Technical Paper

Financial reporting and regulatory treatment of accounting provisions under the Single European Sky (SES) performance and charging scheme

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1. Introduction

To guide the development by National Supervisory Authorities (NSAs) in the Single European Sky (SES) of draft performance plans for 2025-2029, the Commission requested EY to provide technical clarifications in relation to the recording of accounting provisions and similar items in the financial statements and in the regulatory accounts of air navigation service providers (ANSP).

This Technical Paper provides detailed clarifications on accounting provisions in line with the Performance Review Body (PRB) "*Guidance Material for the Development of Draft RP4 Performance Plans*" and "*Guidance Material on cost bases for charges and unit rates for air navigation services*" dated 14 June 2024.[1]

This technical paper is structured as follows. Section 2 provides technical clarifications on accounting standards and methods, while Section 3 describes the regulatory accounting of ANSPs. Section 4 defines accounting provisions, describes how to account for them with examples, and provides benchmarking and real case scenarios stemming from the energy sector. Section 5 provides best practices, while Section 6 (Appendices) offers excerpts of annual reports and of the relevant EU regulatory framework in the energy sector.

2. Accounting standards and methods

The International Public Sector Accounting Standards Board (IPSASB, hereafter "the Board") sets International Public Sector Accounting Standards (IPSAS) for use by public sector entities, including national, regional, and local governments and related governmental agencies. The objective of the Board is to serve the public interest by setting high-quality public sector accounting standards and facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

The Board issues IPSAS dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The Board is of the view that the objectives of financial reporting can be best achieved by adopting accounting standards under the accrual basis of accounting. The Board encourages governments and other public sector entities to present financial statements that comply with the requirements of accounting standards under the accrual basis of accounting.

The International Accounting Standards Board (IASB) sets International Financial Reporting Standards (IFRS), a global accounting language applied in more than 140 jurisdictions. IFRS are implemented in the EU by Regulation (EC) No 1606/2002, which requires all publicly traded companies to prepare their consolidated financial statements in accordance with IFRS, previously known as international accounting standards (IAS).[2]

Cash basis accounting

In terms of methods, the cash basis accounting recognises transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting dates.

Accrual basis accounting

The accrual basis accounting depicts the effects of transactions, and other events and circumstances on a reporting entity's economic resources and claims in periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims, and changes in its economic

[1] The PRB guidance material for RP4 is available here.
[2] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. Available here.

resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

Financial accounts compliant with International Accounting Standards (IAS)

According to Article 12 of Regulation (EC) No 550/2004, ANSPs, regardless of their ownership or legal form, shall draw up, submit to audit and publish their financial accounts. These accounts shall comply with the international accounting standards adopted by the Union. Where, owing to the legal status of the service provider, full compliance with the international accounting standards is not possible, the provider shall endeavour to achieve such compliance to the maximum possible extent.

3. Regulatory accounting of ANSPs

An important question within the framework of the SES performance and charging scheme is how to address situations where accounting provisions, except for provisions for pension costs including pre-retirement schemes, were included in the determined costs and charged to airspace users and these did not materialise over time. The current legislation does not provide for an automatic mechanism to reimburse users for accounting provisions which were charged but did not materialise.

Therefore, it is necessary to clearly report existing accounting provisions charged to users and for future accounting provisions to ensure that they are only included in the determined costs where allowed by the legal provisions on the performance and charging scheme.

Although the financial statements of ANSPs should be compliant with IFRS rules, the determined ANS cost bases must adhere to the specific requirements outlined in Regulation (EU) 550/2004 and Commission Implementing Regulation (EU) 2019/317. The obligations stemming from these regulations, which govern the eligibility of costs chargeable to airspace users and their allocation between en route and terminal services, are separate from general IFRS accounting obligations.

Regulatory accounts should follow accrual basis accounting rather than cash basis accounting, both for the reporting of determined costs and actual costs. The reason is that, under accrual basis accounting, ANSPs should be able to incorporate expenses associated with eligible provisions into the determined costs, aligned with the calendar year when the corresponding obligation is confirmed, regardless of when cash payments are made. This approach enables the inclusion of expenses in the determined costs upon the irrevocable confirmation of the payment obligation, allowing for their recognition in regulatory accounting prior to the actual cash disbursements. However, in absence of an automatic system for reimbursement of non-materialized provisions, there is a risk, that substantial amounts would be accumulated, and the airspace users do not receive a consideration for it.

Therefore, we recommend that long-term accounting provisions for future liabilities accrued year-on-year or related to one-off events (as permitted or required under IFRS) can only be included in the determined cost bases for RP4 in exceptional cases. These cases must be duly justified in the performance plan and airspace users should be consulted.

4. Questions and Answers

This section offers further clarifications and practical examples to guide the Commission on the implementation of this proposed approach to be applied to Air Navigation Services (ANS) cost bases.

1) What is a 'provision'?

Paragraph 10 of IAS 37 defines a provision as follows:

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

a) A contract (through its explicit or implicit terms);
b) Legislation; or
c) Other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Paragraph 11 of IAS 37 specifies the distinction between *provisions* and *other liabilities*.
Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

Paragraph 14 of IAS 37 that a *provision* shall be recognised when:

a) an entity has a present obligation (legal or constructive) as a result of a past event;
b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

2) Description of relevant items and how to account for them in regulated ANS cost bases

This question relates to three items, namely court cases, doubtful debts, and jubilee or other long-service benefits.

a. Court cases

The ANSP should report the cost related to the court cases (when eligible) only when the liability and related expenses are confirmed (following a final court decision with no possibility of appeal).

The costs should be recorded as actual costs for the calendar year concerned. Subsequently these costs may be charged to users as unit rate adjustments stemming from the cost risk sharing mechanism, according to Article 28, paragraph (3), point (e) and paragraph (6) of Commission Implementing Regulation (EU) 2019/317 concerning "unforeseeable new cost items not covered in the performance plan but required by law".

Example: court case

After layoffs in **20X0**, ten employees sued the entity for unfair termination. Legal proceedings seek damages from the entity which disputes its liability.

- Up to the date of authorisation of the financial statements for the year to 31 December **20X0** for issue, the entity's lawyers advise that it is probable that the entity will not be found liable.
- When the entity prepares the financial statements for the year to 31 December **20X1**, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.
- In **20X2**, a final court decision is made/provided and the entity is required to settle the obligation (payment) in **20X3**.

As shown in the table below, there may be a timing difference for the same item between the moment the liability and related expenses are recognised under IFRS (20X1), the moment the costs are reported in the Regulatory Accounts (20X2) and the moment when the obligation is settled (20X3).

Table 1: timing for court case

At	31/12/20X0	31/12/20X1	31/12/20X2	31/12/20X3
IAS 37 criteria - Present obligation as a result of a past event?	No	**Yes**	No	No
IFRS Income Statement	No	**Yes**	No	No
Recording in actual costs as part of the Regulatory Accounts	No	No	**Yes**	No
Settlement	No	No	No	**Yes**
Recovery from airspace users	Either year n+2 (i.e., 20X4) or next reference period following the recording of the amount in actual costs			

b. *Doubtful debts*

Doubtful debts, or *loss allowances* for expected credit losses on a trade receivable or contract assets, are addressed by IFRS 9. In general, doubtful debts of ANSPs refer to air navigation charges which may probably become irrecoverable. In some countries the term 'provision' is also used in the context of items such as depreciation, impairment of assets and *doubtful debts*: these are adjustments to the carrying amounts of assets and not addressed by IAS 37.

As per Paragraph 5.5.1 of IFRS 9, an entity shall recognise a *loss allowance* for *expected credit losses* on trade receivables or contract assets.

Under the Regulatory Accounting method explained in Section 3, loss allowances for doubtful debts should only be included in the Regulatory Accounts after the account receivable is written off and the debts have become irrecoverable, for example due to an airline bankruptcy. This means that actual write-offs of unrecoverable ANS charges deriving from the preceding reference period(s) may be included in the determined costs under the other operating cost category. The write-off should be contingent on the confirmation of the National Supervisory Authority (NSA) on the definitive impairment of the debt, while ensuring that such amounts were not double charged in prior reporting periods to airspace users.

Example: doubtful debts in financial statements versus regulatory accounts

An entity may use practical expedients when measuring expected credit losses in their financial statements applying the principles laid down in IFRS 9.

An example of a practical expedient is the calculation of the expected credit losses on trade receivables using a provision matrix. The entity would use historical data on its trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the relevant financial assets. The entity would specify fixed provision rates in a provision matrix based on the number of days that a trade receivable is past due (i.e., 1 per cent if not past due, 2 per cent if less than 30 days past due, 3 per cent if more than 30 days but less than 90 days past due, 20 per cent if 90–180 days past due, etc.). However, the regulatory accounts would only recognise amounts that have been written-off (i.e., irrecoverable amounts).

The table below exemplifies an estimation of the doubtful debts on a balance receivable of 100,000 CU:

Table 2: doubtful debts in financial statements versus regulatory accounts

Days Past Due/ Status	Financial Statements			Regulatory accounts
	Provision Rate	Provision Amount (CU)	Write-off Amount (CU)	
0	1%	1,000	0	0
Less than 30	2%	2,000	0	0
30 to 89	3%	3,000	0	0
90 to 180	20%	20,000	0	0
Over 180	100%	100,000	0	0
Write-off		-100,000	100,000	100,000

c. *Jubilee or other long-service benefits*

According to Article 22 of Implementing Regulation (EU) 2019/317, staff costs should include gross remuneration, overtime payments, and employers' contributions to social security schemes, as well as pension costs and *costs of other benefits*.

According to IAS 19, *other benefits* may include termination costs, long-term paid absences, jubilee or other long-service benefits, long-term disability benefits, profit-sharing and bonuses and deferred renumeration.

The measurement of *other long-term employee benefits* in the financial statements is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, IAS 19 requires a simplified method of accounting for *other long-term employee benefits*. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

With respect to *other long-term employee benefits*, the net total of the following amounts should be recognised in the profit or loss statement:

a) Service cost;
b) Net interest on the net defined benefit liability (asset), and
c) Remeasurements of the net defined benefit liability (asset).

Provisions accrued annually for new long-term employee benefits, excluding pension and early retirement scheme costs, are not eligible as part of the ANSP cost bases. Eligible amounts for these provisions are determined based on the planned settlements within the respective year.

As a temporary measure, (we recommend that) the cost items on pre-existing schemes for which provisions have already been charged to airspace users prior to RP4 may continue to be accrued during a transitional time period subject to a detailed, consistent, and transparent reporting in the performance plan and monitoring reports. If a transitional time period is adopted, we propose further examination and guidance from the Commission to the NSAs regarding the practical implementation of the reporting during this transitional time period.

Example: Jubilee award

A lump sum of 4,000 currency units (CU) is payable to employees upon completion of the 5th year of service. The lump sum is paid in the following year. The discount rate is 10%. We assume that there are no changes in actuarial assumptions, and ignore the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier date.

In the financial accounts, the attribution of current service costs to the years of services is equal to 4,000 CU divided by 5 years of services, discounted at 10%. The table below illustrates the case of a provision recorded before the start of reference period X and continuing during reference period Y. The value of the benefit paid to the employee(s) changes each year based on the number of employees reaching the 5th year of service. The example below assumes that:

- In 20X0, three employees reach the 5th year of service and the benefit is paid in 20X1;
- In 20X1, two employees reach the 5th year of service and the benefit is paid in 20X2;
- In each year from 20X2 to 20X4, one employee reaches the 5th year of service, and the benefits are paid, respectively, each year from 20X3 to 20X5.

Table 3: Example jubilee awards

	RPX			RPY	
Year	20X1	20X2	20X3	20X4	20X5
Opening obligation	14,443	9,550	6,641	6,095	4,893
Interest at 10%	1,444	955	664	609	489
Current Service Costs	5,663	4,136	2,789	2,188	1,527
Benefit paid	-12,000	-8,000	-4,000	-4,000	-4,000
Closing obligation	9,550	6,641	6,095	4,893	2,909

3) *How to avoid that airspace users pay for potential or provisioned staff costs or other operating costs that will not materialise in the future?*

As part of the RP4 performance plans preparation, National Supervisory Authorities (NSAs) should transparently present all accounting provisions included in the ANSPs cost bases, along with their descriptions and the planned amounts for RP4. This includes the service costs previously charged to airspace users before RP4, including remaining provision to be settled, benefits paid, and outstanding closing obligation amounts. Each provision should be detailed separately.

To apply the Regulatory Accounting approach to provisions already included within past ANSP cost bases, the ANSP should reflect in the future Regulatory Accounts the amount of the accrued obligation, deducting any expenses already charged to airspace users in previous years. This would prevent double charging by aligning the past annual service costs charged to airspace users with the future confirmation and charging of obligations and associated costs. For further clarification, please refer to the example provided below on jubilee awards. It is important for Member States to adhere to this reporting procedure for all kinds of accounting provisions previously charged to airspace users and that NSAs diligently oversee its implementation.

Recommended regulatory accounting starting in RP4 (*Example: Jubilee award)*

The example below follows the same assumptions as the case in Table 3 above. However, for explanatory purposes, the case below illustrates a provision for one employee starting in 2022 during RP3 and paid in 2026 during RP4.

Table 4: Example jubilee award for one employee

	RP3			RP4	
Year	2022	2023	2024	2025	2026
Opening obligation	0	546	1,202	1,983	2,909
Interest at 10%	0	55	120	198	291
Current Service Costs	546	601	661	727	800
Benefit paid	0	0	0	0	-4,000
Closing obligation	546	1,202	1,983	2,909	0

In RP3, the ANSP reports in its regulatory accounts the expenses related to the jubilee award (interests and service costs) in line with IFRS recognition principles. As of 2025, under the regulatory accounting recommended for RP4, the ANSP should only report expenses related to jubilee awards in Regulatory Accounts at the moment the obligation and its associated amounts are certain. As such, in 2025, the ANSP does not report any expenses in Regulatory Accounts, as shown in the table 5 below.

In 2026, if the ANSP reports in the Regulatory Accounts the payment of the jubilee obligation in full, the resulting portion of the jubilee obligation related to RP3 will be counted **twice**: once in the years related to RP3 (2022 to 2024), and again in 2026 when the obligation (now confirmed) is included in the cost base. Therefore, during a transition period, the ANSP should report in the Regulatory Accounts the payment of the jubilee obligation **after having deducted** the expenses already reported in previous years (2022 to 2024).

Table 5: Example jubilee award for one employee with change to Regulatory account

	RP3			RP4		
Year	2022	2023	2024	2025	2026	2027
Opening obligation	0	546	1,202	1,983	2,909	4,000
Interest at 10%	0	55	120	198	291	0
Current Service Costs	546	601	661	727	800	0
Benefit paid	0	0	0	0	0	-4,000
Closing obligation	546	1,202	1,983	2,909	4,000	0
Regulatory accounts	546	656	781	0	2,017	0
Total Regulatory accounts	546	1,202	1,983	1,983	4,000	0

We recommend further examination by the Commission on the method by which ANSPs should transition from the current reporting of provisions within the ANS cost bases to the recommended reporting explained in this technical paper. The Commission should evaluate how these changes will affect the reporting entities, to ensure clear and consistent reporting practices among all Member States and avoid any potential double charging of provision costs to airspace users. Due to the need for more detailed guidance, stakeholders should anticipate a separate document that will include refined reporting requirements of accounting provision costs.

4) Benchmark on regulatory balances, adjustments, and regulated assets base in the Energy Sector (gas and electricity) in Belgium and in Europe

a. Regulatory balances

We have analysed the 2022 annual report of two Belgian companies (Elia Transmission SA, the Belgian TSO for high and extra-high voltage, and Fluxys Belgium SA, the pipeline, terminal and storage facilities operator for natural gas and liquefied natural gas).

Both companies mention in their Financial Statements and Annual Report that they operate in a regulated environment in which tariffs are set upfront based on estimates, with the possibility that actuals will differ from budgeted values. In such situations, the company will record regulatory balances (regulatory asset or regulatory liability) to account for the deficit or surplus that will be included in future tariffs. On a yearly basis, the company remeasures the regulatory assets and liabilities based on the regulator's assessment. We refer to Appendices 1 (Appendix 1 – Elia Transmission SA 2022 Annual Report) and 2 (
Appendix 2 – Fluxys Belgium 2022 Annual Report) for excerpts from the Annual Accounts of those two companies.

b. Regulated Asset Base (RAB)

The Council of European Energy Regulator issued the 2023 edition of the CEER report on regulatory frameworks for European energy networks as well as a summary on regulatory frameworks for European energy networks. This report is the 2023 version of a series of annual reports drafted and issued by the Council of European Energy Regulators (CEER). It provides a general overview of the regulatory systems for electricity and gas networks (transmission system operators (TSO) and distribution system operators (DSO)) in CEER member countries in 2023.

Their findings on the components included in the RAB include the below:

- Fixed assets: All regulators count fixed assets in the RAB;
- Working capital: The majority of countries do not include working capital in the RAB. If working capital is included in the RAB, the application differs;

Assets under construction: About half of the regulators include assets under construction in the RAB. Some countries have certain conditions for them to be included;

- Contributions from third parties: The vast majority of the regulators surveyed deduct such contributions from the RAB; and
- Leased assets: Around 40% of the countries surveyed include leased assets in the RAB. Most other countries include this in OPEX.

Their survey also showed that the most common way of calculating RAB components was the historical cost method, followed by the re-evaluated assets method and lastly a mixture of the two methods.

Based on the CEER survey, we note that financial balances (deficits or surplus) related to pension schemes were never considered as a component of the RAB.[3] The entity is already being remunerated for this asset through interest income.

We refer to Appendix 3 – CEER's 2023 report and summary on regulatory frameworks for European energy networks for additional details.

[3] A surplus represents a situation where the plan assets exceed the present value of the defined benefit obligation.

5. Best practice

The following points illustrate best practice with the purpose to assist the NSAs in preparing the draft performance plans for the fourth reference period:

- Long-term accounting provisions for future liabilities accrued annually or related to one-off events (permitted or required under IFRS) should be included in the determined cost bases for RP4 only in exceptional cases. Justification for inclusion must be provided in the performance plan and discussed with airspace users.
- For pre-existing schemes where provisions have already been charged to airspace users before RP4, these cost items may continue to be accrued during a transitional period. However, detailed, consistent, and transparent reporting in the performance plan and monitoring reports is recommended.
- Further examination and guidance from the Commission to NSAs regarding the practical implementation of the proposed reporting during this transitional period are also recommended.

6. Appendices – excerpts of annual reports and EU regulation in the energy sector

Appendix 1 – Elia Transmission SA 2022 Annual Report[4]

Page 57 – "3.3.17 Regulatory deferral accounts

The group operates in a regulated environment in which tariffs are meant to realise total revenue/income consisting of:

- a reasonable return on invested capital;
- all reasonable costs which are incurred by the group.

Since the tariffs are based on estimates, there is always a difference between the tariffs that are actually charged and the tariffs that should have been charged (tariff setting agreed with regulator) to cover all reasonable costs of the system operator including a reasonable profit margin for its shareholders.

If the applied tariffs result in a surplus or a deficit at the end of the year, this means that the tariffs charged to end consumers should have been lower or higher respectively (and vice versa). This surplus or deficit is therefore reported in the regulatory deferral account.

The release of the regulatory deferral account will impact future tariffs: incurred regulatory liabilities will decrease future tariffs, whilst incurred regulatory assets will increase future tariffs.

In the absence of an IFRS standard which specifically applies to the treatment of these regulatory deferral accounts, Elia management referred to the requirements of IFRS 14 and the Conceptual Framework for Financial Reporting alongside the latest evolutions of the IASB project on Rate-regulated Activities to develop the following accounting policy in that respect:

- a liability is recognised in the statement of financial position and presented as part of "accruals and deferred income" with respect to the Elia group's obligation to deduct an amount from the tariffs to be charged to customers in future periods because the total allowed compensation for goods or services already supplied is lower than the amount already charged to customers, or excess revenues have been generated due to higher volumes than initially estimated (regulatory liability);
- an asset is recognised in the statement of financial position with respect to the Elia group's right to add an amount to the tariffs to be charged to customers in future periods because the total allowed compensation for the goods or services already supplied exceeds the amount already charged to customers or a shortage in revenues has been occurred due to lower volumes than initially estimated (regulatory asset); and
- the net movement in the regulatory deferral accounts for the period is presented separately in the statement of profit or loss within the line item "net regulatory income (expense)".

The amount in the regulatory deferral accounts is reported on an annual basis and assessed by the regulator."

Page 125 – "9.1.4. Regulatory deferral account: deviations from budgeted values

Over the course of a year, the actual volumes of electricity transmitted may differ from the forecasted volumes. If the transmitted volumes are higher (or lower) than those forecasted, the deviation is booked to an accrual account during the year in which it occurs. These deviations from budgeted values (a regulatory debt or a regulatory receivable) are accumulated and will be taken into account when the tariffs are set for the subsequent tariff period. Regardless of deviations between the forecasted parameters for tariff setting (fair remuneration, non-controllable elements, controllable elements, influenceable costs, incentive components, cost and revenue allocation between regulated

[4] Taken from Reports for Elia Transmission Belgium (eliagroup.eu) on 22 March 2024 and downloadable here.

and non-regulated activities) and the actual incurred costs or revenues related to these parameters, the CREG takes the final decision each year as to whether the incurred costs/revenue can reasonably be borne by the tariffs. This decision may result in the rejection of incurred elements. In the event that any incurred elements are rejected, the relevant amount will not be taken into account when the tariffs are set for the next period. Although Elia can ask for a judicial review of any such decision, if this judicial review is unsuccessful, a rejection may well have an overall negative impact on Elia's financials."

Appendix 2 – Fluxys Belgium 2022 Annual Report[5]

Page 43 – "Annual settlement

Every year, a settlement is made which compares the estimated amounts with the actual ones. These differences, excluding incentives in favour of or against the margin, are recognised as a regulatory asset or liability in the year in which they occur. This settlement applies to the various aspects of the tariff calculation, namely:

- the estimated sales volumes used to determine the unit tariff;
- operating costs;
- financial expenditure;
- the regulated return.

This results in a regulatory liability (if for example the actual volumes exceed the estimates or if the operating costs, financial expenditure or regulated return are lower than expected) or a regulatory asset (in the opposite case).

This regulatory liability or asset is taken into account in accordance with the tariff methodology to set the tariffs for the next regulatory periods.

When devising the 2020-2023 tariff proposal, the natural gas transmission system operator identified the expected development in the adjustment account for the relevant regulatory period. This includes an expected decrease in the adjustment account of up to €100 million by the end of 2023.

If the actual development varies considerably from what was expected, whether positively or negatively, this deviation will result in an automatic correction of the tariffs for the gas transmission network.

A specific regulatory liability for auction premiums has been created. This regulatory liability is allocated in accordance with the Network Code."

[5] Taken from https://www.fluxys.com/en/about-us/fluxys-belgium/annual-report on 22 March 2024, downloadable at https://www.fluxys.com/-/media/project/fluxys/public/corporate/fluxyscom/documents/fluxys-belgium/corporate/finance/annualfinancialreport/en/2022_fluxysbelgium_annualreport_en.pdf.

Appendix 3 – CEER's 2023 report and summary on regulatory frameworks for European energy networks[6]

Page 3/4 - "5 - Regulatory asset base

The RAB serves as a fundamental parameter in utility regulation in order to determine the allowed revenue; most countries surveyed use 100% of the RAB to do this. The structure of individual components included in the RAB and their valuation differ significantly among the countries surveyed, and even among regulated sectors.

The RAB can be comprised of several components such as fixed assets, working capital or construction in progress. The RAB may be valued according to different methods (e.g. historical costs, indexed historical costs or actual re-purchasing costs), which will have an influence on the determination of capital expenditure (CAPEX):

- Fixed assets: All regulators count fixed assets in the RAB;
- Working capital: The majority of countries do not include working capital in the RAB. If working capital is included in the RAB, the application differs;
- Assets under construction: About half of the regulators include assets under construction in the RAB. Some countries have certain conditions for them to be included;
- Contributions from third parties: The vast majority of the regulators surveyed deduct such contributions from the RAB; and
- Leased assets: Around 40% of the countries surveyed include leased assets in the RAB. Most other countries include this in OPEX.

The value of the assets included in the RAB can be expressed either in historical costs or evaluated values. The survey shows that the historical cost method is the most common way of calculating the RAB components, followed by the re-evaluated assets method, while a mixture of the two methods is rarely applied.

Over half of the regulators adjust the RAB during the RP. Annual recalculation of the net book value (NBV) (new investment depreciation) is the most common approach. Concerning the question of whether the adjustment affects NBVs by accounting for new investments and/or depreciation, most countries surveyed confirmed that this adjustment is applied."

[6] Report taken from https://www.ceer.eu/wp-content/uploads/2024/04/RFR23-Main-report.pdf on 24 March 2024.
Summary taken from https://www.ceer.eu/wp-content/uploads/2024/04/RFR23-Summary-document.pdf on 24 March 2024.