

Febeliec answer to the Elia consultation on the determining elements of the expected evolutions in the tariff proposal 2024-2027

Febeliec would like to thank Elia for its consultation on the determining elements of the expected evolutions in the tariff proposal 2024-2027 as it is important for grid users to have an as clear as possible view on the (future) tariffs and this as early as possible. Febeliec most strongly insists on this point, concerning the level of the tariffs but also the final tariff structure, as grid users need time to adapt their offtake and injection profiles in order to align these with the desired behavioral changes envisaged by Elia. Febeliec would like to refer in this context to the revised tariff for yearly peak for the current tariff period, where grid users due to the short time between publication of the tariffs and the entry into force of these were not able to adapt their profiles quickly enough and were thus exposed during the first year of the current tariff period to higher tariffs than necessary had these been published in time and had companies been able to integrate them in their planning and budgeting cycles. Febeliec pleads to shift the tariff proposal introduction and decision-making process even earlier, comparable to the new practice for the gas transport grid, where tariffs will be known at the latest half a year before they will enter into force, giving sufficient time to grid users to adapt their internal processes. The Elia tariffs are a significant part of the total cost of electricity in Belgium for industrial consumers, together with the commodity cost and the levies and surcharges, and as such are very essential for the competitive position of the Belgian industrial consumers compared to their competitors in the neighbouring countries, the European Union and the rest of the world in general. It is in this framework that Febeliec continues its endeavour for an efficient transmission system operator, in order to minimize as much as possible the impact of the grid tariffs on the total electricity bill of the (industrial) consumers. Febeliec would like to point out that the transmission costs, even though they represent only a share of the overall electricity cost for a large industrial consumer, and to the extent that commodity prices converge on a European scale, can have a significant impact on competitiveness and are therefore a major concern for industrial consumers. Febeliec wants to refer to the fact that in the neighbouring countries industrial consumers matching specific profiles (stable, predictable, anti-cyclical, large, ...) benefit from substantial reductions in their transmission tariffs, thus rewarding their contribution to grid stability and integrity, while this is not the case in Belgium, thus leading to an on-going substantial competitive disadvantage, as can be seen in several studies conducted over the last decade. Moreover, art12 §5 26° also states that for maintaining the competitiveness of “*electro-intensive*” (sic) grid users the allocation of costs of the modular offshore grid between the different categories of grid users is taken into account, which does not seem to be the case at this moment.

Concerning the overall evolutions, Febeliec was astonished to read that the average yearly costs of Elia will roughly double in the period 2024-2027 compared to 2020-2023, from 760 M€ to 1,350 B€. While Febeliec does not contest that future electrification leads to a need for higher investments, Febeliec is surprised to see that the average yearly investment will go from 484 M€ in the period 2010-2023 to more than 1,6 B€ as yearly average for the new tariff period, which is more than tripling, while the Regulated Asset Base (RAB) will almost double between 2023 and 2027 from 5,8 B€ to 10,3 B€ and that these numbers do only take into account already approved investments without any cost overruns (where Febeliec could only notice recently that Elia’s energy island already incurs a much higher cost of construction than originally planned and included). As costs almost double, tariffs will have to follow, while the service provided to grid users of Elia does not improve significantly. As many of the investments foreseen in the 6,5 B€ investment program (which according to Elia could even be higher due to the uncertainty of macro-economic parameters such as inflation) for the next tariff period are to a large extent driven by governmental policy choices, one could wonder whether these investments should not be financed through other means (e.g. government budget) to avoid that yet again the electricity invoice becomes an alternative to general taxes to fund policy decisions as was already the case for a.o. subsidies for renewable energy. Moreover, this increase in Elia grid tariffs will disproportionately impact direct clients compared to distribution grid users as the share of the Elia tariffs in the latter is much lower and continuously eroded by increasing local production in the distribution grids, while the intermittent character of most of that distributed production is one of the main drivers for needed grid investments as well as increased system management costs. Concerning those system management costs, Febeliec was also very much surprised to see that these will more than quadruple, from 35 M€/year in 2020-2023 to 147 M€/year in 2024-2027, while no fundamentally better service is delivered to grid users and this despite massive investments in infrastructure and system management tools during the current tariff period. Febeliec is yet again surprised to see that Elia intends to add 600 new FTEs to its already existing 1500 FTEs, already in itself a substantial increase towards the tariff period 2016-2019, at a very high additional cost in a very constrained and competitive employment market. Febeliec insists that in the context of a

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 42 companies (Air Liquide, Air Products, Aluminium Duffel, Aperam, ArcelorMittal, Arlanxeo Belgium, Aurubis Belgium, BASF Antwerpen, Bayer Agriculture, Beaulieu International Group, Borealis, Brussels Airport Company, Covestro, Dow Belgium, Etex, Evonik Antwerpen, Glaxosmithkline Biologicals, Google, Ineos, Infrabel, Inovyn Belgium, Janssen Pharmaceutica, Kaneka Belgium, Kronos, Lanxess, LCL, Nippon Gases Belgium, Nippon Shokubai Europe, NLMK Belgium, Nyrstar Belgium, Oleon, Pfizer, Proxioms, Sol, Solvay, Tessenderlo 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.

regulated monopoly such as Elia's, it is important that all additional costs and FTEs are duly justified and validated, as opposed to non-monopolists, where revenues must cover any cost increases, Elia has no such issues as profits and revenues are automatically granted and tariffs accordingly increased to the detriment of grid user tariffs. Febeliec insists that it is not difficult to have massive investment programs and employee growth if the costs are passed along to other parties and thus subsidized.

Concerning the investment plan of Elia, Febeliec does not put in question as such the future electrification, but wonders whether Elia does not overestimate the rate of electrification, which could be slower than estimated (see also below on Elia's estimates for electricity consumption). On the major challenges listed by Elia regarding the realization of its investment program, Febeliec insists that especially for a regulated monopolist it is adamant that all elements are duly justified and validated. Febeliec has no insight in the specific investment projects, but can only insist that as much as possible efficiency is used to tackle all issues, including the more complex grid studies that are referred to. Moreover, on the integration of new technologies, Febeliec could wonder to what extent such expensive endeavors should be conducted in the regulated environment of Elia and which future benefits will be there from this new technologies for the grid users who have funded the required research and development costs within the regulated perimeter of Elia, as it can be leveraged towards future projects not necessarily in the regulated perimeter. It is important to avoid cross-subsidization from the regulated to the non-regulated activities of Elia, while at the same time also ensuring that the Belgian grid users are not exposed to risks resulting from non-regulated activities. On digitalization, Febeliec does not oppose Elia investing in IT in order to fulfill its legal obligations and core tasks. Febeliec is not opposed to a rationalization in order to get a more performant and efficient IT system, insofar this leads to benefits for the Belgian grid users.

Febeliec would like to remark that it has observed in the recent past that Elia is shifting ever more from its mission to keep the system in balance as the residual balancing responsible party in the direction of system adequacy as well as climate objectives, which are in Belgium still the responsibility of the government. While Febeliec underwrites the carbon-neutrality targets towards 2050, it insists that there is not necessarily an advantage of being first mover or first in class, as many evolutions come with steep learning curves and thus high costs for early adopters, while the potential benefits for early adopters might not materialize or lie outside of the regulated perimeter and thus not benefit those paying for the developments (see for example the cost of deployment of solar panels in Belgium vs. the Netherlands).

Concerning the return of Elia on its RAB, Febeliec insists that for a regulated monopoly with guaranteed recuperation of approved costs during the tariff period or via regulatory accounts, and as already indicated during previous discussions on this topic, the rate of return should not be equivalent as for a non-regulated monopolist, as the risk exposure for shareholders is much lower. With a beta below 1, Elia also shows that it is a safe haven for investors, even more so during periods of economic instability and the rate of return should also reflect this lesser cost exposure to ensure a fair remuneration in balance with costs for grid users. Concerning the proposal to include incentives in the tariff structure, Febeliec re-iterates its standing position that in principle no incentives should be given for tasks that fall under the core tasks and legal or regulatory obligations of Elia, but from a pragmatic point of view can understand that incentives can have a beneficial effect. Nevertheless, all incentives should be just and proportionate and the objectives should deliver clear value for the Belgian grid users. Moreover, the tariff methodology allows for up to six projects to be covered yearly by the incentive structure for timely delivery. Febeliec notices that Elia has only included four projects (and for one year five projects) under this scheme and insists that, especially with the very ambitious investment program proposed by Elia, that for each year the full potential of six projects are included, to ensure that the according to Elia needed projects are delivered on time (and preferably also within budget). On the list itself, Febeliec has no comments other than that additional projects should be included.

On the general elements, Febeliec was surprised to see that Elia expects electricity consumption in Belgium to increase with more than 20% between 2022 and 2027, with two thirds of this between 2025 and 2027, by adding 18 TWh of electricity consumption during this tariff period. Febeliec wants to reiterate that it believes that, though electrification will move forward, it will happen slower than projected by Elia, as Elia's own historic data shows that the overall net grid offtake trend was stable or even downward in most years in the last decade, despite Elia in each tariff proposal and its studies indicating expected increases, and that the more than massive increase of +20% in less than 5 years seems overly extreme and not warranted and presumably also leading to many avoidable costs in the tariff period 2024-2027 as they could be premature and could have been postponed to later phases. Concerning injection, Febeliec wonders to what extent the impact of the prolongation of two (or more) nuclear plants will impact the injection tariffs income, also taking into account that these nuclear plants might be running throughout the entire tariff period without winter interruption periods. On the regulatory accounts and the accumulated surplus of a few hundred million euros over the period 2019-2023, Febeliec can only insist that these amounts are retributed as quickly as possible to the grid users in

order to ensure that the impact of the current crisis is as much as possible alleviated, in order to avoid that the massive cost increase of Elia does not exacerbate the hardship already encountered by grid users.

Febeliec takes note of the benchmarking Elia has conducted for the injection tariff for generation units in Belgium. Febeliec also observes that Elia has yet again not conducted such exercise for consumers, in particular industrial consumers, as the results would have been very interesting. Febeliec supports that Elia wants to allocate 50% of the reservation costs of balancing capacity and black start to generation and wonders why this allocation principle is not applied to all grid costs and tariffs, as it is clear that generation/injection benefits from the availability of a transmissions grid as much as load. Febeliec insist that, in case the underlying tariffs would surpass the outcome of the benchmark analysis for injection tariffs, the maximum injection tariff is applied, as grid users taking off from the grid will then still, as in all previous periods, continue to bear a disproportional part of the overall Elia cost burden.

On the shift of allocation of grid costs between the tariff for monthly and yearly peak, Febeliec does not oppose the continuation of 15% respectively 35%. Febeliec asks Elia to retain the system for the determination of the underlying volumes unchanged, with the use of the 11th peak and for the year peak the winter working days (not public holidays) between 17.00 and 20.00. Concerning the proposal to modify the determination of a period of exemption of the monthly peak for offtake, Febeliec does not oppose the proposal based on the analysis of Elia. However, it is important to keep in mind that by modifying the reference periods, this erodes the ease and transparency of tariffs and makes controlling the validity of invoices more complex. Moreover, it is unclear to which extent such approach is future-proof as such periods might significantly change over time and each time require operational changes from grid users (which are in combination with the late announcement of the Elia tariffs not always easy from an operational perspective, as experience with the yearly tariff in 2019 has shown).

On the tariff for power put at disposal, Febeliec does not fundamentally oppose to the introduction of a flexible arrangement at a lower cost, yet insist that more clarity should be given on the practical organization and the applicable conditions as these are only briefly mentioned in the consultation document. Febeliec does not necessarily agree with all the proposed applicable conditions (a.o. that requesting a modification of standard towards flexible capacity is too stringent and almost impossible for existing installations, although they could also benefit from such an approach in some cases) and insists that this is further discussed with grid users before a final decision on the modalities is taken.

Concerning a dynamic component to be included in the Elia tariffs, Febeliec appreciates that Elia strives to promote demand side flexibility, but considers the current proposal not optimal, as it can lead to perverse effects, is not necessarily cost-reflective and inevitably leads to more complexity, while it only offers a limited incentive. For example, under the current crisis and the very high electricity prices, costs for grid users would have increased additionally under the proposed approach, exacerbating their hardship, without any additional service from Elia, while at the same time just making the regulatory accounts grow at the detriment of consumers. From a tariff and system stability perspective, Febeliec wants to reiterate its reference to neighboring countries where industrial consumers matching specific profiles (stable, predictable, anti-cyclical, large, ...) benefit from substantial reductions in their transmission tariffs, thus rewarding their contribution to grid stability and integrity, with a direct link to grid operations, while such reductions do not exist in Belgium, an lead to an on-going substantial competitive disadvantage.

With respect to cost-reflectiveness of the proposed dynamic component, Febeliec wants to stress that market prices do not necessarily reflect operational grid and system stress, as they could, as currently the case, be the result of an external factor (high gas prices), while alternatively market prices could be very low (e.g. with abundant renewable generation) during periods when stress on the grid could be very high (e.g. from an ancillary services perspective), leading in both cases not only to counterintuitive results but also perverse effects and potentially an additional high negative impact for consumers whenever they are already being hit by high market prices. Moreover, continuing efforts towards market integration will result in market prices in Belgium evermore being impacted by events in other bidding zones and thus not necessarily linked at all with grid operations on the Elia grid. Moreover, Febeliec is worried that such tariff would go against the criterium of transparency, while also greatly increasing, without much added value from a system perspective, the complexity for grid users to understand their tariffs, ex ante, and validate their invoices, ex post. Further, Febeliec also was surprised that Elia seemingly intends to introduce such dynamic tariff only for load and not for injection, as the latter will also (and perhaps even more so) have an impact on Elia's grid operations. Last but not least, Febeliec insists that there could be better and more intelligent options to enable demand side response than the proposed dynamic tariff component.

On the tariffs for the compensation of imbalances, Febeliec has no specific comments and supports maintaining the alfa-factor insofar this helps to give BRPs sufficient incentives to maintain their individual balance within their own portfolio.

Concerning the tariff in case of a dispatch period controlled by Elia (e.g. after an emergency period), Febeliec supports the proposed approach as it strikes a good balance between clarity and cost-reflectiveness and excludes outlier impacts, while ensuring a clear approach for invoicing energy during such periods.

On the tariff for additional offtake and injection of reactive energy, Febeliec does not oppose the proposal of Elia insofar all selected parameters still allow the concerned industrial consumers with on-site injection installations to still operate their sites without any undue new technical obligations. Febeliec understands that reactive energy is going to be discussed further in the near future and insist that the outcome of these discussions is also correctly reflected in the grid tariffs.

With respect to the tariff for market integration, Febeliec reiterates its opinion that this tariff should be charged to the BRPs as these are the market actors that benefit most directly from market integration.

On the compensation of losses in the federal transmission grid, Febeliec has no strong preference in any direction, but remains adamant that any modification of the current practice should not lead to double charging of the grid losses, through a new Elia tariff as well as still through the energy contract price. In case the current practice should be modified, all existing energy contracts would have to be revised in order to ensure that no windfall profits would be given to suppliers/BRPs to the detriment of all concerned grid users. Febeliec also insists that international transit flows through Belgium, whether nominated or not, also pay their fair share for the losses they create on the Belgian grid.

On public service obligations, taxes and surcharges, Febeliec has no comments but wants to reiterate its position that these should not necessarily be part of the energy bill. Policy choices should be covered by public funds in order to increase transparency and public scrutiny; in any case should the energy invoices not be used as a second tax system.