

Subject: Consultation on Fluxys Belgium's tariffs proposal for transmission tariffs 2020–2023
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Introduction

On the 8th of October, 2018 Fluxys launched a consultation on Fluxys Belgium's tariffs proposal for transmission tariffs 2020–2023. The deadline for this consultation is the 7th of December, 2018.

FEBEG welcomes this consultation and wants to thank Fluxys for creating this opportunity for all stakeholders to submit their comments and suggestions on the proposal for transmission tariffs 2020–2023. The comments and suggestions of FEBEG are not confidential.

New CWD methodology

Logic evolution

The proposed CWD methodology is the reference price methodology as referred to in the European network code on tariffs. Therefore, FEBEG considers the introduction of the new CWD methodology as a logic evolution.

Need for more transparency

FEBEG welcomes the efforts of Fluxys to provide more transparency on the tariff proposal, for example by publishing the spreadsheet 'Simplified Tariff Model'. This tool allows market parties to reach a better understanding of the impact of the new tariffs on their businesses.

Nevertheless, it remains – to a certain extent – a black box how the CWD methodology is exactly applied. Market parties still have difficulties understanding the whole set of assumptions (e.g. booked and forecasted capacities at each point in the system) used to distribute of costs between interconnection exit points and domestic exit points. They also would welcome more explanation on the cost allocation split between entry and exit.

Therefore, FEBEG would like to request more transparency and a more robust assessment of the tariff methodology, including a simulation without the contribution from the regulatory account. The introduction of the new methodology will also determine the future levels of the tariffs, i.e. in the next tariff period 2024–2027, and the market needs sufficient pre-visibility for sourcing, investments and sales purposes. It is in the interest of Fluxys that market parties have enough information to assess the associated risks.

The current information in the accompanying documents of the tariff proposal provide only limited insight in the assumptions regarding the cost allocation. It is clear that the new methodology has led to a redistribution of the costs. Fluxys should therefore provide and share (publicly) a cost allocation assessment: this assessment should be substantiated with sensitivity analyses that take into account other assumptions on the forecasted contracted capacities (on domestic exit and interconnection points). This will enable market parties and regulators to actually confirm the forecasts by Fluxys or to at least understand what the impact on the income of Fluxys would be if the capacity contracting deviates from the forecasts. Both deviations from forecasted contracted capacity and the impact on regulatory account are relevant market information as it will enable market parties to forecast the impact on future tariff levels. Such a transparency will truly add to a favorable investment climate in Belgium (for industry and electricity generation) and international gas shipping (LNG and transnational pipelines).

Interdependency with IUK

The methodology chosen could reduce Fluxys Belgium revenue at the benefit of IUK.

The application of the CWD methodology is resulting in a very strong reduction of tariff for the IUK exit point (reducing Fluxys Belgium revenue at this point) allowing IUK to adapt its tariff continuously and to take the whole benefit of the spread. This evolution presents a risk for the Belgian system: it can transfer revenues from the Belgian system to the UK-based IUK company that – with no regulated revenue – is keeping within its accounts the value of any supplementary bookings.

This transfer is organized through two complementary mechanisms, depending whether the gas is coming from Zeepipe or Zeebrugge LNG or from ZTP:

- (i) for flows from Zeepipe or Zeebrugge LNG to IUK, shippers only pay the Zeeplatform fixed fee, and therefore do not finance the Belgian system, through a scheme that is unique in Europe, nearly all revenues being captured by IUK;
- (ii) for flows from ZTP to NBP, IUK has put in place a system that allows the company to capture the greatest possible value at the expense of Fluxys Belgium (where exit tariff is the lowest of all tariffs). Indeed, IUK is adjusting its reserve prices taking into account market information shortly before offering the products, and not only based on cost considerations.

Indeed, let's take the example of Q1 2019: all capacity under implicit auctions (50 % of IUK capacity) has been sold at a 59 c€/MWh IUK tariff versus a 34 c€/MWh IZT exit tariff. The resulting 83 c€/MWh cost to move gas from ZTP to Bacton was slightly below spreads to attract bookings. If IZT exit tariff was at 10 c€/MWh higher, it could be expected that IUK would have reduced its tariff accordingly to keep the same attractiveness for its products. As there are no auctions premium, no value has to be shared with Fluxys Belgium on a 50–50% basis. Little products were sold on the following PRISMA quarterly auctions, with no auction premiums, showing that the tariffs of the implicit auctions were indeed well adjusted to market conditions, and avoiding any premium value sharing between IUK and Fluxys Belgium.

The system is working similarly for shorter term auctions, where IUK is adjusting its monthly, daily, and intra-day reserves prices (with no floor) up to the publication of the auctions, to change reserve prices with a very short delay.

Therefore, FEBEG proposes a system similar to what is envisaged for the BBL. In case of excess IUK revenues, a certain amount should be integrated into Fluxys Belgium revenues and contribute to the allowed revenue.

Evolution of the regulatory account

FEBEG welcomes the efforts of Fluxys to effectively start reducing the accumulated amounts on the regulatory accounts by allowing the regulatory accounts to contribute to the tariffs for the tariff period 2020–2023. FEBEG considers it of utmost importance that the surpluses on the regulatory accounts are redistributed to the market as soon as possible in order to avoid discrimination between grid users: grid users that have a contract with Fluxys at this moment and have contributed to the surpluses on the regulatory accounts, should be able to benefit from lower tariffs. The current tariff proposal – i.e. to keep 100 MEUR on the regulatory account in 2023 – implies a too long delay between the overpayment and its reimbursement to the market, roughly 6 to 7 years. Reducing this delay will permit that shippers that have contributed to the account are reimbursed. Otherwise, the risk is that new shippers are reimbursed of the contribution of others.

On top of that, FEBEG wants to point out that the return of a substantial part of the surpluses on the regulatory account hides a significant tariff increase in 2024 for entry and domestic exit. Apart from the abovementioned cost allocation assessment and sensitivity analysis, market parties should be made aware of this expected significant tariff increase. The lack of information in the tariff proposal makes it impossible for market parties to predict the impact of possible evolutions on the regulatory account and how the remaining part will influence the following tariff periods. It would therefore be better that the tariffs for the period 2020–2023 strive to a full reduction of the regulatory account to 0 EUR. This would not only be fair to the historic capacity holders, but also would avoid that possible future shortfalls in income are pre-financed by the current market parties where it should be more economically and socially sound to have cost reductions and abandon or dispose of loss-making activities.

The reason given by Fluxys to keep a 100 MEUR in the regulatory account till 2023 is to avoid a significant rise in the next tariff period. According to FEBEG the predictability of the tariffs is much more important than trying to smooth their evolutions. Indeed, even a significant tariff evolution, if announced e.g. 3 years in advance, shall not be an issue for the market. Indeed, there are practically no wholesale market deals at this horizon so market players will be able to take into account such evolution in their prices. Moreover, it is too early to have a clear view on bookings for transits for the 2023–2026 period. Therefore, it is extremely difficult to anticipate now the extent of a potential tariff increase in 2023. Justification of the 100 MEUR figure is therefore thin.

Some tariffs are not defined in the tariff proposal

The 'Backhaul tariff at unidirectional points' and the 'Fix/flex tariff for CCGT' are not defined. FEBEG requests that those tariffs are added to the tariff proposal that is subject to consultation.

Allocation of transport tariffs for domestic exit

Introduction

The current allocation methodology to pass on gas transport tariffs for domestic exit is very complex. The 7% reduction of the transport costs in 2015 raised concerns with regard to the transparency of the transport costs billed to the distribution grid users. To avoid such a discussions in the future, FEBEG pleads to modify the way transport costs are passed on to the distribution grid users.

Evaluation of the current methodology

For the moment domestic exit costs are billed to the shipper. These transport costs are passed on to the supplier that, in turn, bills them to the end consumer. This process is not so straightforward:

- The transmission system operator calculates the real domestic exit costs for each shipper and bills them to that shipper ‘ex post’. End consumers prefer to have an energy price in EUR/kWh. To be able to offer and determine a price for the end consumer for the next year(s), the shipper/supplier will thus have to estimate the domestic exit costs ‘ex ante’. The domestic exit costs integrated in the supply contract and passed on to the end consumer will thus by definition not correspond – one on one – to the real domestic exit costs billed by the transmission system operator.
- The shipper/supplier will have to make several assumptions with regard to his portfolio to be able to come up with an estimated domestic exit cost by end consumer. What will be the share of each GOS¹ (different tariff, different GCV², ...) in the portfolio the coming year? What will be the split between high calorific and low calorific gas in the next year. Will it be a cold or a warm year? How will the customer segments evolve in the portfolio? As a result, the estimated domestic exit costs will be different from shipper to shipper.
- The current model also entails huge risks for the shippers/suppliers. Suppliers underestimating the domestic exit costs will not be able – due to the contracts with end consumers – to pass on these costs. Suppliers – on the other hand – that have overestimated the domestic exit costs, were not be able to offer attractive prices.

With the objective to increase the transparency on the whole of the gas transport costs towards the end consumer, CREG has obliged the suppliers to mention their own calculation of the transport costs or an indicative calculation – elaborated and published by the transmission system operator – on the bill to the end consumer. The calculation by the shipper is based on his own assumptions and the indicative calculation of the transmission system operator is an overall average for the system and doesn’t take into account the shippers’ portfolio: both are by definition not an accurate reflection of the real transport costs billed to a specific shipper.

The current model has several downsides:

- for the shipper: administrative burden, operational complexity and business risks;
- for the end consumer: no transparency and domestic exit costs differing from shipper to shipper;
- for the regulators: no transparency and difficult monitoring and audit processes.

Overview of alternatives

FEPEG is convinced that a modification of the methodology should first of all be done in the interest of the end consumers: the regulated transport costs should be made more transparent towards the end consumers without the need to include avoidable risk premiums. At the same time the shipper community is committed to support more standardization and to abandon competition on the domestic exit costs. Other methodologies could also have additional advantages for both shippers as the regulators: transport costs can become auditable, complex monitoring processes can be avoided, the risks for shippers (climate, conversion kW to kWh, ...) can be eliminated, the administrative burden for shippers and the operational complexity can be lowered, ...

¹ GOS (Geaggregeerd Ontvangst Station): Aggregated Substation.

² GCV: Gross Calorific Value.

Important to mention is that the inherent system risks (climate, ...) remain the same: the total cost that will be passed on to the end consumer will as a consequence also remain the same. The discussion is thus more on how these costs are passed on and how this can be done in the most transparent and auditable way to secure the lowest price for profiled customers.

Options for domestic exit costs	Transparency towards end consumer	Decreased costs and risks for suppliers	Monitoring and audit processes	Implementation
Current system	No transparency	No	Difficult	Done
Current system with indicative TSO calculation	Very limited transparency (domestic exit costs are not split of other transport costs and the indicative calculation has no link with the portfolio of the shipper)	No	Difficult	Done
Current system with own calculation	Limited transparency (domestic exit costs are not split of other transport costs and transport cost are artificially split - based on assumptions of the shippers - of the commodity costs)	No	Difficult	Costly implementation for shippers/suppliers with no added value
Uniform volumetric tariff in EUR/kWh set by TSO for all end users or by segment	Yes, suppliers apply the same tariff for all end users or by segment of end users (only limited differentiation possible)	Yes, suppliers pass on TSO costs 'one on one' to end consumers and the TSO can use a neutrality account to fade out climate risk	Yes, methodology approved and monitored by CREG	Limited implementation cost and time for shippers/suppliers
Uniform fixed tariff in EUR/year set by TSO by segment of end users	Yes, suppliers apply the same tariff by segment of end users (only limited differentiation possible)	Yes, suppliers pass on TSO costs 'one on one' in function of average peak capacity by segment (no climate risk)	Yes methodology approved and monitored by CREG	Limited implementation cost and time for shippers/suppliers
<i>Cascade model</i>	Yes, full transparency via DSO tariffs and detailed differentiation is possible	Yes, domestic exit costs are passed on to end consumers in function of the peak capacity of the end consumer (no climate risk)	Yes, methodology approved and monitored by CREG	Limited impact for shippers/suppliers but large project in cooperation with all DSO's

Proposal to introduce a uniform fixed tariff in EUR/year for domestic exit

FEPEG proposes to introduce a uniform fixed tariff in EUR/year. Such a tariff would be uniform by segment – based on the capacity of the connection – of end consumers and set according to a methodology that can be approved and monitored by the regulator. The supplier will invoice this uniform tariff by segment to all end consumers in that segment which is completely transparent towards to the end consumers.

A uniform fixe tariff in EUR/year has as additional advantage that the tariff is related to capacity – i.e. average peak capacity by segment – and is thus in line both with the businesses and operations of the transmission system operator that are based on capacity as with the evolutions at regional level where capacity based tariffs are being developed.

Fluxys would also considerably facilitate market functioning by the introduction of a uniform fixed tariff in EUR/year as would considerably decrease costs and risks for shippers and suppliers.
