Publication of information according to Article 30 (1) (b) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

26 December 2018

Fluxys Belgium SA

Introduction

In the framework of the implementation of the Network Code on Harmonised Transmission Tariff Structures for Gas ('TAR NC') Fluxys Belgium publishes hereby the information related to Article 30 (1) (b).

The present publication is for the current year (i.e. 2018) based on the Fluxys Belgium 2016-2019 tariff proposal and amended in 2017 for years 2018 and 2019 as approved by the Belgian NRA, CREG ("Commission de Régulation de l'Electricité et du Gaz"), in its decision (B)656G/34 of 24 May 2017. This tariff proposal was made in accordance with the tariff methodology set by CREG in its decree "Arrêté (Z)141218-CDC-1110/7" of 18 December 2014.
This tariff methodology stipulates that the budgeted figures in the tariff proposal have to be updated ex-post based on the actual figures in a yearly settlement and then defining the effective over/-under recovery amount and its impact on the regulatory account.
All the figures given hereunder are for 2018 hence they are budgeted figures except for the over/-under recovery amounts and the amount of the regulatory account which are the last actual ones, i.e. 2017.

Art. 30 (1) (b) (i) – Information on the allowed and/or target revenue

The 2018 budgeted allowed revenue as per the approved tariff proposal amounts to 365,5 MioEUR (after use of the regulatory account). This amount is subject to ex-post settlement depending on the 2018 actuals for all components of the allowed revenue (i.e. RAB, WACC, depreciations, OPEX,…).

Art. 30 (1) (b) (ii) – Information related to changes in the revenue

The allowed revenue decreases in 2018 compared to 2017 because of the tariff reduction which is made possible thanks to (i) the planned use of the regulatory account in the 2016-19 approved tariff proposal and (ii) an additional use of the regulatory account of 51MioEUR over 2018 and 2019 (tariff reduction of 4,5% and indexation suspension in 2018) as approved by CREG on 24 May 2017.
The allowed revenues 2018 are still budget based and will be actualized ex-post in the yearly settlement to be approved by CREG for the purpose of calculating the actual regulatory account at end 2018. These figures will be known in the course of 2019.

Art. 30 (1) (b) (iii) – Information related to the following parameters: types of assets included in the RAB and their aggregated value, cost of capital and its calculation methodology, capital expenditures, operational expenditures, incentive mechanisms and efficiency targets, inflation indices

(1) Types of assets included in the RAB and their aggregated value

The assets include about 4000km of pipelines, 18 physical interconnection points with their metering stations, 4 compression stations, gas quality conversion stations, administrative and operational buildings, ...

The regulated asset base considered amounts to 2.336,4 MioEUR. This figure is the budgeted mid-year amount as foreseen in the tariff proposal and subject to ex-post settlement.

(2) Cost of capital and its calculation methodology

The budgeted pre-tax Weighted Average Cost of Capital (WACC) considered for the tariff calculation is of 4,65% (budget 2018) and will be reviewed ex-post in the tariff settlement depending on the actual 2018 actual value of the financial parameters influencing it.

The calculation methodology for the WACC is defined in the CREG's decree (Z)141218-CDC-1110/7 of 18 December 2014. It is based on the Capital Asset Pricing Model whose main parameters are the risk free rate and the market risk premium attributed to the TSO. The risk free rate is based on the 10 year OLO as published by the National Belgian Bank and budget values are reviewed ex-post in the yearly settlement based on the actuals. The other parameters in the WACC calculation are the Market Risk Premium (MRP) fixed at 3.50%, the Bêta (β) fixed at 0.65, an illiquidity premium (α) of 20%, a Debt Risk Premium of 0.7% and an S-factor reflecting the equity/RAB ratio.

If S > 33% ,

$$WACC = \frac{(OLO + MRP \times \beta)}{1 - Taxes} \times 33\% \times (1 + \alpha) + \frac{(OLO + DRP)}{1 - Taxes} \times (S - 33\%) + \text{Cost of Embedded Debt}$$

Certain specific infrastructures benefit from a more favourable level of fair margin.

(3) Capital expenditures (CAPEX)

The 2018 CAPEX as budgeted in the tariff proposal as approved by CREG on 24 May 2017 amounts to 26,8 MioEUR.

The initial value of the assets was evaluated based on reports from independent experts and auditors upon CREG request. The end 2012 RAB amounted to 2.223,6 MioEUR as set in the CREG's tariff methodology decree of 18 December 2014.

Re-evalutions of the assets were calculated based on the difference between the booked value at that time and the CREG decision.

The end year RAB increases with the CAPEX made in the year and decreases with the depreciations included in the tariffs and value reductions of the year. Possible subsidies are deducted as well. The re-evaluation is not depreciated in the tariffs.

The depreciation periods are: 50 years for pipelines, 33 years for compression stations, pressure reduction stations, metering and blending stations; 33 years for industrial buildings and 50 years for administrative buildings; 10 years for tools and furniture; 5 years for small equipment and IT softwares. However some other methods can apply based on the tariff methodology. The total depreciation amount included in the tariff budgeted in 2018 is of 78,1 MioEUR.

(4) Operational expenditures (OPEX)

The budgeted OPEX for 2018 as approved by CREG in its 24 May 2017 decision amounts to 216,9 MioEUR (commodity excluded).

(5) Incentive mechanisms and efficiency targets

In the CREG's tariff methodology decree of 18 December 2014 an incentive mechanism is put in place based on the management of the manageable operational expenditures. 50% of the difference between the approved budgeted OPEX and the realized OPEX can remain with the TSO while the other 50% remain with the regulatory account hence the tariffs.

(6) *Inflation indices*

The assumptions regarding the inflation indices for the budget are taken from the publications by the Belgian Federal Planning Bureau. The ex-post settlement is based on the realized figures. The budget value for 2018 was 1,60%.

Art. 30 (1) (b) (iv) – Transmission services revenue

The 2018 revenue was already set up before the TAR NC entered into force hence the split up between transmission and non-transmission revenues was not part of the tariff methodology.

A possible assumption would be that transmission revenues would at least include the entry revenues from IPs and non CAM border points and the exit revenues from the IPs, non CAM borders points and the domestic exit points. Based on this assumption the transmission services revenues would then amount for 2018 to at least 297,7 MioEUR out of the 365,5 MioEUR.

Art. 30 (1) (b) (v) – Following ratios for the revenue referred to in point (iv): capacity-commodity split, entry-exit split and cross-border–domestic split

Based on the budgeted figures for 2018 from the 2016-19 tariff amended in 2017 as approved by CREG indicative ratios can be calculated even if they are not part of the tariff methodology at the basis of the tariff proposal.

The capacity/commodity split would be around ~96%/4% showing the tariffs are mainly capacity based.

The entry/exit split would be around ~30%/70%.

The cross-border-domestic split can't be calculated in the current tariff model as it does not consider forecasted capacities per IP and does not make the difference between forecasted cross-border entry capacities and domestic entry capacities.

Art. 30 (1) (b) (vi) – if non-price cap regime, following information related to the previous tariff period regarding reconciliation of the regulatory account: (1) the actually obtained revenue, the under- or over-recovery of the allowed revenue and the part thereof attributed to the regulatory account and, if applicable, sub-accounts within such regulatory account; (2) the reconciliation period and the incentive mechanisms implemented

The regulatory account and the under- or over-recovery for 2018 is not yet known as they are based, by definition, on the actuals 2018 that are not yet available. The figures given hereunder are therefore for the previous year (i.e. 2017).

(1) Evolution of the regulatory account in 2016:

The 2017 contribution to the regulatory account amounted to 66,6 MioEUR mainly thanks to the efficiency efforts undertaken by Fluxys Belgium to the benefit of both the tariffs and the TSO and due to the low risk free rate (i.e. Belgian OLOs) in 2017 which implied a reduced margin for the TSO.

The uses of the regulatory account amounted to 30,3 MioEUR which were returned to the tariffs in 2017 (including regulatory account used for investments).

The net evolution of the regulatory account in 2016 was then of +36,3MioEUR. This 2017 settlement was approved by CREG in its decision (B)656G/36 on 9 May 2018.

(2) Reconciliation period and the incentive mechanisms implemented

The approved tariffs in May 2017 budgeted a use of the regulatory account over 2018-2019 of 140,3 MioEUR to the benefit of the tariffs and 41,5 MioEUR were budgeted to be used for investments.

The incentive mechanism in place is manageable OPEX related and is given under (iii) (5) here above.

Art. 30 (1) (b) (vii) – The intended use of the auction premium

The auction premiums are shared 50/50 between Fluxys Belgium and the adjacent TSOs where relevant. The Fluxys Belgium share of the collected auction premiums, if any, is then accumulated in the regulatory account. The intended use of the auction premium is then the one of the regulatory account as explained under (vi) here above.