



CONSULTATION ON THE MAIN EXPECTED  
STORAGE TARIFFS EVOLUTIONS IN FLUXYS  
BELGIUM'S AMENDED TARIFF PROPOSAL

17 May 2021 – 4 June 2021

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## **Disclaimer**

This document has been prepared by Fluxys Belgium SA/NV in the process of amending the storage tariff proposal for the period mid2021 – 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 amended storage tariffs for mid-2021 – 2023.

After a tariff reduction of almost 18% in 2020 and thanks to positive commercial achievements, Fluxys Belgium is proposing an additional reduction of 30% on its storage services as of mid-2021.

Furthermore, this amended tariff proposal is an opportunity to define tariffs for Fluxys Belgium's reviewed service offering of golden SBU (standard bundle unit), priority booster capacity and booster capacity.

In a continuous effort to further improve its service offering, Fluxys Belgium is also introducing new selling mechanisms and studying with CREG and FPS Economy the possibility to be more flexible in setting the reserve price of its services, below or above the regulated tariff, in case they are sold in an auction. This would allow Fluxys Belgium to align its service offer with market conditions and be more competitive.

## 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 website<sup>1</sup>, Fluxys Belgium organizes a consultation of the relevant gas companies before it submits its amended tariff proposal to the approval of the CREG. This consultation will be open from 17 May 2021 until 4 June 2021. Relevant natural gas companies are invited to react to this consultation (please refer to section 7 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 considered in the amended tariff proposal. The comments from the stakeholders and the consultation report will be submitted as appendices to the amended tariff proposal.

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

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)1110/11<sup>2</sup> 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.

## 2.2 Aim of this consultation

This document aims at informing network users and relevant natural gas companies of the main expected changes to the current storage tariffs and to define tariffs for the new services developed in the context of the new commercial storage model which is consulted in parallel of this consultation on tariffs<sup>3</sup>.

The objective is to gather stakeholders' feedback before submitting an amended tariff proposal to CREG for period mid-2021 – 2023.

## 3 GENERAL CONTEXT

### 3.1 Economic context

This consultation presents the evolution of storage tariffs for the period mid-2021 – 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 spread;
- 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

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

<sup>3</sup> See more information on the consultation about the new commercial storage model on [https://www.fluxys.com/en/news/fluxys-belgium/2021/210510\\_consultation51\\_newstoragemodel](https://www.fluxys.com/en/news/fluxys-belgium/2021/210510_consultation51_newstoragemodel)

operational means for system flexibility, market-based balancing and in case of incident.

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

Several changing parameters influence the construction of the summer/winter spread. On the one hand gas producers and market places now offer a high level of flexibility, which tends to reduce the summer/winter spread 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 increase the summer/winter spread fluctuation. 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.

In this context, Fluxys Belgium worked together with CREG and FPS Economy to develop reviewed storage services and sales mechanism based on auctions in order to better match the market value of storage and to ensure storage bookings. Work is still in progress to further align on market conditions by allowing more flexibility in setting the reserve price, below or above the regulated tariff, in case of an auction. This would however imply a change in the Gas Law, potentially by end of 2021 or in the course of 2022.

## **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 New commercial storage model**

In a continuous effort to improve its service offering, Fluxys Belgium is proposing adjustments to its storage services with a focus on (i) a new simplified and optimized SBU product, (ii) introducing new selling mechanisms, (iii) offering interruptible storage services<sup>4</sup>.

### **New simplified and optimized SBU product**

In order to simplify the main storage product, Fluxys Belgium proposes to introduce a new SBU product – golden SBU. Compared to the current SBU product (default SBU), the conditional part of the golden SBU for injection, withdrawal and volume capacities will be removed so that the golden SBU will be composed of firm

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<sup>4</sup> For a full presentation of the new model, please refer to the abovementioned consultation on the new commercial storage model

capacities only. Furthermore, the composition of the golden SBU is modified in order to optimize the commercial capacity offered to the market.

## Introducing new selling mechanisms

Today, Fluxys Belgium has already different selling mechanisms to sell its storage capacities (auction; subscription window; first-committed-first-served). In order to give storage users more flexibility during the booking process, Fluxys Belgium would like to introduce two new selling mechanisms.

Firstly, Fluxys Belgium proposes to have the possibility for auctioning its storage services via call options. The call option ensures that the storage operator will 'reserve' storage services requested by the storage user for a predefined period. During this period, the storage user has the right, but not the obligation, to exercise its call option and buy storage services accordingly, at the strike price (a tariff defined by the storage operator).

Secondly, Fluxys Belgium proposes to have the possibility for selling its storage services in a 'one step' auction by using an auction form. With this selling mechanism, the bidder indicates on the auction form the requested quantity, the duration and the price at which he would like to buy the storage service.

## Interruptible storage services

In order to give storage users the possibility to speed up their SBU, Fluxys Belgium proposes to offer interruptible injection and withdrawal capacities that can be booked for a longer term (seasonal, quarterly, monthly, ...), commercialised as priority booster capacity. With this product, storage users have priority on the unused capacities for the subscribed period and with a maximum amount conform the subscribed priority booster capacities.

In line with the introduction of the priority booster capacity, Fluxys Belgium renames its existing unused capacity service (DAM/NNS), under which a storage user can nominate above its subscribed capacity, into booster capacity service.

For the avoidance of doubt, these capacities are interruptible since the unused capacities depend on the daily nominations of storage users.

# 4 TARIFF CALCULATION

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.

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.

Knowing the allowed revenue and the reference capacity assumptions, storage tariffs that fully cover the allowed revenue can be determined.

## 4.1 Costs

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

These costs will remain in line with the ones presented in the tariff proposal 2020-2023 consulted in 2019.

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).

## 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.

While investments are needed to ensure the future of the storage installation, the regulated asset base will remain in line with the one presented in the tariff proposal 2020-2023 consulted in 2019.

### Rate of return

The rate of return is calculated in line with Articles 16 to 20 of the tariff methodology and remains the same as the one presented in the tariff proposal 2020-2023 consulted in 2019.

## 4.3 Reference capacity

To determine the storage tariffs, the sale of 250 000 golden SBUs with the following composition is considered over the coming years:

Injection [MWh/h]	Storage Volume [MWh]	Withdrawal [MWh/h]
0,0113	30,43768	0,022374

## 4.4 Storage tariffs

Based on the assumptions above, Fluxys Belgium determined the golden SBU tariff that balances the allowed revenue of the storage installation. This tariff is based on the composition of the golden SBU and the separate tariffs for injection capacity, withdrawal capacity and storage volume. Compared to the tariffs defined for the tariff period 2020-2023, it corresponds to a tariff reduction of 30% (see Annex A for the detailed tariffs).

This reduction will also apply on the default SBU.

## 4.5 Sales volume

The tariff reduction of 30% will help Fluxys Belgium position its storage services competitively on the market. However, depending on the market conditions, these tariffs could still be higher than the summer/winter spread. In this case, Fluxys Belgium will take advantage of its ability to define additional services or to be more flexible in setting the reserve price of its auctions<sup>5</sup> to align its tariff on the market conditions. In such situation, the regularization account<sup>6</sup> will be used to compensate the missing allowed revenue.

Fluxys Belgium is targeting additional sales above the already booked services of €22 million until the end of the tariff period. This is in line with the market conditions observed lately.

# 5 CHANGES IN TARIFFS

As explained above, Fluxys Belgium expects the tariffs for mid-2021 – 2023 to decrease with 30% compared to the tariffs defined in the tariff proposal approved by CREG in 2019.

Furthermore, Fluxys Belgium defines the tariffs for the new services of priority booster capacity and booster capacity

- the tariff for the priority booster capacity for injection (resp. withdrawal) will be equal to 80% of the tariff for the firm capacity for injection (resp. withdrawal); and
- the tariff for the booster capacity for injection (resp. withdrawal) will be equal to the tariff for the firm capacity for injection (resp. withdrawal).

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<sup>5</sup> After the required change to the Gas Law

<sup>6</sup> In its decision of 2 July 2020, CREG established the level of the regulatory account for storage activities on 31 December 2019 at €32.402.647.



Finally, Fluxys Belgium decided to remove the membership fee for the booster capacity (previously membership fee for DAM/NNS) and to remove the tariff for the additional support service for the gas stored in Loenhout.

## 6 TARIFF SHEET

Please find the amended tariffs for the main storage services in 2021 in Annex A.

To take into account the fact that injection and withdrawal capacities in the composition of the golden SBU are now expressed in energy, the injection and withdrawal capacity tariffs are now expressed both in volume (€/m<sup>3</sup>(n)/h) and energy (€/MWh/h).

Finally, to offer a better overview of the storage tariffs, Fluxys Belgium decided to give an indication of the value of its tariffs for 1 MWh.

## 7 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](mailto:marketing@fluxys.com) and this before 6.00 p.m. on 4 June 2021. 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.