

AAN to ACER

DATUM 14 november 2012
REFERENTIE RGE 12-176
VAN RGE

ONDERWERP ITC annual cross-border infrastructure compensation sum

TER BESLUITVORMING TER INFORMATIE

1. Introduction

In this memorandum TenneT TSO B.V. (hereinafter TenneT) will respond to the consultation document PC_2012_E_15 dated 16 October 2012.

In accordance with the guidelines on the ITC mechanism the ITC fund compensates TSOs who host cross border flows of electricity in their networks for two types of costs:

- Network losses
- Costs of making the infrastructure

With respect to the costs of constructing the required infrastructure two elements are of importance:

1. The total costs to be allocated in the ITC fund;
2. The cost allocation methodology.

This consultation document only focuses on the first element.

2. TenneT's response to the consultation document

- 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?*

TenneT believes that a sufficient range of potentially suitable options have been used for assessing the ITC infrastructure fund.

- 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?*

TenneT believes the criteria to assess these options are appropriate.

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

TenneT has preference for the incremental approach using the start value of the ITC fund of EUR 100 million as a basis. In the other scenario's the consultant has aimed to evaluate the value of the transmission assets carrying cross border flows from scratch. We believe such an approach has the following weaknesses:

- a. The information is not always available / comparable between different transmission systems;
- b. Due to the use of incomplete data sets and the required assumptions that Consentec needed to make as part of their research we believe that the opening balance assessment is increasingly uncertain;
- c. The data leads to significant variances in comparison to the current methodology that cannot be explained;
- d. The methodology is difficult to explain to the users of the grid, whom are allocated the costs of this fund;
- e. The approach is not transparent and is difficult to verify.

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?*

Given the limitations of data availability we acknowledge that any approach will have a significant uncertainty margin, which causes us to believe that it is best to limit the assumptions to the development of the fund taking the EUR 100 mio as a basis.

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

TenneT believes that congestion revenues should be separately assessed. Congestion revenues are used to invest in cross border capacity.

The ITC fund is however aimed to compensate TSOs for hosting transit flows. This is a separate issue, consequently we believe that congestion revenues should not be taken into account while assessing the ITC fund.

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

TenneT agrees with Consentec's assessment and preliminary conclusions on the options for determining the ITC infrastructure fund.

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?*

We believe all potential solutions have a great deal of uncertainty. Therefore we believe that it is best to incorporate incremental changes, as this method is consistent with prior periods and is less subjective.

- 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 would ask ACER to evaluate the tariff implications of changes in the fund for its members. We believe it would be worthwhile to analyse the allocated costs of the chosen option in relationship to the regulated revenue of any member state and the respective share of transit flows in the total flows of the respective network.

This check will help ACER to understand if the method used to determine the fund significantly affects the regulated income of a TSO and consequently if the start value of the fund is actually consistent with the regulatory value. Situations in which the results of the cross border fund are significant compared to the regulated revenue, whereas the transit flows in relationship to the total flows are not, are undesirable and cannot be explained to the users of the grid. Furthermore such an analysis could be used to assess whether the method used to determine the start value is representative of the actual efficient cost to construct the transmission assets used to host the cross border flows (assuming opening values of RAB are).

3. Conclusion

Based on TenneT's assessment of the various options we have preference for the incremental approach. We base this conclusion based on the following:

- The incremental approach will have the least implications on the users of the transmission grid and improves the stability of transmission tariffs in the various countries;
- The incremental approach is understandable for users of the transmission grid;
- The incremental approach builds on the current situation and is less exposed to the weaknesses of academically trying to re-evaluate an opening balance of transmission assets carrying cross border flows.