

## Consultation Response to ACERs review of the ITC annual cross-border infrastructure compensation sum

TransnetBW welcomes the opportunity to comment on the ACER consultation document referring the review of the ITC annual cross-border infrastructure compensation sum. Our Transmission Grid is located in the centre of Europe and therefore heavily affected by transits. In general we see the current ITC mechanism as a rather simple but transparent and adequate method for Transit compensation. Due to the sophistications of the infrastructure model not all flow aspects can be taken into account in a deeper manner, but they were extensively assessed before the mechanism was chosen. However today's 100 mio. € infrastructure compensation sum was the result of a political compromise, without any underlying method and does not recover the current costs that are incurred by hosting cross-border flows. Especially when considering the coming grid investments an adjustment of the ITC infrastructure compensation framework is urgently needed.

Further points will be linked to the questions ACER rose in its 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?

We think that **Consentec took the main issues** (today's asset base, new investment, congestion rents and grid usage) **into consideration** in an adequate manner. In general the study shows that Consentec has been working since years with ITC issues and that the consultant has a comprehensive knowledge of the topic.

The Contentec report gives some links to the Energy Infrastructure Package and the PCI- Cost Benefit process concerning new investments. Never the less, the "investment causer principle", linked to the ITC issue should as well be further evaluated. While e.g. the vertical grid load in our control zone has been relatively constant (about 50TWh/a) or has even slightly decreased over the last decade the strongly interconnected transmission grid became increasingly affected by external usage (commonly referred to transits). For the last few years these transit flows have been on a relatively constant high level (about 25 TWh/a). So even though the internal load has remained stable/even decreased, investments were and are still necessary. E.g. we are replacing most of the 220 kV lines by 380 kV lines to handle the increased transmission challenges. So it should generally be evaluated which flows caused the last and next year's investments (even without PCI status) and who should bear the mature cost. This means an **"investment**

**causer principle**” should be assessed additionally to the pure **“internal/external flow usage share”** and the real cost reflectiveness of this second key has to be evaluated for e.g. 2010 and 2011.

### 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?

TransnetBW **supports the definition of a Global Transit Share Key (GTS)** as the best available, simplified method to distinguish between external and internal flows. From our experience as a TSO in the centre of Europe hosting high amounts of external flows, we see a clear link between the GTS key and the transit definition which equals the hourly minimum of import and export. We internally use this key as well to assess the loss volume and find very high correlation factors. An average GTS of about 7% seems realistic to us even if the real GTS is differing remarkably from country to country. Some parties might claim that a GTS key does not take “loop flows” into consideration in a proper way. We acknowledge this weak point of the GTS-key concerning loop flows but one should not forget that:

1. For a loop flow affected party, a loop flow is taken into consideration like a normal transit for the cost claim calculation.
2. Today’s transit definition, with some loop flow weaknesses was extensively assessed in the time the definition was chosen. The advantages of the definition overcame the disadvantages.
3. In the CEE Region, an exchange from Germany to Austria is often linked to the loop flow discussion. According to ITC this is not correct. If an exchange from Germany to Austria affects third countries, this is not a loop flow inside the ITC mechanism. This is a clear transit as both countries are separate ITC-Parties. The CEE “loop flow” discussion even proves that the 100 mio. € compensation fund is not adequate to compensate the infrastructure (and operational) costs incurred by hosting cross-border.
4. Last but not least, according to earlier more sophisticated ITC models calculating loop flows and transit flows separately; the loop flows share was lower than 10% compared the total transit. That means even there are some loop flow weakness in the key, this is not a reason to refuse the GTS approach in general.

**Additionally** to the GTS key, Consentec should evaluate at least the **“With-and-without Transit key”** as a more sophisticated method to verify the results on a high level (even it is clear, that there will be different range).

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

In our view only the **“absolute approach”** reflects the goal of **Art. 13 Regulation No 714/2009** stating: TSOs “shall be compensated for costs that are incurred by hosting cross-border flows.” Today’s 100 mio. € for the ITC Infrastructure fund doesn’t reflect the actual costs for hosting cross-border flows, so it should not be taken as basis, even if it has been considered in Regulation No 838/2010 for the first ITC year(s). In general the grid cost should at least be fairly shared between internal and external grid users, but the “comprehensive” and the “restricted absolute” method do not take this into consideration adequately. Internal users bear the total (past) grid costs (about 40 year depreciation), not only cost incurred after 1996 (Restricted Absolute) or 2010 (Incremental).

The results of the “absolute approach” head for the right direction. This can be shown by a simple “green field example”: Regarding the ENTSO-E TYNDP 2012 European TSOs will invest 104 bill. € over the next 10 years to develop their networks. This new investments would lead to about 10 bill. € annual cost. As the external grid usage is about 7 % (2010/11 GTC result) this can be multiplied by the 10 bill. € annual cost and would result in a fund size of about 700 mio. €. These 700 mio. € fund would not yet consider the already existing grid cost. When including these costs the amount might need to be doubled roughly.

Furthermore, European Cross-border flows have increased and will continue to increase strongly. The graph: “Development of overall cross-border exchanges of ENTSO-E member TSOs' countries since 1975” (source: ENTSO-E memo 2011) e.g. shows, that the cross-border exchanges have almost doubled since liberalization. Consentec observed on page 34 that the GTS rose from 6,65 % in 2010 to 7,53 % in 2011. Calculated in absolute numbers this is an increase of 13 % within one year in average, without any “fund size” adjustment between 2010 and 2011.

These above mentioned facts and the increasing cross-border-flows in the light of the overall “2014 target model; internal energy market” clearly show the need for an increase of the fund size. Therefore TransnetBW strongly challenges the amount of 100 mio € and welcomes again the “absolute approach”. The fund size assessment should be repeated on a regular basis to cope with the physical changes and developments.

### 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?

The **data provided by ENTSO-E seems to be reasonable** but we did not exercise an evaluation on the unitary cost provides by the NRA. As e.G. the 110 kV voltage level would only carry a minor part of the transit, the cost of asset class C might be reduced.

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

**We support the narrow interpretation approach.** Any link between the congestion revenues (commercial flows at border; MW) and the calculation of the ITC infrastructure fund (physical flows; MWh/a) should be done very carefully as there is only a very small interaction. Congestion revenues might be deducted from the overall asset value to trade internal and external grid users equally. But only the revenue part that is not used:

- for guaranteeing the actual availability of the allocated capacity or
- maintaining or increasing interconnection capacities through network investments according to Art. 16 Regulation No 714/2009.

Moreover, we would like to point out that congestion revenues decreased strongly in the past few years, especially in central Europe, while the cross-border flows increased (especially inside CWE) . German congestion revenues e.g. decrease from 2010 to 2011 by 69%. But this congestion revenues decrease has so far not been reflected by increasing the ITC fund size since 2010.☐

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

In general we agree with Consentec's conclusion. However the real **grid usage conditions should be of higher relevance than the political/legal figure of the 100 mio. € starting point.** So the conclusion might stronger underline that the absolute approach is deemed to be much more technical/economical sound than the others two options.

**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 data vary strongly. ACER and the NRAs should **reassess the LRAIC input figures** per asset class in a timely manner. As all earlier LRAIC approaches resulted as well in a remarkable variation range, it might be an option to use e.g. 50% of today's regulated infrastructure cost (the base for the tariffs) and only 50% of LRAIC. The LRAIC part might be increased in a future ITC cross-border infrastructure compensation sum review, once an improved LRAIC database is available.

**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?**

ACER should consider integrating the compensation of **"cross-border remedial actions"** as a **third tool in the ITC mechanism** besides losses and infrastructure to comply with Art. 13 Regulation No 714/2009 stating: "TSOs shall be compensated for costs that are incurred by hosting cross-border flows."