

Amprion welcomes this opportunity to contribute its remarks to the ACER consultation about the ITC infrastructure compensation fund size. Current tendencies of increasing cross border flows provide a clear evidence for the necessity of such a discussion. As for the other TSOs belonging to the German ITC party our grid is located in the centre of the European Electricity Market. It is therefore exposed to cross border flows and to transits which they induce.

1) Has Consentec's study considered a sufficient range of potentially suitable options for assessing the ITC infrastructure fund? What other options do you believe should be included in the assessment?

The main questions related to:

- the amount of assets to be considered for ITC compensation
- the financial evaluation of those assets
- the treatment of congestion revenues

have been captured by the analyzed options. We therefore do not see a need to include further options.

2) Are the criteria adopted to assess these options and their application to the identified options appropriate? What additional or alternative criteria do you think should be applied ?

The report quantifies the financial impact of the different options and contains a brief qualitative discussion. We consider this analysis appropriate. A more comprehensive overview on the evaluation could further support the decision making process (e.g. a table listing qualitative pro- and counterarguments for the different options). "Cost reflectiveness" should be included as one decisive evaluation criterion.

3) Of the options identified by Consentec, do you have any preferences? If so, please provide reasons for your preferences.

Our preference would be the "absolute" approach which considers all assets irrespective of their age as relevant for ITC. Since both old and new network elements are exposed to transit flows such a concept would be fair and cost-reflective.

The report contains a further argument stating that "pre-liberalization assets" were built in a different regulatory environment. The "restricted absolute" approach would acknowledge this fact by considering only assets built after 1996. To our view this rationale contradicts the "cost reflectivity" principle as also pre-liberalization assets cause costs for hosting transits. The "restricted absolute" approach could therefore at best be seen as a political compromise.

The “incremental” approach is based on the interim fund size of 100 Mio. €. We consider this value an arbitrarily chosen parameter. This parameter needs to be replaced by a value underpinned by a more sound analytical framework. The “absolute” approach provides such a framework.

4) Are the assumptions adopted for the illustrative numerical analysis appropriate? Considering the practical limitations of availability, what other data or assumption do you believe should be used in such analysis?

To our understanding assumptions on the following parameters have been used to determine the infrastructure costs of relevance for the ITC:

- asset quantities
- unit costs of those assets
- financial parameters transform those unit costs into capital costs (annuities)

The asset quantities which have been derived from the ENTO-E database seem a reasonable proxy. We are not able to comment on unit cost data as the associated information has not been disclosed in the study. The assumptions on the Rates of Return and depreciation periods broadly reflect typical values used for accounting purposes in the electricity network industry. They can therefore be used to calculate average, not individual, TSO costs.

We wonder whether operational costs should also be included in the evaluation.

5) How do you believe the different parts of the congestion revenues should be treated in calculating the ITC infrastructure fund and why?

In general, ITC compensates for the physical use of the network by transits. Congestion revenues reflect price differences between market hubs. Distributing those differentials back to grid customers serves to balance out inequalities induced by separating hubs within the Integrated European Electricity Market. Therefore, congestion revenues and ITC occur for different reasons and serve different purposes.

Nevertheless, there are obvious reasons for deducting revenues which have been used to finance grid infrastructure from the asset investment value (“narrow” interpretation). This prevents double-compensation.

We strongly support the approach taken in the study which deducts congestion revenues from the overall asset investment value. Deducting congestion revenues only from the share of the asset investment value which hosts transits (overall asset investment value times Transit Factor) would discriminate national grid users against European transit usage. In this case, transits would exclusively benefit from congestion revenues.

6) Do you agree with Consentec’s assessment and the preliminary conclusions on the options for determining the ITC infrastructure fund?

We support the approach of quantifying the financial impact of different options and analyzing their sensitivities. Further to this analysis an overview of qualitative indicators evaluating the different options would support a more profound understanding of the conclusions.

7) What are your views regarding the suitability of using LRAIC to determine the ITC infrastructure fund? Do you consider the LRAIC proposed by Consentec appropriate?

The LRAIC approach can be interpreted as a simplified representation of the actual grid costs. The annuities used for the LRAIC calculation attribute identical capital costs to both old and new assets. In reality, old assets are depreciated to a larger extent and are therefore less capital cost intensive. The methodology can therefore only be used to evaluate average but not individual grid costs in a simplified manner. An evaluation of the average asset costs across Europe is, however, exactly the scope of the study. Therefore, the simplification described above seems acceptable.

8) Are there any other issues that you believe should be taken into account in this review? In particular, how do you believe the on-going wider developments in the European energy market and regulatory arrangements should impact the Agency's proposal on the infrastructure fund?

We think that the ITC mechanism is a key element of the EU market framework. Its impact on other elements should be continuously reviewed and discussed.

The consideration of loop flows in ITC is one particular aspect which is currently subject to intense discussions. In the current ITC scheme loop flows are fully compensated. Contributions for those Loop-Flows are, however, not reflected to a full extent. Considering the relatively small share of Loop Flows compared to the overall transit flows this simplification may be acceptable. Nevertheless, further investigations of this issue could be envisaged and should be based on sound physical models.