



CONSULTATION ON THE MAIN EXPECTED
EVOLUTIONS OF FLUXYS BELGIUM'S 2024-2027
STORAGE TARIFF PROPOSAL

06 – 26 September 2023

05 September 2023

Disclaimer

This document was prepared by Fluxys Belgium SA/NV in the framework of the upcoming tariff proposal for the 2024-2027 period, solely for consultation purposes. It aims at providing information on possible future trends and on main expected evolutions. Figures and parameters contained in this document are indicative best estimates subject to future changes or corrections. Under no circumstances shall any person, company, corporate body or other entity be entitled to assert any right, claim or other entitlement against Fluxys Belgium SA/NV (or either its directors, managing director or employees) as a result, or on the basis of this document.

1 Executive summary

As agreed between CREG and Fluxys Belgium in the procedure for the introduction and approval of tariff proposals, Fluxys Belgium is herewith organizing a consultation of the relevant natural gas companies on the key factors of the expected storage tariffs for 2024-2027.

Overall, Fluxys Belgium expects tariff levels for storage to remain in line with the current tariffs during the period 2024-2027. These new tariffs are determined based on the following key assumptions:

- Operating costs will remain in line with the previous regulatory period;
- In order to reduce the emissions of its installations and to comply with environmental regulation, Fluxys Belgium intends to invest in new electrical motors for five compressors. This will have an impact on depreciation costs and regulated asset base (RAB);
- All SBU capacity still available over the period is assumed to be sold at a price in line with the relevant summer-winter spread. A similar assumption is taken for the still available additional volume.

These new tariffs and assumptions will lead to a regulatory account balance of around €20 million at the end of the period. This amount is deemed necessary to cover the commercial risks linked to the sale of the remaining capacity via auctions.

Note that to cover energy variable costs, storage operator intends to switch to settlement in cash instead of in kind, based on ZTP European Gas Spot Index.

2 Introduction

2.1 Consultation procedure and scope

According to the procedure for the introduction and approval of tariff proposal and tariff modifications, as concluded between CREG and Fluxys Belgium on 16 December 2021 and published on CREG's website¹, Fluxys Belgium organizes a consultation of the relevant gas companies before submitting its tariff proposal to CREG's approval. This consultation will be open from 06 to 26 September 2023. Relevant natural gas companies are invited to react to this consultation (please refer to section 7 of this document).

Following the consultation, Fluxys Belgium will draw up a consultation report explaining how and why the various comments will or will not be considered in the new tariff proposal. Received comments along with the consultation report will be submitted as appendices to the new tariff proposal.

CREG previously held a public consultation on the tariff methodology for 2024-2027, as required by Article 15/5bis of the Gas Act of 12 April 1965. Following this consultation, an amended draft decree was submitted to the Chamber of Representatives. In absence of any additional comments and since the preparatory procedure laid down by law had been completed, CREG adopted the decree (Z)1110/12² establishing the tariff methodology for the natural gas transmission system, natural gas storage facilities and LNG facilities on 30 June 2022. The allowed revenue for years 2024 to 2027 is set in accordance with this CREG Methodology.

2.2 Aim of this consultation

This document aims at indicatively informing network users and relevant natural gas companies of the main expected changes and trends of future storage tariffs. The objective is to gather stakeholders' feedback before submitting a tariff proposal to CREG for the 2024-2027 period.

2.3 Document structure

This document describes first the general context within which Fluxys Belgium drew up its tariff proposal, before outlining the main expected changes in terms of operational costs, sales volume and fair margin for the 2024-2027 tariff period. It

¹ <https://www.creg.be/fr/professionnels/acces-au-reseau/gaz-naturel-transport-stockage-et-gnl/tarifs-de-reseau-fluxys-1>

² <https://www.creg.be/fr/publications/autres-z1110/12>

then explains the general tariff calculation principles and presents indicative tariffs for the main storage services in 2024.

3 GENERAL CONTEXT

3.1 Economic context

This consultation presents the evolution of storage tariffs for the period 2024-2027 in an economic context for storage that strongly depends upon the geopolitical situation in Europe.

Gas and storage market conditions in Europe have significantly changed since February 2022 as a result of Russia's invasion of Ukraine and the resulting changes in gas flows.

In order to ensure security of gas supply in Europe, the European Commission has introduced storage filling targets and trajectories in 2022. As a result, Member States must ensure that storage facilities are at least 90% filled on 1 November each year. This target is set until the end of 2025, but there is a high probability that it will be extended afterwards.

In Belgium, the decision was made to change the previous "best effort" rule of 90% filling to a mandatory filling target for storage users. The challenge in Belgium is now to succeed in selling storage capacity. And then to rely on the obligation imposed on storage users to meet the target. The value of storage is based on a number of factors due to the multiple roles it can play in the gas market:

- Seasonal value: covers summer oversupply and winter demand, reflected in the summer/winter spread;
- Short term value: enables arbitrages on a range of short-term temporal dimensions, reflected in gas price volatility;
- System value: supports efficient dimensioning and use of networks, and;
- Insurance value: contributes to safeguard the network integrity.

In Belgium for example, in addition to its seasonal value to the storage users, the Loenhout storage facility provides value to the transmission system operator by providing operational means for system flexibility, market-based balancing and in case of incident.

However, storage users tend to base the value of storage mainly on its seasonal value.

Fluxys Belgium started selling its storage capacity via auctions with a reserve price that can be lower than regulated tariffs, following an amendment to the Gas Act in February 2022.

This change means that Fluxys Belgium is now in a position to offer its capacity at a price corresponding to the seasonal value of storage. This value depends mainly on the observed summer-winter spreads.

Sales in recent years have shown that there is an interest in storage capacity on the part of shippers operating on the Belgian market, but also on the part of shippers operating on the international market, thanks to Belgium's position at the crossroads of the Netherlands, Germany, France and the United Kingdom.

In this context, Fluxys Belgium is of the opinion that it will be able to sell its storage volumes (SBUs and additional volumes) if they are on offer at market value.

3.2 Regulatory framework

CREG published on 30 June 2022 a tariff methodology³ establishing a framework for tariffs calculation. The tariff proposal will be established in accordance with this framework.

3.3 Commercial storage model and sale of storage services

In a continuous effort to improve its service offering, Fluxys Belgium introduced in July 2021 a new commercial storage model. The key features of this new model include (i) a simple and optimized "golden SBU" composed of firm injection, storage and withdrawal capacities, (ii) call option and one-step auction as new selling mechanisms and (iii) interruptible priority booster capacity allowing storage users to speed up their SBU.

This new model has proven to be effective. Despite the fact that capacities were sold at a very low price in 2022, Fluxys Belgium does not currently see any reason to change the working of this new model.

4 TARIFF CALCULATION

As specified in Article 5 of the tariff methodology, tariffs are usually expressed in terms of capacity: costs allocated to each service are divided by the forecasted capacity subscriptions to obtain the unit capacity tariff.

Storage tariffs shall be cost-based and shall therefore enable to generate the revenue required (the "allowed revenue") to cover all efficiently incurred costs related to the storage facility. The allowed revenue is made up of the system operator's costs and the system operator's fair margin.

³ <https://www.creg.be/fr/publications/autres-z1110/12>

Knowing the allowed revenue and the reference capacity assumptions, storage tariffs that fully cover the allowed revenue can be determined.

4.1 Costs

Operating and depreciation costs as well as the cost of debt are defined according to the tariff methodology defined by CREG.

Fluxys Belgium is intending to replace the gas motors of five compressors with new electrical motors. This investment is mandatory in order to comply with new regional regulation on NOx and CO emissions but will also reduce the greenhouse gases emissions of Fluxys Belgium's storage installation. Fluxys Belgium managed to prevent a full change of the compressors, which allows to limit the costs as much as possible. Besides, part of this investment is planned to be financed by the regulatory account, which in turn will limit the impact on RAB and depreciation costs. The investment financed by the regulatory account is treated as a subsidy : the amount is not part of the RAB, so no remuneration is calculated on it, and the depreciation cost is offset by the regulatory account and not covered by the tariffs.

Despite this new investment, operating costs are expected to remain in line with the ones presented in the 2020-2023 tariff proposal.

Most variable costs (linked to the volumes of gas being stored) are covered by variable tariffs (as per Article 5 of the tariff methodology). For storage, these variable costs relate to own operational usages during injection and withdrawal operations (e.g. compressor fuel, drying, ...) and are currently covered by a withdrawal in kind (known as Gas in Kind). Fluxys Belgium intends to switch to a coverage in cash (Energy in Cash) as from 1st April 2024. In accordance with the rules described in attachment B of the Access Code for Storage, the requested Energy in Cash will be proportional to the quantity of gas injected or withdrawn. :

- For injection, it will be equal to the injected quantity multiplied by 1% and by the ZTP European Gas Spot Index;
- For withdrawal it will be equal to the withdrawn quantity multiplied by 0,5% and by the ZTP European Gas Spot Index.

These percentages will be reviewed annually by Fluxys Belgium. Any potential adjustment will be submitted to CREG prior to the publication of the tariffs annual update. If the reviewed percentage for injection (resp. withdrawal) remains in the range of 0,75%-1,25% (resp. 0,25%-0,75%), the change will be submitted to CREG on the basis of this consultation.

4.2 Fair margin on invested capital

Regulated asset base (RAB)

As explained in Article 15 of the tariff methodology, the regulated asset base changes each year to reflect new investments, depreciation and

decommissioning. The regulated asset base is expected to remain in line with its evolution presented in the 2020-2023 tariff proposal. Due to the above-mentioned investment in new electrical motors, the RAB will slightly increase until 2026, before decreasing again.

Rate of return

The rate of return is calculated in line with Articles 16 to 20 of the tariff methodology which sets out the basis for calculating the rate of return applicable to the regulated asset base.

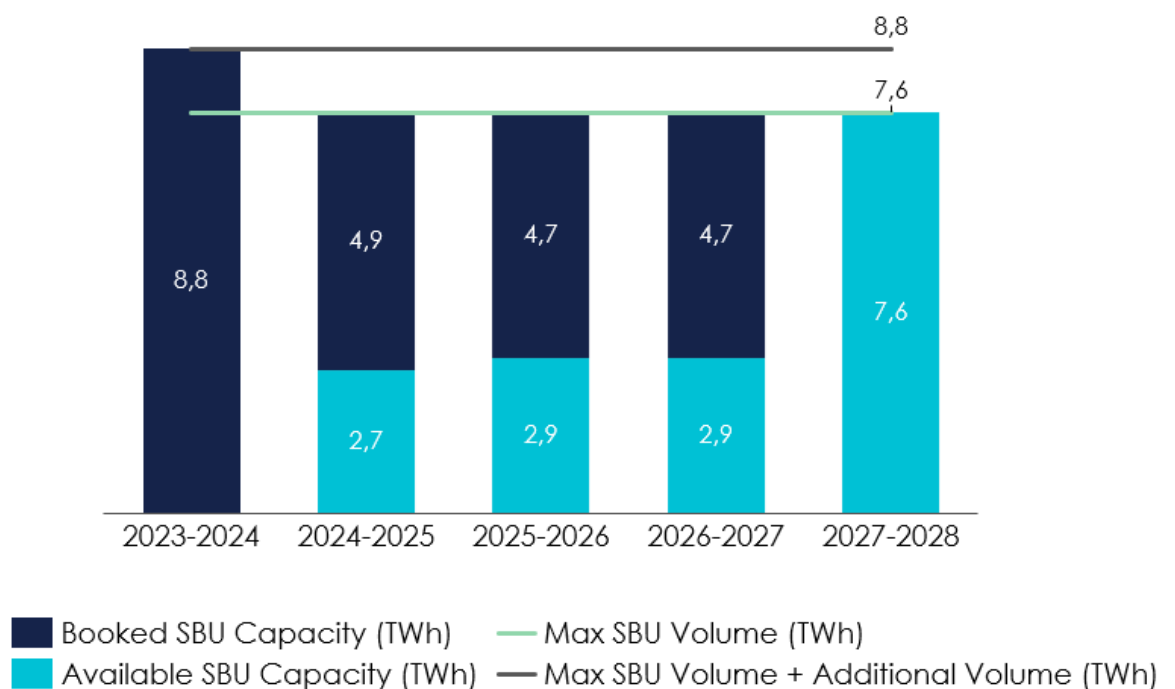
4.3 Reference capacity

Two key capacity assumptions are considered to determine the 2024-2027 storage tariffs:

- (i) Sale of all 250 000 golden SBUs over the period. As a reminder, golden SBU have the following composition:

Injection [MWh/h]	Storage Volume [MWh]	Withdrawal [MWh/h]
0,0113	30,44	0,0224

Part of this capacity has already been sold, as shown on the chart hereunder. The remainder of the capacity is assumed to be sold at a price in line with the relevant summer-winter spread forecast;



- (ii) A sale of the full available additional volume over the period, in line with the volume sold in 2023 and at a price also in line with the relevant summer-winter spread forecast.

4.4 Expected changes to the regulatory account

In its decision about the 2022 tariff report, CREG approved the balance of the regulatory account. This balance amounted on 31 December 2022 at €41,6 million (regulatory liability).

The regulatory account is expected to reach a balance of €48 million at the end of 2023. Fluxys Belgium indeed expects a €7,4 million surplus in the 2023 storage activity, as a consequence of additional sales and an increase of the additional volume that could be offered to the market.

As mentioned above, Fluxys Belgium will use the regulatory account to finance part of the mandatory investment in the compressors, which will reduce the impact of this investment on the storage users (both in RAB and depreciation, see also 4.1).

In its 2022 tariff report, CREG noted that keeping an amount in the regulatory account at the end of the regulatory period is sensible given the commercial risks of the storage activity. Given the obligation to sell storage capacity to fulfil the European filling requirements, Fluxys Belgium could indeed be forced to offer its storage capacity at the summer-winter spread, whatever the level of this spread. This could result in sales at a price well below the regulated tariff. To cover this risk, Fluxys Belgium foresees to maintain a regulatory account of around €20 million at the end of 2027.

5 CHANGES IN TARIFFS

Based on the above assumptions, Fluxys Belgium will propose 2024-2027 tariffs that remain in line with the 2020-2023 tariffs. Only inflation will be applied. SBU tariff will be derived from the regulated tariff of each component.

Furthermore, in line with the 2020-2023 tariff period, tariffs for the priority booster capacity and booster capacity will be defined as follows:

- the tariff for the priority booster capacity for injection (resp. withdrawal) will be equal to 80% of the tariff for the firm capacity for injection (resp. withdrawal); and
- the tariff for the booster capacity for injection (resp. withdrawal) will be equal to the tariff for the firm capacity for injection (resp. withdrawal).

Percentages used to compute gas in kind or gas in cash settlement will be 1% for injection and 0,5% for withdrawal.

6 TARIFF SHEET

Please find the tariffs expected to be proposed to CREG for the main storage services in 2024 in Annex A.

Tariffs will still be expressed in capacity but the basis will be the calorific value of gas and no longer the volume. The column expressing the capacity in €/m³(n)/h/year is thus removed from the tariff sheet and applicable tariffs are only expressed in €/MWh/h/year.

Finally, to offer a better overview of the storage tariffs, Fluxys Belgium decided to give an indication of the value of its tariffs for 1 MWh.

7 INVITATION TO REACT

Fluxys Belgium would like to invite all interested parties to submit any comments they may have on this document by e-mail at following address: marketing@fluxys.com and this before 5.00 p.m. on 26 September 2023. We also ask you to specify in your response whether the content is to be treated as confidential or not. Unless otherwise mentioned, all comments will be treated as non-confidential. In case of a confidential response, please provide a non-confidential version as well.