

## **Febeliec answer to the CREG Public Consultation (PRD)1109/11 on the proposal of decision on the tariff methodology for the transport grid of electricity and the grids with a transport function of electricity for the regulatory period 2024-2027**

Febeliec would like to thank the CREG for the opportunity to provide its input and comments on the public Consultation (PRD)1109/11 on the proposal of decision on the tariff methodology for the transport grid of electricity and the grids with a transport function of electricity for the regulatory period 2024-2027.

Febeliec welcomes the proposal that tariff decisions and thus the effective tariffs will already be known by November 2023 for application as of January 1<sup>st</sup> 2024, which allows grid users at least some time to adapt their actions to any relevant modifications in tariff structures and/or tariffs. It would however be preferable to have the new tariffs published even earlier, as is the case for natural gas.

Febeliec would like to stress clearly that it is of the utmost importance to distinguish between the regulated and the non-regulated activities of Elia, in order to avoid any cross-subsidization of non-regulated activities by the Belgian consumers, which are subject to Elia's regulated monopoly in Belgium. For Febeliec, a reliable and well-functioning grid with an efficient cost structure, leading to the lowest system cost for grid users, is the main task of the transmission system operator, alongside the residual balancing of the grid at the lowest possible cost. All other activities might be interesting for shareholders and thus worth pursuing from that perspective, but should not (negatively nor positively) impact Belgian electricity grid users. Febeliec thus fully supports the efforts of CREG in this tariff methodology to clearly separate both perimeters, including indirect impacts such as e.g. via higher financing costs of the embedded debt or excessive transfer prices between both perimeters.

Febeliec supports a tariff methodology which provides the transmission system operator with a fair remuneration which allows it to fulfil its (regulated) tasks, but is and always has been principally opposed to the introduction of additional incentives for the transmission system operator. However and as already referred to by Febeliec on numerous occasions, a pragmatic approach towards such incentive schemes can be acceptable, as results from the past have shown that this approach can lead to positive results, insofar the objectives are selected on criteria of cost efficiency for the system and/or necessity and/or reasonable character of budgets and/or added value for the grid users beyond the normal operations of the transmission system operator, and/or clear links to timeliness of realisation of projects, to the benefit of the grid users, market functioning and market integration. Thus, also in this proposal for a tariff methodology for 2024-2027, Febeliec will not oppose the approach of the CREG concerning incentives insofar the objectives are selected under the above-mentioned criteria.

Concerning offshore grids (current and future) as well as HVDC technologies, Febeliec wants to specifically reiterate its position that the utmost attention should be given to these topics, as a higher remuneration and/or shorter depreciation period are attributed to them and a concise follow-up should be done in order to avoid over-remuneration for these activities at the expense of the grid users. A fair and efficient cost remuneration with a fair margin should always be the basis of any remuneration of costs for a monopolist and as such the CREG should continue to analyse that the tariff methodology does allow for this while at the same time not introducing excessive remuneration (with potentially perverse effects on desired future infrastructure investments).

With respect to the approach of embedded debt, Febeliec has no comments except referring to the above-mentioned comment on the non-regulated activities of Elia, which should have under no circumstance an impact on the regulated activities and related grid tariffs. In this light, Febeliec also wants to highlight the potential impact of taxes and surcharges on the financial position of Elia (e.g. through its financial ratings, similar to the above comments on the non-regulated activities), which should be mitigated in order to avoid higher costs for grid users or cross-subsidization between regions.

Febeliec also wants to highlight security of supply, which is not a direct task of the transmission system operator but of the government. Although the government has imposed certain tasks on the TSO with respect to a.o. studies concerning system adequacy, these should not necessarily be included in the tariffs and should according to Febeliec rather be

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*Febeliec represents industrial energy consumers in Belgium. It strives for competitive prices for electricity and natural gas for industrial activities in Belgium, and for an increased security of energy supply. Febeliec has as members 5 business associations (Chemistry and life sciences, Glass, pulp & paper and cardboard, Mining, Textiles and wood processing, Brick) and 39 companies (Air Liquide, Air Products, Aperam, ArcelorMittal, Arlanxeo Belgium, Aurubis Belgium, BASF Antwerpen, Bayer Agriculture, Bekaert, Borealis, Brussels Airport Company, Covestro, Dow Belgium, Evonik Antwerpen, Glaxosmithkline Biologicals, Google, Ineos, Infrabel, Inovyn Belgium, Kaneka Belgium, Kronos, Lanxess, Nippon Gases Belgium, Nippon Shokubai Europe, NLMK Belgium, Nyrstar Belgium, Oleon, Pfizer, Proxiums, Recticel, Sol, Tessengerlo Group, Thy-Marcinelle, Total Petrochemicals & Refining, UCB Pharma, Umicore, Unilin, Vynova and Yara). Together they represent over 80% of industrial electricity and natural gas consumption in Belgium and some 230.000 industrial jobs.*

financed through alternative revenues, beyond the regulated perimeter, insofar they are not directly related to the TSO's mission of guaranteeing a stable and reliable grid with sufficient and effectively available cross-border transmission capacity.

Febeliec supports the stability in the structure of the tariffs, as stability and predictability are important for grid users, especially in order to avoid additional changes in the current turmoil on the energy markets. Concerning including a dynamic component in offtake and/or injection tariffs, Febeliec is not in principle opposed but wishes to stress that such component, especially in function of the electricity price should be well calibrated, in order to avoid that this would lead to negative or even perverse spill-over effects (e.g. with the current high energy prices, such tariff could exacerbate the precarious situation for a wide range of grid users and result in an increase of regulatory accounts towards future tariff periods, but would not necessarily lead to better price signals towards grid use or market functioning). Febeliec at this point is rather unfavourable towards such component.

Febeliec supports the split of costs into controllable, non-controllable and influencable costs and would prefer to have an ever stronger focus on influencable costs, in particular balancing reservation costs, in order to ensure that the TSO has every incentive possible to minimise these costs to the benefit of grid user tariffs. Febeliec would explicitly like to refer to the extremely high balancing reservation costs for 2021, at 182 MEUR more than double those of 2020, which increase can only partially be explained by the increase of energy market prices; a sizable impact is also to be attributed to the pre-mature implementation of a flawed (aFRR) balancing market design, which had already before introduction been identified and signalled as such by market parties. This cost increase could have been avoided by an even stronger focus on influencable costs. As such, Febeliec considers the proposal of CREG in article 22 as an absolute underlimit and would even suggest more reductions, especially as 2021 will be included in the reference period for the future cost reductions in FCR and aFRR and as such skews considerably the overall benefits for grid users compared to earlier years or the previous tariff period (and might thus not be ambitious enough).

On the elements concerning the remuneration of the TSO, Febeliec supports the decision to longer include an (il)liquidity premium in the remuneration of the TSO. Febeliec also insists that the remuneration of a risk-free investment, which a regulated monopoly is, should be kept at a level that reflects the (lack of) risk in order to avoid excessive grid tariffs for grid users. As such, while Febeliec does not necessarily want to oppose the value defined for the OLO, Febeliec is pleased to see that the upward revision margin is limited. Concerning the Belgian market risk premium, based on the elements provided by the CREG, Febeliec also considers 3,5% not an underestimate and might even suggest that it could potentially be an overestimate, as the values applied in Germany and the Netherlands are significantly lower. Febeliec also supports the proposed beta of 0,69 as it is based on the financial structure of (only) Elia Transmission Belgium, without impact of the non-regulated perimeter. On the gearing 40/60, Febeliec has no comments. Concerning the specific return scheme for an offshore grid, Febeliec refers to its comments on this topic in this answer but also wants to insist that such additional remuneration, if already considered opportune, should only cover such assets and investments that are strictly related to the offshore perimeter and not be extended towards onshore assets and investments. Concerning inflation, Febeliec wonders which inflation parameter will be considered, as it wants to avoid that the currently very high inflation factor were to be compounded towards the future, as the currently exceptional circumstances will presumably not continue over the entire tariff period nor follow a similar growth path as in the last few months. Last but not least, Febeliec insists that the regulatory accounts, if positive, are applied to the full extent to limit the tariff burden on grid users and that the tariffs are construed to avoid to the extent possible the accumulation of an important future positive regulatory account as many grid users are currently facing very difficult times and as such any tariff that would lead to substantial positive amounts on the regulatory accounts could jeopardize their economic survival.

Concerning the separate regime for storage facilities (and the also differentiation made by CREG between directly connected installations and installations embedded in (industrial) sites), Febeliec is of the opinion that such differentiation might not be opportune. However, as the tariff reduction is the result of a benchmarking exercise with other countries, Febeliec most strongly insists that the CREG also applies (or imposes) a similar benchmarking mechanism for grid users with specific consumption profiles (e.g. baseload, anticyclic, ...) as is the case already for injection tariffs. Febeliec underlines that tariff reductions for specific consumption profiles already exist in Germany, France and the Netherlands, with approval by the European Commission, and refers explicitly to France where the initiative to introduce such reduction was taken in first place by CRE in its tariff decisions.

Concerning the specific arrangements for the NEMO interconnector, the incentives for the investment program, the incentives for R&D, as well as the discretionary incentives to be annually defined by the CREG, Febeliec wants to refer to its answers on the specific consultations that have been conducted on these topics and has at this point no additional

specific comments. Nevertheless, Febeliec wants to reiterate its general comment regarding the efficiency and relevance of the related costs for grid users, and urges the CREG to maintain a very strict focus on this aspect. Febeliec also wants to stress that even though it understands that the tariff methodology allows some degrees of freedom towards CREG and Elia (e.g. interaction possibilities) to cover exceptional circumstances, it insists that in case tariffs would be modified in light of such circumstances, grid users are to be at least consulted on the proposed modifications.