



CONSULTATION ON THE MAIN EXPECTED STORAGE
TARIFFS EVOLUTIONS IN FLUXYS BELGIUM'S 2020-2023
TARIFF PROPOSAL

23 October 2018

Disclaimer

This document has been prepared by Fluxys Belgium SA/NV in the process of elaboration of the next tariff proposal for the period 2020-2023, solely for consultation purposes. It aims at providing information on possible future tendencies and on main expected evolutions. Numbers and parameters contained in this document are indicative best estimates subject to possible 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 directors 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 organizing a consultation of the relevant natural gas companies on the key factors in the expected storage tariffs for 2020-2023.

This consultation document starts with a description of the overall framework in which Fluxys Belgium is developing its tariff proposal. With the aim to provide information to network users on possible evolutions of the storage tariffs for the next tariff period, the expected evolution of the main parameters influencing these tariffs are then described: costs, fair margin, sales volumes and tariff calculation principles.

Overall, Fluxys Belgium expects tariff levels for storage to be in line with the 2018 tariffs indexed, due to:

- A decrease of costs compared to last tariff period, enabled thanks to efficiency efforts;
- Complementary sales on top of the existing long term contracts;
- The utilization of the regulatory account from the past.

The proposed tariff structure will remain unchanged compared with the current tariff structure.

2 INTRODUCTION

2.1 Consultation procedure and scope

According to Article 13 of the procedure for the introduction and approval of tariff proposal and tariff modifications, as concluded between CREG and Fluxys Belgium on 24 January 2018 and published on CREG's website¹, Fluxys Belgium organizes a consultation of the relevant gas companies before it submits its tariff proposal to the CREG approval. This consultation will be open from 23 October 2018 until 22 November 2018. Relevant gas companies interested to react to this consultation are invited to react (please refer to chapter 8 of this document).

Following the consultation, the system operator must draw up a consultation report explaining how and why the various comments have or have not been taken into account. The comments from the stakeholders and a consultation report will be submitted as appendices to the tariff proposal.

Previously, CREG already held a public consultation on the tariff methodology for 2020-2023, 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 on 8 June 2018. In absence of any additional comments and since the preparatory procedure laid down by law had been completed, CREG adopted the decree (Z)1110/11² establishing the tariff methodology for the natural gas transmission system, natural gas storage facilities and LNG facilities on 28 June 2018. The allowed revenue for years 2020 to 2023 is set in accordance with this CREG Methodology.

¹ <https://www.creg.be/sites/default/files/assets/TarifsPublications/FluxysOthers/TarMethodo20-23/20180124-Accord-FluxysFlxFRcoord.pdf>

² <https://www.creg.be/fr/publications/decision-z111011>

2.2 Aims of this consultation

This document aims at informing network users and relevant natural gas companies of main expected indicative changes and tendencies in future tariffs. The objective is to gather stakeholders' feedback before submitting a tariff proposal to CREG for period 2020-2023.

2.3 Document structure

This document begins by describing the general context within which Fluxys Belgium has drawn up its tariff proposal, before outlining the main expected changes in terms of operational costs, sales volume and remuneration for the 2020-2023 tariff period. It then explains the general tariff calculation principles.

3 GENERAL CONTEXT

3.1 Economical context

This consultation presents the evolution of storage tariffs for the period 2020-2023 in an economical context for storage that depends strongly upon the summer/winter spread for gas prices.

Storage has multiple roles to play in the gas market:

- Seasonal value: coverage of the summer oversupply and winter demand spread, which is reflected in the summer-winter spreads;
- Insurance value: gas storage contributes to security of supply by securing the possibility to have gas in stock and injection throughput to cover a peak of consumption during a supply disruption. It also smooths gas prices during these disruptive conditions;
- System value: gas storage supports efficient dimensioning and use of networks, and;
- Short term value: gas storage enables arbitrages on a range of short term temporal dimensions, which are reflected in gas price volatility.

However, today valuation of storage by the market mainly takes into account its seasonal value (intrinsic value), and to a lesser extent the short term value (extrinsic value). Insurance value and system value are not considered by the market for valuation, even though these values delivered by the system operator create an important benefit to the gas consumers connected to the grid.

On the other hand gas producers and market places now offer a high level of flexibility, resulting in low to very low summer/winter spreads. This has a direct impact on the competitiveness of gas storages. This disadvantage is further reinforced by measures taken in neighbouring countries where storage is sold to the market at very low prices with the purpose of boosting storage bookings³ and filling levels, in order to cover security of supply in case production would be interrupted.

In this context, ensuring the viability of storage facilities in the long run is challenging. This is a concern that will need to be tackled in the near future.

Nevertheless, for the tariff period 2020-2023, it is proposed to keep the storage tariffs unchanged.

³ For example storage obligations in France

3.2 Regulatory framework

CREG recently published a tariff methodology establishing a framework for the calculation of tariffs. The tariff proposal will be established in accordance with this framework.

3.3 Sales of storage services

Future sales will continue to depend upon the summer/winter spread for gas prices. Only when this spread is high enough can the storage operator expect more demand for its storage services. As the summer/winter spread is currently much below the intrinsic cost of the storage services – and should remain so in the future in the context over oversupply by production and the introduction of the supportive measures for storage as in France – there is uncertainty about sales of storage capacity in the next years offered via the principles of a merchant model.

4 CHANGES IN COSTS, REMUNERATION AND SALES VOLUME

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. This “allowed revenue” is made up of the system operator’s costs and the system operator’s remuneration. This “allowed revenue” is increased or decreased with the foreseen movements of the regulatory account⁴.

This section outlines the expected changes in costs and remuneration, as well as the expected sales volumes.

4.1 Costs

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

Thanks to the realized efficiency efforts, operational costs used to calculate tariffs for 2020-2023 should be lower compared to the budget of previous tariff period.

In view of the planned investments for the 2020-2023 period, depreciation costs for the 2020-2023 tariff period should remain stable compared to the 2016-2019 period.

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.

Since investments are set to be in line with investments in the previous tariff period but inferior to depreciation, we expect that the regulated asset base will be inferior in the 2020-2023 tariff period than in the current tariff period.

⁴ Movements of the regulatory account will take the form of returning any positive balance on the account (past surpluses, constituting a regulatory liability) or recovering any negative balance on the account (past deficits, constituting a regulatory asset).

Rate of return

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

4.3 Expected changes to the regulatory account

The latest CREG approval of the regulatory account was on the 2017 tariff report⁵.

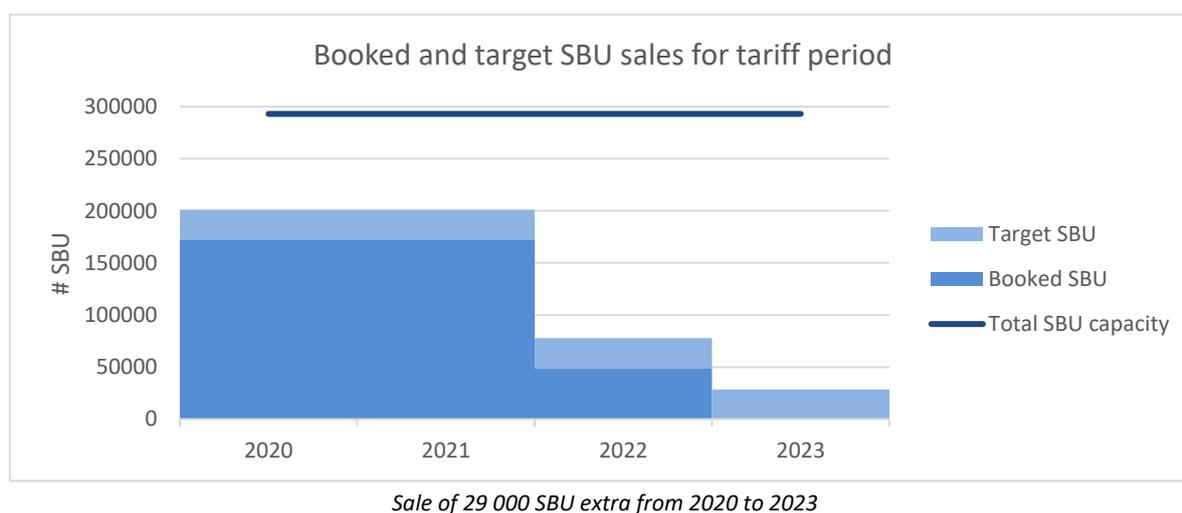
For storage, the balance of the regulatory account at 31 December 2017 was €12 million (regulatory liability). Since we expect surplus in the storage activity in 2018 and 2019 of €2,5 million (lower fair margin and regulatory asset from previous tariff period) the regulatory account is estimated to be at €17 million at the end of 2019.

The balance of the regulatory account will be entirely reinjected in the tariff proposal of the next period to ensure stable storage tariffs.

4.4 Sales volume

Part of the available capacity was subscribed in 2012 for a ten-year period, so it can be included in the tariff calculation. However, any new capacity subscriptions that could be taken into account for the 2020-2023 period will be heavily dependent on market conditions⁶, and at present it is difficult to estimate how much capacity will be subscribed.

In order to maintain the storage tariffs stable for the 2020-2023 period, we are targeting extra sales of €19 million over the four years of the tariff period. This is an ambitious target but necessary to comply with our goal of stable tariffs. This translates into the sale of the equivalent of 29 000 SBU⁷ extra per year during the four years of the tariff period.



⁵ In its decision of 12 July 2018, CREG established the level of the regulatory account for storage activities on 31 December 2017 at €12,598,834.

⁶ We believe that the summer-winter spread is the key factor in the assessment of the storage products offered at Loenhout, and thus in market players' decision whether to subscribe storage capacity at Loenhout (or anywhere else for that matter).

⁷ Standard Bundled Unit: see Storage Programme for more information

(http://www.fluxys.com/belgium/en/Services/Storage/StorageModel/~//media/Files/Services/Storage/ConditionsAndTariffs/20140613/Fluxys_StorageProgramme_EN.ashx)

4.5 Conclusion

In conclusion, we can say that following elements will play an important role in shaping the storage tariffs for the 2020-2023 tariff period, compared to the 2016-2019 period:

- lower total “allowed revenue”, mainly due to:
 - o lower operational costs, thanks to Fluxys Belgium’s efforts to increase efficiency;
 - o a reduction in the RAB;
- extra sales volume necessary to maintain stable tariffs, potentially in the form of:
 - o yearly extra sales or;
 - o partial renewal of long term contracts.

Based on this and given the use of the regulatory account, Fluxys Belgium expects, on the whole, tariffs that will remain stable compared to the tariffs for the current tariff period.

5 TARIFF CALCULATION PRINCIPLES

The tariff calculation principles remain similar to those applied in the 2016-2019 regulatory period.

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

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 of the storage (e.g. compressor fuel, drying, ...) and are covered by a withdrawal in kind (known as Gas in Kind).

6 CHANGES IN TARIFFS

As explained above, Fluxys Belgium expects the tariffs for 2020-2023 to be stable with regard to the tariffs applied during the 2016-2019 tariff period.

7 TARIFF SHEET

No changes are expected to the tariff sheet. Storage tariffs for period 2020-2023 will be an inflated version of the tariffs for 2019.

8 INVITATION TO REACT

We 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 22 November 2018.