect of the mentioned article of the NC Tar. In addition, future H and L tariffs shall also be calculated in respect of the same article.

Fluxys introduces a cross delivery service on Hilvarenbeek Entry and Blarégnies L Exit capacities after the end of the conversion of the L-zone expected in September 2024. However, Hilvarenbeek capacities can/will be utilized to deliver L-gas to Belgian H-customers even after the end of the conversion of the Belgian L-zone, via the L to H quality conversion service.

FEBEG proposes that Hilvarenbeek shall be considered as an IP connecting TTF to ZTP, and both Entry and Backhaul Exit capacities at this IP shall therefore be offered at the same tariff as VIP-BENE.

10. General note

Shippers take long term commitments based on the best possible assumptions and forecasts on the gas mas market and possible market evolutions, being fully aware of related market risks. Nevertheless, political and/or regulatory interventions – e.g. cancellation of OCUC, accelerated L/H conversion, etc. – might impact the legitimate expectations of the contracting parties as well as the balance of rights and obligations in the contracts.

Therefore, FEBEG invites Fluxys to investigate a general regulatory framework for the cancellation of services, perhaps against payment of a cancellation fee.

FEBEG is looking forward to a discussion on this topic.