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Response document Fluxys consultation of 8 October 2018
regarding Transmission tariffs 2020-2023

We welcome the opportunity to provide our comments and inputs to the Fluxys document "Proposal for transmission tariffs 2020-2023". In particular, we appreciate that the consultation has been launched well in advance to the yearly auctions that will take place in 2019.

In general, we support the direction taken by Fluxys with this consultation document. It is positive to see the efforts taken by Fluxys in reducing the OPEX costs and the allowed revenues. This, together with the simplification efforts being carried out via different consultation documents, is definitely a positive development.

Regarding the transmission tariffs proposed for 2020-2023, we have the following views.

First, we support the change in the cost allocation methodology being proposed by Fluxys. In fact, the current methodology is based on unfair and outdated assumptions on the way in which exit IP tariffs are calculated. Our understanding is that today "distance" is the main driver for the allocation of costs in the system. In this framework, distance for exit IPs is measured by taking only one entry point into consideration (i.e. Zeebrugge), as if an old point-to-point/transit system was still in place. This is obviously not the case anymore, and in an entry/exit system, distance should be measured as an average distance from all entry points in the system (to be then weighted by capacity).

As a matter of fact, gas exiting Belgium towards France, the Netherlands, Germany or the UK may be coming from any of the entry points in the system. It is wrong and unrealistic to assume that all flows directed to adjacent markets only enter via Zeebrugge, which is - for some IP exit points - one of the farthest entry point in the system. This element is crucial, as it is a distortion, which might negatively affect the correct allocation of costs in the system. Moreover, this way of calculating exit tariffs is not even in line with the spirit of the EU Regulation 715/2009 which explicitly provides that "*Tariffs should not be dependent on the transport route. The tariff set for one or more entry points should therefore not be related to the tariff set for one or more exit points, and vice versa*" (recital 19). In this framework, the proposal presented by Fluxys to apply the reference price methodology provided by the European Network Code on Tariffs (Capacity Weighted Distance - CWD), represents an improvement compared to the current methodology.

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Second, we understand that part of the regulatory account will be used to lower the allowed revenues in the years from 2020 to 2023. According to the consultation document, at the end of the period (i.e.) there will be a maximum amount of EUR 100 million on the regulatory account. In our opinion, such amount should be significantly lower by 2023, if not at zero, in order to avoid any temporal cross-subsidy. It is to be regretted that the regulatory account, which has been piling up since at least 2012, and which our industry association FEBEG has raised as an issue towards the main parties involved since the end of the previous regulatory period (2012-2015), is only being tackled almost four years later and will only start to being returned in yet another year from now. As a matter of fact, also since 2012, European and Belgian gas demand dropped, which led many shippers to have a large portion of their long term booked capacities unutilized (i.e. stranded) and their corresponding contracts could not be terminated. This means that the sunk costs unduly paid by these shippers, have also contributed to the amount on the regulatory account currently held by Fluxys. By keeping part of the amount on the regulatory account for too long, the risk is that the market players who contributed to its piling up with their sunk costs in the system might not be in the market when the full amount is returned, even though they were actually the ones suffering losses because of their sunk quota of logistic costs (which in the end turned out to be too high, given the significant level that the regulatory account has finally reached). For this reason, we believe that the full amount of the regulatory account should be returned as quickly as possible (ideally the amount should have been returned in the past years) to allow the market players who actually contributed to the over-recovery to benefit from its return.

Moreover, in the consultation document it is provided that in case of "*a deviation (…) between the real level of the regulatory account at the end of year and the regulatory account trajectory foreseen in the tariff proposal, tariffs will be automatically adjusted (downwards or upwards)*". In this framework, an upwards adjustment in tariffs should be made only in case the regulatory account by 2023 is foreseen to be zero. If the regulatory account is foreseen to be higher than zero, upwards adjustments in tariffs should be avoided and adjustments should be made by further lowering down the regulatory account expected in 2023. As explained above, the regulatory account should be returned as soon as possible to the market and it should not be kept after 2023 when there might be deviations from the trajectory to be mitigated before that year.

Third, in the proposal it is foreseen to add to the existing 100% discount to exit points towards storage a new discount by 50% on the entry points from storage. Given the introduction of this new discount, Fluxys has not clarified in the consultation document which are the benefits of keeping the discount to exit points towards storage beyond the 50% discount for entry/exit tariffs from/to storage provided as default by the European Network Code on Tariffs. Unless there are strong justifications to move away from the above-mentioned default option we suggest to stick to the 50% discount provided by the EU Network Code for both entry and exit tariffs from/to storage.

We hope that our above points can be included in the final proposal to be submitted by Fluxys to the CREG.

We are available for any further clarifications you may need.

Best regards,

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