

## Consultation Report 40

Version : 1.0

Status: Final

Classification: Public

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## **1. INTRODUCTION**

From 2 September 2019 to 20 September 2019 included, Fluxys Belgium consulted the market on its proposed tariffs for storage services for the 2020-2023 regulatory period. This consultation document starts with a description on how Fluxys Belgium consulted its tariff proposal 2020-2023. Finally, the various comments from the market will be presented combined with Fluxys opinion(s).

## **2. CONSULTATION PROCESS**

Fluxys Belgium launched this market consultation by publishing the proposed documents on its website via the following link: <https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/fluxys-belgium-market-consultation-40>, supported by an announcement on the homepage - and via direct e-mailing to all registered market participants and associations. During the period from 2 September 2019 to 20 September 2019 included, stakeholders were invited to submit their written feedback and, if needed, ask additional information through bilateral contacts with Fluxys Belgium.

Taking into account the different comments received, Fluxys Belgium submits for approval to the CREG, the updated tariff proposal related to storage services for 2020-2023.

## **3. OUTCOME OF CONSULTATION PROCESS**

All comments received are listed and individually treated in the “Q&A’s”, included in the consultation report submitted to CREG – see appendices.

Feedback was received from 1 individual grid user and 1 representing organization.

One party has doubts about the new subscriptions that Fluxys is using into its calculations and finds that this cannot be considered in a reasonable tariff calculation. Fluxys Belgium wants to emphasize that recent years have shown that short term sales do happen and that extra contributions over 4 years are not unrealistic in case of flexible positioning of the storage operator with an offer that is in line with the market needs.

The same market participant is of the opinion that a complete review of the sale mechanism should be done in coherence with the end of the current model and be implemented in a new tariff period, with a prior consultation of the market on the particular principles. In other words, it states that a new sales mechanism cannot be implemented during the coming tariff period if not clearly exposed in this consultation. Fluxys Belgium is investigating to commercialise its storage services through an auction window in the future, to capture the market value in an optimal way. This new sale mechanism, if decided, will not imply changes to the tariff methodology. Its potential introduction will be done in accordance with the regulatory framework existing in Belgium and will foresee consultations and exchanges with the market participants.

If needed, Fluxys Belgium will submit an amendment to the tariff proposal as has already happened in case of introductions for new or adapted services for Transmission and LNG Terminalling.

The market participant also indicates that additional sales based on auctions, are not possible within the current sales mechanism and thus the coming tariff period. Fluxys Belgium refers to the Access Code for Storage - Attachment C2 – which clearly states that the storage operator can offer its storage services through allocation windows, being a subscription window or an auction window.

Both parties are wondering how Fluxys can maintain actual storage performances with low subscriptions. Fluxys Belgium is of the opinion that the forecasted sales of 2020-2023 will be sufficient to guarantee the actual storage performances.

The market participants are also suggesting that all efficiency efforts should be reflected into the operational costs of the storage facility, leading to a possible decrease (or removal) of the cycling costs. Fluxys Belgium wants to emphasize that efficiency measures, leading to a reduction of fuel gas costs, are already returned to storage users via Gas In Kind settlements.

The market participants are arguing that the complete regulatory account should be settled before the implementation of the new model, meaning by the end of the long term contracts and thus reducing as well the tariff period. Fluxys Belgium wants to refer to the gas law and the tariff methodology that states that the regulatory account is a debt to the whole storage market and that any excess should be used over the following tariff periods.

During the preparation of the tariff proposal, the storage system operator determines the expected evolution of the regulatory account during the next tariff period. This trajectory must include a progressive decrease of the positive regularization account. Therefore, the tariff proposal foresees a use of the full regulatory account during the period 2020-2023, except of 5 million euros maintained for the following period.

The positive regulatory account has been growing thanks to costs efficiencies, low interest rates - impacting the regulated return - and additional sales. This amount does not only belong to the customers having concluded long term contracts but must benefit the whole storage market over the total tariff period. Fluxys Belgium does not see any reason to ask for a shorter regulatory period. If Fluxys Belgium would not foresee subscriptions after the end of the long term contracts, it would have to take measures pertaining to the lack of subscriptions. This could result in an anticipated depreciation to reflect the expected economic value of the assets (as highlighted in the feedback from the market participants). This would eventually abolish the tariff reduction, foreseen as from 2020.

One organization is of the opinion that Fluxys should provide full transparency on the valuation of the system value of the storage facility. Fluxys Belgium, being a fully regulated company, discusses these elements with its regulator CREG. For its operational means, Fluxys Belgium counts on both firm and conditional capacities which are valued according to the regulated tariffs. These capacities are accounted in the tariff proposal and contribute to the overall tariff reduction.

The same organization also considers that storage users who have contributed to the surpluses of the regulatory account should be able to benefit from the tariff reduction as well. Fluxys Belgium stresses that the tariff methodology specifies that the regulatory account is returned to the market via the principle of reducing tariffs. Hence, the storage users that contributed to the surpluses of the regulatory account can certainly benefit by buying lower priced storage services for the upcoming storage period. Furthermore, as specified in the consultation document, the increase of the regulatory account is a combination of several factors (efficiency, fair margin, extra sales) and not only the result of the contribution from long term contracts.

The organization also remarks that it would not be acceptable that the storage facility would be structurally financed by surpluses from the past. As mentioned before, Fluxys Belgium still foresees subscriptions after the end of the long term contracts, which explains the use of the regulatory account during the full upcoming regulatory period. In order for the storage operator to continue delivering its system value, it needs to be seen as a going concern and not as an activity that can be split between a situation before and after the end of the long term contracts. Yet, Fluxys Belgium takes note of the position of the storage users causing a major part of the estimated regulatory

account being returned to the storage market during the period 2020-2023. The use of the past regulatory account can therefore not be seen as structural financing.

As last, the organization wants to express that it is intrinsically up to the market parties - which is especially relevant for market parties with a domestic portfolio - to value the insurance value of the Belgian gas storage facility. Fluxys Belgium shares this opinion. It is up to the market parties to assess the insurance value that storage services has for their portfolio, while Fluxys Belgium assesses the system value of the storage installation.

#### **4. APPENDICES**

##### ***4.1 Appendix 1: Market consultation – public material***

##### ***4.2 Appendix 2: Market consultation – confidential material***