

ACER

Electricity Markets

14 November 2012

### **Review of the ITC annual cross-border infrastructure compensation sum**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to respond to ACER's consultation reviewing the cross-border ITC infrastructure fund and Consentec's study. We recognise that calculating an appropriate ITC fund is a highly complex and difficult task, but it is still important to ensure it produces economic and efficient results. In this respect, we welcome the analysis and options presented in Consentec's report. However, we believe a more holistic and detailed review of the assumptions and drivers is needed to justify moving away from the status quo and increasing the fund any further.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact John Costa on (+44) 20 3126 2324, or myself.

Yours sincerely,

**Nigel Edwards**  
**Head of European Policy Liaison**

## Attachment

### EDF Energy's response to your questions

#### ACER: Review of the ITC annual cross-border infrastructure compensation sum

##### **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 options in the study represent a wide range of results from the current €100m based on LRMC 2010, base case (€472m) from 1996 assets and high case (€1260m) based on an absolute review of cross border transmission assets from scratch. However, such a wide spread of results invites the question of at which end of the range the ITC fund should reside. Furthermore, Consentec's study is based on many assumptions and data sets from ENTSOe and NRAs which the ACER consultation document states "are incomplete".

Therefore, it is not clear whether the fund needs to be increased or whether any of these figures represent the appropriate amount. Consequently, changes to this fund could create winners and losers, intentionally or not. This is why we believe it should not be changed without further holistic and detailed review and justification of the model assumptions and drivers.

##### **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?**

Using the "with and without transit" to calculate the extra flows across a Member State is quite rudimentary and offers a questionable degree of accuracy. It does not take into account the interrelationships and impact of variables such as new infrastructure, interconnection, market arrangements, supply/demand changes in each Member State over time to identify what proportion is related to cross-border flows that create extra transit and constraints.

Specifically, the actual effect of interconnectors in calculating the ITC fund needs to be reviewed - not all capacity is dedicated to energy trading, as some flows could be for reasons such as Reserve and System Security.

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

In line with our comments, above we do not believe it appropriate to move away from the status quo of using €100m cap, based on the sensible option LRAIC. The ITC fund should be sending the correct signals to attribute costs correctly and incentivise affected TSOs to improve their network. It is not clear that the ITC is doing this now or that any of the options presented will help do this any better.

**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?**

As stated in our response to Q.2, using the “with and without transit” to calculate the extra flows across a Member State is quite rudimentary and offers a questionable degree of accuracy. It does not take into account the interrelationships and impact of variables such as new infrastructure, interconnection, market arrangements, supply/demand changes in each Member State over time to identify what proportion is related to cross-border flows that create extra transit and constraints.

The actual effect of interconnectors in calculating the ITC fund needs to be reviewed as not all capacity is dedicated to energy trading and flows could be for Reserve and System Security reasons for example. It may also be worthwhile using real asset values for transmission infrastructure in each Member State to produce more accurate results.

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

It is important to identify those congestion costs at Member State level that are internal and those caused by cross-border transit, covering historic, current and future periods. Hence this analysis will also need to take into account the forecast impact of new infrastructure and market arrangements. This will help ensure that the fund is used to remunerate the relevant networks at the appropriate level. This in turn will assist consumers in the funding Member States to be well informed about why they need to contribute to the running of cross-border networks for their benefit.

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

See answers to Q1 &2 above

**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?**

Yes, as stated above Long Run Average Incremental Cost represents an appropriate economic and logical approach. Basing the funding calculation on LRAIC will help indicate how much an extra unit of cross border capacity is worth, to justify the extra investment. It will also pave the way for estimating prices if incremental capacity auctions are introduced.

**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?**

It would be worthwhile reviewing the interaction with Member State price controls where TSOs receive monies for resolving constraints. Overlaps and double counting of benefits must be avoided. The interaction between EU Codes – in particular CACM, Balancing and security of supply obligations – need to be carefully assessed, as these could affect transit flows. Looking forward, the eventual development of the “super grids” and power corridors will change the nature and purpose of cross-border flows, and hence this would need to be reflected in the future allocation of funds.

**EDF Energy**  
**November 2012**