

## **Febeliec answer to the CREG Public Consultation (PRD)1110/9 on the proposal of decision on the tariff methodology for the transport grid of natural gas, the storage facilities for natural gas and the LNG facilities for the regulatory period 2020-2023**

Febeliec would like to thank the CREG for the opportunity to provide its input and comments on the public Consultation (PRD)1110/9 on the proposal of decision on the tariff methodology for the transport grid of natural gas, the storage facilities for natural gas and the LNG facilities for the regulatory period 2020-2023.

Febeliec is pleased that with this new tariff methodology, tariff decisions and thus the effective tariffs will already be known on May 31<sup>st</sup> 2019 for application as of January 1<sup>st</sup> 2020, allowing grid users to adapt their actions to any modifications in tariff structures and/or tariffs. Febeliec hopes a similar approach will also be applied to electricity tariffs.

With respect to point 3.2 of the methodology, Febeliec takes note that CREG proposes to modify the gearing from 33/67 to 40/60, and does not really follow the reasoning of the CREG that this is needed for companies to obtain an A-rating as for Febeliec regulated monopolists do not encounter the same risks as non-regulated companies, (a.o. through the application of embedded debt and thus in worst case only a temporary issue until a next regulatory period through the application of regulatory accounts). Febeliec understands that this can be interesting for shareholders as the return on these investments is higher than on risk-free investments or cash, while not pertaining any higher intrinsic risk exposure, but is not convinced that this should be the purpose of grid tariffs and a tariff methodology.

Febeliec also has a conceptual problem with point 3.2 where is mentioned that new build or expansion of existing installation for storage or LNG or facilities improving security of supply can be subject to longer remuneration periods (beyond the scope of one regulatory period) and can also be covered by specific (higher) margins, as this can undermine competition (or even foreclose future markets) while also jeopardizing the freedom of the regulator in following regulatory periods to have an effective regulatory control on such installations.

On article 10 of the tariff methodology, Febeliec regrets that CREG has not introduced the concept of “influencable” costs, as is the case for electricity, where there is no complete pass-through of such costs as the operators can still influence these costs.

On article 11, Febeliec regrets that it this article is a commitment of means and not of results, as this would have been a much stronger signal towards the grid operator.

On article 17 and the remuneration of the operators, Febeliec regrets that CREG has decided to select 3,5% as risk premium, as this is the highest value of the three studies that CREG has ordered externally, and not an average value or median value. Febeliec would like to have a clear justification from CREG as to the reasoning behind selecting the highest value, while also getting more insight in the values that were the outcome of both other studies. Febeliec also still does not agree with the reasoning of the CREG towards storage and LNG facilities, where CREG attributes them an illiquidity factor of 20% AND a higher beta, although no (real) competition exists for these facilities in Belgium (and the mother holding of the operator is also to gain control of the only other nearby facility in France, indicating that this business must be quite attractive, while at the same time removing one of the biggest potential external competitors of the equation) and the costs are in any case covered in regulated tariffs, thus nullifying any risk exposure for these facilities. Febeliec wonders whether a return of more than 6% for storage and LNG activities (with on top of that a gearing of 40% instead of 33%) is not overrated as compared to other non-risk exposed (Cf. aforementioned reasoning) alternatives on the market for the shareholders of the operators.

As for article 20, Febeliec invites the CREG to be more transparent on the actual assets these specific tariffs apply too, and on the details of these tariffs. It is not clear if assets that were “new” in the terms of the Gas Law and/or Directive in 2003, still are to benefit from a specific regime in 2039 (!).

On art 24 concerning the incentives the operators can obtain in case of reaching certain performance indicators, Febeliec reiterates its well-known position that in principle Febeliec is opposed to any such incentive schemes, as most of the selected objectives fall, according to Febeliec, in the normal activities of the operators. However, within the scope of the tariff methodology electricity and the impact on the observed behaviour of the transmission operator for

electricity, Febeliec has also indicated that it does not object a pragmatic approach insofar the objectives are beneficial to the market players and/or market integration and/or lowering the total cost of the system. However, with the exception of §2 and §5, and in a lesser extent §6, of this article, the objectives do not fulfil the above requirements and as such Febeliec opposes them. Especially for §7, Febeliec does not understand why this additional incentive of €500.000 is given to the operator as this is part of his normal activities, and should not be subject to an incentive scheme in order to incite additional efforts required from his side. For §1 Febeliec is of the opinion that this should not be a part of the tariff methodology, but be part of normative rules from governmental bodies. The same applies for §4, for Febeliec this should be part of a normative or legislative decision process and not a regulatory decision. In any case, before the connection of biomethane/biogas installation to the transmission grid can be stimulated or rewarded, it needs to be clear under which specific technical and economic conditions this can be done (gas specs, financing of connection, impact gas quality, ...).

On a side note, Febeliec also wants to indicate that in Title 4, starting with art 25, the numbering of most references of the CREG to specific articles of the methodology is not correct.

Article 34: In principle, regulatory surpluses are to be returned to the grid users as soon as possible, as they are the consequence of excessive grid charges of the past. Febeliec strongly insists on clear legal criteria for the CREG to be respected if these surpluses are to be used for any other purpose (e.g. investments), including the need for an impact assessment proving that societal welfare is better served with the investment rather than the return to the grid users. Febeliec also formally opposes the use of regulatory surpluses for any “dismantling fund”.

Finally, Febeliec would like to insist on the need for a specific stakeholder consultation in case:

- changes are proposed to the current entry-exit regime, e.g. to evolve (even partially) towards another regime such as a capacity weighted distance methodology as described by the TAR code (Regulation 2017/460) OR
- changes are proposed to the depreciation regime for surplus values with an impact on tariffs.

Brussels, 17 May 2018.