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Review of the ITC annual cross-border infrastructure compensation sum

Consultation Document

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This consultation document is issued to invite comments on a study commissioned by the Agency from the consultancy firm, Consentec GmbH, of the Inter-Transmission System Operator Compensation annual cross-border infrastructure compensation sum. The Agency is assessing this sum pursuant to point 5.3 of Annex Part A of Commission Regulation (EU) No 838/2010.

This consultation is open to all interested stakeholders, who are invited to submit their comments by:

14 November 2012
14.00 hrs (CET)

by sending them to the following address:

consultation2012E15@acer.europa.eu

This document contains a number of specific questions for consultation. Stakeholders are invited to address the issues raised in the questions, as well as to provide any other comment which they may have.

Related Documents

- Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0001:0014:EN:PDF>
- Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross border exchanges in electricity and repealing Regulation (EC) No 1228/2003
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>
- Commission Regulation (EU) No 838/2010 of 23 September 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging.
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:250:0005:0011:EN:PDF>

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1 Introduction

Regulation (EC) No 714/2009 Article 13 sets out that Transmission System Operators (“TSOs”) shall receive compensation for costs incurred as a result of hosting cross-border flows of electricity on their networks. It further sets out that these costs shall be established on the basis of the forward-looking long-run average incremental costs (“LRAIC”), using recognised standard-costing methodologies. Article 18 of this regulation provides that where appropriate, the Commission may adopt guidelines to specify detailed aspects of the Inter-TSO Compensation (“ITC”) mechanism in accordance with the principles set out in Articles 13.

The guidelines on the ITC mechanism were subsequently set out in Annex Part A of Commission Regulation (EU) No 838/2010 (the “Regulation”), whose application commenced on 3 March 2011. Under the Regulation, the ITC fund was established to compensate two types of costs incurred due to hosting cross-border flows: those relating to transmission losses and those relating to making infrastructure available. The latter, termed in the Regulation as the annual cross-border infrastructure compensation sum (hereafter referred to as “the ITC infrastructure fund”), is set currently at EUR 100 000 000. The Regulation requires the Agency to undertake its best endeavours to carry out an assessment within two years of the date of application of the Regulation and, based on this assessment, to propose to the Commission the annual cross-border infrastructure compensation sum. The Commission shall determine the sum following the proposal from the Agency or, if it disagrees with the Agency’s proposal, ask the Agency for a second opinion.

The Regulation requires the Agency’s assessment to consist of a technical and economic assessment of the forward-looking LRAIC of making infrastructure available for carrying cross-border flows of electricity on an annual basis, and to be based on recognised standard-costing methodologies. When making the proposals to the Commission, the Agency shall also provide its opinion as to the suitability of using LRAIC for the assessment of the relevant costs.

Recognising the high degree of technical details and the potentially significant level of impact on relevant stakeholders, the Agency commissioned an independent study from the consultant firm, Consentec GmbH, to assist with the review of the ITC infrastructure fund.

The Agency is publishing Consentec’s draft final report to gather comments from all stakeholders. It is important for the Agency to consider wide stakeholder views and all relevant evidence, so as to take a well-informed and balanced position when providing its recommendations to the Commission.

2 Scope of the review

The review of the ITC infrastructure fund is limited to the determination of the specific value of this amount. It does not cover any other aspects of the ITC mechanism that are explicitly defined in the Regulation, such as how the ITC infrastructure sum is proportioned to individual TSOs’ compensation or contribution amounts.

The Agency notes that wide developments in the European energy market and regulatory arrangements could impact on the ITC infrastructure sum or indeed on the overall ITC mechanism. For example, cross-border cost allocation of certain transmission investment projects, as foreseen by the proposed Energy Infrastructure Package, could result in adjustments to the way the ITC infrastructure sum is determined. Also, the May 2012 Florence Forum invited the Agency to consider potential enhancement of the ITC mechanism as part of the measures to

deal with issues raised by loop flows. Any changes from that work could also interact with the basis of the ITC infrastructure fund. The review of the ITC infrastructure fund, the subject of this consultation, is being carried out against the current legal, market and regulatory arrangements, without prejudice to future developments. However, the Agency expects that the final decision will need to take into account relevant wider developments to ensure coherence and consistency of the overall arrangement of costs shared amongst TSOs.

The key tasks that the Agency appointed Consentec to assist with are consistent with the scope of the review. These include an analysis of the policy context and high-level requirements, identification and assessment of options for the methodology to determine the ITC infrastructure fund based on the current LRAIC principles, and production of numerical results for each of the options for representative years. Consentec was also asked to assess the suitability of using LRAIC in determining the ITC infrastructure fund.

3 Consentec’s draft final report

Below, we summarise the key outcomes of and issues arising in Consentec’s study. The stakeholders should read Consentec’s draft final report in its entirety when considering their comments.

3.1 Options and indicative numerical results

Consentec identified three main approaches for determining the ITC infrastructure fund:

- **Incremental:** built on the current €100m being a valid LRAIC value at the time of Regulation 838/2010 entering into force, then incorporating incremental changes in transmission assets (adding new investment and subtracting depreciation of existing assets);
- **Absolute:** evaluating from scratch the whole set of transmission assets carrying cross-border flows; and
- **Restricted Absolute:** same as Absolute, but only including assets that have been commissioned after a particular reference year (chosen to be 1996 for demonstrative purposes, but can be varied).

The numerical results for these options for base year 2011 and indicative future year 2022 are given as:

| Approach | Incremental | Absolute | Restricted Absolute |
|-----------|-------------|----------|---------------------|
| Year 2011 | €100m | €1260m | €472m |
| Year 2022 | €456m | €1643m | €1068m |

These numbers are calculated on the basis of incomplete sets of data provided by ENTSO-E and national regulatory authorities (NRAs), as well as a number of assumptions made by Consentec. Therefore, they can only be taken as indicative of the likely outcome if the options were adopted. A range of sensitivity cases presented in Consentec’s report further demonstrate the potential range of the ITC infrastructure fund resulting from these options.

The above numbers are produced on the basis of a “narrow” interpretation of the requirement to take into account financing sources from congestion revenues – as further explained in the next section.

3.2 Treatment of congestion revenues

The Regulation requires the assessment of the ITC infrastructure fund to be appropriately adjusted to reflect sources of financing of infrastructure other than network tariffs. According to Article 16 of Regulation 714, revenues resulting from the allocation of interconnection (known as congestion revenues) shall be used for (a) guaranteeing the actual availability of the allocated capacity, or, (b) maintaining or increasing interconnection capacities through network investments. Where they cannot be used efficiently for these two purposes, they may be used either to lower network tariffs or put in a separate account for use on the two stipulated purposes in future.

Consentec proposes to adopt a “narrow” interpretation of congestion revenues used to finance infrastructure. Consentec’s approach is based on asset volumes: They assume that it is possible to identify the concrete assets that are financed by “sources other than network tariffs”, including congestion revenues spent on purpose (b). The use of the actual congestion revenues in the numerical calculations is just a proxy for this, because we do not have data on asset volume level. Rather, Consentec recommend netting those revenues off against the total annual network cost. However, Consentec acknowledges that there are other possible “wide” interpretations, which would see the amount used by TSOs to lower network tariffs also used as a source for financing infrastructure.

Based on the data provided by ENTSO-E, total congestion revenues in 2011 amounted to €1216m, of which at least €209m were used for purpose (b), and up to €618m were used in lowering network tariffs¹. Consentec’s “narrow” interpretation only nets off €209m when calculating the ITC infrastructure fund. Under a “wide” interpretation, the €618m is also financing the infrastructure, and its proportion deemed for financing cross-border infrastructure could range from the global share of 7.53% (based on the proportion of cross-border transit to total flows) to 100%. The ITC infrastructure fund for year 2011, under the Absolute approach, would be reduced from €1260m of the narrow approach to €1212m or €432m respectively with either of the two proportions.

3.3 Suitability of using LRAIC

On the suitability of using LRAIC to determine the ITC infrastructure fund, Consentec considers that it could still be appropriate for use in the Incremental approach, subject to availability of validated data, whereas regulated (historic) cost data would be more appropriate for the Absolute approach. The appropriate cost base for the Restricted Absolute approach may be decided on the basis of practicability of obtaining reasonably sound figures rather than conceptual considerations.

4 Consultation questions

We welcome any comments on Consentec’s draft final report, and in particular on the following questions:

¹ “At least” assumes 0% of total congestion revenues and “up to” assumes 100% where some TSOs did not submit breakdowns.

- 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?
- 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?
- 3) Of the options identified by Consentec, do you have any preferences? If so, please provide reasons for your preferences.
- 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?
- 5) How do you believe the different parts of the congestion revenues should be treated in calculating the ITC infrastructure fund and why?
- 6) Do you agree with Consentec's assessment and the 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?
- 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?

Beyond the clear scope of this review (which is the assessment of the ITC infrastructure fund) we welcome any views or proposals to enhance the methods and principles of the ITC mechanism as a whole.

5 Next steps

Soon after the launch of this consultation document, the Agency will hold a stakeholders workshop on 25 October in Ljubljana to present Consentec's analysis, answer immediate questions and gather initial reactions.

After the closure of this consultation on 14 November, the Agency will review the responses with Consentec, who may update its analysis and recommendations before delivering its final report to the Agency by the end of November 2012. If no substantial issues arise during this process, the Agency plans to deliver its recommendations to the Commission by March 2013.

If, however, significant issues arise from the consultation process or as a result of wider developments, then the Agency may need to re-consider the timetable going forward and discuss this with the Commission. If the plan is revised, the Agency will inform the wider stakeholders in due course.



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