

## ACER Public Consultation on assessment of the annual cross-border infrastructure compensation sum

EDF Response

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14/11/2012

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EDF welcomes the opportunity to comment the Consentec's study commissioned by ACER on the ITC fund and provide further feedback about its expectations and needs with regard to the assessment of annual cross-border infrastructure compensation sum (ITC Infrastructure fund). The issue appears complex and the methodological approach chosen by Consentec (simplification) may result in not desirable consequences (notably an over-dimensioning of the ITC fund). We therefore recommend further investigation and an assessment of the whole mechanism.

### General comments:

We would like to highlight the following principals:

**1. Some major concerns regarding the methodology proposed by Consentec for assessing the remaining part of infrastructure cost attached to the fund remains.**

- *The actual effect of interconnectors in calculating the ITC fund needs to be reviewed as not all capacity is dedicated to energy trading.*

Interconnectors cannot be considered as built exclusively to host cross-border flows and promote energy trading. Indeed, according to ENTSO-E, the drivers for interconnectors are the integration of electricity market and the security of supply. Therefore, such infrastructures contribute to host flows for system operational security. Interconnectors allow short term mutual support between areas and favor a global optimization of production-network capacity investments that allows satisfying the system security requirements (sharing of primary reserve, backup generation plants) at a global lower cost. Those fundamental contributions for security of supply can justify the need for investments,

independently of energy trading purpose. As a consequence, the total cost of infrastructure cannot be considered as totally dedicated to short term energy trading (hosting cross-border flows or serving domestic load), which has been implicitly assumed by Consentec's methodological approaches. We support further analyses that would prevent from simplification leading to an overestimation of the fund.

- ***GTS implementation should be differentiated by asset classes, taking into account that each class of assets is not affected in the same way by cross-border flows***

The « Global transit share » estimation is defined at a global level and applied without differentiation between the various classes of assets. Such a practical option in the report however appears oversimplified. The share of assets affected by cross-border flows indeed differs significantly from one class to another, so that all classes should not be equally treated. The current implementation would lead to apply a global average share to any assets, including lower voltage transmission lines that are not significantly affected by cross-border flows. We consider that Consentec's simplification would lead to a substantial overestimation of the fund and consequently support further analyses to define more appropriately the GTS for each class of assets.

- ***Instruments contributing to finance network infrastructure shall be properly deducted***

Where Infrastructure is financed by other instruments, the ITC fund shall avoid double compensation. The legal framework defines this principle at a very high-level, which leads to different interpretations and this should be more accurately defined by the Legislator. In our view, any alternative source financing infrastructure shall be deducted from the total cost before determining the remainder falling under ITC scope. In that perspective, the "congestion revenues" resulting from the auctioning of capacity at interconnectors and especially the part contributing to lowering tariffs, should be taken into account to reduce the size of the fund as it contributes to recover costs attached to tariffs, which partly includes infrastructure costs.

**Beyond those essential methodological comments, Consentec's options may lead to a substantial and abrupt increase of the fund size. This reinforces the need for consistency in a much more global perspective**

- ***As the ITC fund size may significantly increase, the consistency of the whole ITC mechanism appears all the more critical.***

Only the fund size is open to reassessment while the methodology for determining the relative compensations and contributions remains untouched. In that perspective, and before considering any abrupt variation of the fund size, further analysis is required to guarantee that these applicable sharing methods will still constitute the most suitable

options in the future as this could lead to significantly biased compensations and contributions among TSOs.

- ***As the ITC fund size may significantly increase, incentives to invest into the grid may decrease for TSOs who positively contribute to this fund, which will prevent from the adequate investments into the grid in the long term***

For TSOs who positively contribute to the ITC fund, incentives for future infrastructure investments may decrease as the fund (and thereby their net contribution) increases. Such a side effect goes against the on-going wider developments in the European energy market.

- ***As the ITC fund size may significantly increase, the disparity of network access charges for producers may increase among the EU, undermining the internal market.***

As ITC fund size increases, variations in charges faced by producers for access to the transmission network may increase. Such variations may reduce the benefits of network access charges harmonisation and undermine the internal market.

- ***Interaction with EU Codes needs to be carefully reviewed as these can affect transit flows.***

In particular, there might be interactions with CACM, Balancing networks codes, as well as with security of supply obligations and, in future with the development of Super Grids.

#### **Recommendation:**

Providing an accurate assessment of the ITC fund size appears definitely as a complex issue. We understand the methodological proposals from Consentec as an attempt to tackle such a challenge through a simple and pragmatic approach. However, we consider that some oversimplifications will lead to substantial inaccuracies and, consequently, to an abrupt increase of the fund size with significant prejudicial side effects.

Based on these facts we do not believe it is appropriate to move away from the status quo of using the €100m cap based on LRAIC which seems reasonable. We recommend ACER to maintain the current fund size in application while launching further analyses required for consolidating and completing Consentec's methodological proposals. Such an initiative would be an opportunity to take into account the need for consistency of the whole mechanism in a more global perspective and thereby benefit from a more general support of stakeholders.