



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

2 – 20 September 2019

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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 of 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 decrease in the tariff period 2020 - 2023, thanks to:

- A decrease of costs compared to previous tariff proposal 2016-2019, enabled by efficiency efforts;
- Additional sales on top of and after the expiration of the existing long term contracts (reinforced by the potential introduction of an auction mechanism for storage capacities sales);
- The utilization of the major part 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 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 approval of the CREG. This consultation will be open from 2 September 2019 until 20 September 2019. Relevant gas companies interested to react to this consultation are invited to react (please refer to paragraph 8 of this document).

Following the consultation, the system operator must draw up a consultation report explaining how and why the various comments were or were not taken into account in the tariff proposal. The comments from the stakeholders and the 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

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>

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.

2.2 Aim 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 fair margin for the 2020-2023 tariff period. It then explains the general tariff calculation principles and presents indicative tariffs for the main storage services in 2020.

3 GENERAL CONTEXT

3.1 Economic context

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

Storage has multiple roles to play in the gas market:

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

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

However, today's valuation of storage by the market mainly takes into account its seasonal value and to a lesser extent the short term value.

Several changing parameters influence the construction of the summer/winter spreads. On the one hand gas producers and market places now offer a high level of flexibility, which tends to reduce the summer/winter spreads while on the other hand specific weather conditions (e.g. a mild winter) and supply patterns (e.g. high LNG supply) can also influence gas price formation and – as in 2019 – increase the summer/winter spreads. These conditions make it very difficult to predict gas storage use on the long term. This results also in a competitive environment for gas storages. This competition is further reinforced as other European countries are putting mechanisms in place with the purpose of boosting storage bookings and filling levels, in order to ensure security of supply while reflecting the system and insurance values of the storage installations.

In this context, Fluxys Belgium is working together with CREG and FPS Economy to develop a reviewed sales mechanism based on auctions in order to better match the market value of storage and to ensure storage bookings.

3.2 Regulatory framework

CREG published on 28 June 2018 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

As in 2019, Fluxys Belgium will continue to offer its storage services under the form of Standard Bundled Units (SBU) and to optimize its unbundled yearly products in order to offer storage services as competitive as possible with regard to the summer/winter spreads.

As explained above, Fluxys Belgium is furthermore working with CREG and FPS Economy on new mechanisms to facilitate the sales of storage capacity.

In any case, sales of storage services will be exposed to market demand and valuation. Fluxys Belgium will as always try to proactively answer to the market needs.

4 CHANGES IN COSTS, FAIR MARGIN 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. The allowed revenue is made up of the system operator’s costs and the system operator’s fair margin. The allowed revenue is increased or decreased with the foreseen movements of the regulatory account³.

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

4.1 Costs

Operating 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.

³ 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).

Since investments are inferior to depreciation, Fluxys Belgium expects that the regulated asset base in the 2020-2023 tariff period will be inferior than the one in the current tariff period.

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 Expected changes to the regulatory account

The latest CREG approval of the regulatory account was on the 2018 tariff report⁴.

For storage, the balance of the regulatory account on 31 December 2018 was almost €17 million (regulatory liability). Since Fluxys Belgium expects surplus in the storage activity in 2019 of €12,5 million (thanks to cost reduction, additional sales in 2019 and due to a lower allowed fair margin) the regulatory account is estimated to be at €29,5 million at the end of 2019.

Fluxys Belgium proposes to use almost €25 million over the 2020-2023 tariff period to the benefit of the storage tariffs and to carry forward €5 million to the next regulatory period.

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. Any new capacity subscriptions that could be taken into account for the 2020-2023 period will be heavily dependent on market conditions⁵, and it is therefore difficult to estimate how much capacity will be subscribed.

Fluxys Belgium is targeting additional sales of €14 million over the four years of the tariff period. This is in line with the sales realized in the recent years and could be eased by the new sales mechanism currently under study in collaboration with CREG and FPS Economy.

4.5 Conclusion

In conclusion, Fluxys Belgium expects tariff levels for storage to decrease in the tariff period 2020 - 2023, thanks to:

- A decrease of costs compared to previous tariff proposal 2016-2019, enabled by efficiency efforts;
- Additional sales on top of and after the expiration of the existing long term contracts (reinforced by the potential introduction of an auction mechanism for storage capacities sales);
- The utilization of the major part of the regulatory account from the past.

For SBU's, the decrease should be of the order of 13% compared to the 2019 tariff indexed to 2020 (1,8%).

⁴ In its decision of 11 July 2019, CREG established the level of the regulatory account for storage activities on 31 December 2018 at €16.946.933.

⁵ Fluxys Belgium believes that the summer/winter spread is a 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).

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 (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 decrease with regard to the tariffs applied during the 2016-2019 tariff period.

7 TARIFF SHEET

Please find hereunder an indicative extract of the tariffs for the main storage services in 2020.

Tariffs for storage services of Fluxys Belgium SA

Draft

<u>LOENHOUT</u>	<u>2020</u>	
Standard Unit	141,91	€/Standard Bundled Unit/year
Firm Injection Capacity	41,97	€/m ³ (n)/h/year
Firm Storage Capacity	1991,59	€/GWh/year
Conditional Storage Capacity	1991,59	€/GWh/year
Firm Withdrawal Capacity	25,47	€/m ³ (n)/h/year
Conditional Injection Capacity	16,79	€/m ³ (n)/h/year
Conditional Withdrawal Capacity	10,19	€/m ³ (n)/h/year
Interruptible Day Ahead Injection Capacity	41,97	€/m ³ (n)/h/year
Interruptible Day Ahead Withdrawal capacity	25,47	€/m ³ (n)/h/year

In Loenhout, Gas in Kind is 1% of the injected quantities and 0,5% of the withdrawn quantities

8 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 6.00 p.m. on 20 September 2019. 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.