



## MEMORANDUM

TO Authority for Consumers & Markets

CLASSIFICATION

C3 - Confidential Information

DATE

December 6, 2021

REFERENCE

REG-N 21-072

FROM

SUBJECT Updated advance communication on the use of congestion income TenneT TSO B.V. for the period January 2022 - December 2022

REPORT



DECISION



## 1. Introduction

TenneT TSO B.V. ("TenneT") provides this report in order to comply with the requirements as defined in the Use of Congestion Income methodology ("UCI methodology") in accordance with Article 19(4) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity ("Regulation"). This first advance communication is due by September 30, 2021 and it shall concern the use of congestion income for the calendar year 2022. Per request of the ACM this updated version of the advance communication is submitted to reflect changes in the initial report due to the tariff decision for 2022 and the availability of more actual data for 2021.

This report contains the following information:

- Forecast congestion revenues and withdrawals for the period January 1, 2021 – December 31, 2021.
- Forecast congestion revenues and withdrawals for the period January 1, 2022 – December 31, 2022.

As the year 2021 is not yet closed at the issuance date of this report it is necessary to forecast the expected movements for December 2021 in order to estimate the expected opening balance for the forecast 2022. For November 2021 the preliminary actuals have been used where possible as the month end closing was not yet completed at the moment of this update.

In general it should be noted that it is very complicated to provide reliable estimates for future developments on congestion income and its usage. Especially the congestion income itself and the redispatch costs related to critical branches as a cost category for the use of congestion income are subject to a high degree of estimation uncertainty. In this respect TenneT requests specific attention for the information provided in paragraph 2.4.2 of this document.

The (intended) withdrawals from the auction proceeds comply with the purposes mentioned in the Regulation. TenneT does not provide a multi-year estimate in this report for the years after 2022 as the expectation is that the separate internal account balance will be negative per year end 2022.

## **2. Forecasted congestion revenues and withdrawals for the period January 1, 2022 – December 31, 2022 (including YE 2021 forecast)**

### **2.1 General information**

The Foundation for the Management of Allocated Funds from the National High-Voltage Grid (Stichting Beheer Doelgelden Landelijk Hoogspanningsnet) ("The Foundation") is a foundation established under Dutch law for the management of the "allocated funds" received from TenneT in its capacity as administrator of the National EHV Grid. These allocated funds comprise proceeds of imbalance settlements (not within scope of this report) and proceeds from market-based allocation of cross-border electricity transfer capacity (including proceeds from explicit or implicit auctions of interconnector capacity). TenneT is not allowed to use the allocated funds for other objectives than set forth in the Regulation. According to the competence agreement (bevoegdhedenovereenkomst) with the ACM of December 15, 2015 (reference: ACM/DE/2015/206388\_OV) and the addenda to this agreement of November 19, 2019 (reference: ACM/UIT/523020) and November 24, 2021 (reference: ACM/UIT/566183) the surplus funds of The Foundation will be used for (future) tariff reductions.

In accordance with article 19.2 of REGULATION (EU) 2019/943 congestion revenues shall be used for the following purposes:

*2. The following objectives shall have priority with the respect to the allocation of any revenues resulting from the allocation of cross-zonal capacity:*

*(a) guaranteeing the actual availability of the allocated capacity including firmness compensation; or*

*(b) maintaining or increasing cross-zonal capacities through optimisation of the usage of existing interconnectors by means of coordinated remedial actions, where applicable, or covering costs resulting from network investments that are relevant to reduce interconnector congestion.*

And as stated in article 19.3 of REGULATION (EU) 2019/943:

*3. Where the priority objectives set out in paragraph 2 have been adequately fulfilled, the revenues may be used as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs or fixing network tariffs, or both. The residual revenues shall be placed on a separate internal account line until such a time as it can be spent for the purposes set out in paragraph 2.*

The allocated funds are invested within the boundaries of the treasury statute of The Foundation when they are temporarily placed on a separate internal account as prescribed in the Regulation. The treasury statute of TenneT Holding B.V. also applies to The Foundation. The statute contains principles which cover specific areas such as interest rate risk, liquidity risk, the use of derivatives, and the investment of excess liquidity. The return on these investments is added to the congestion receipts.

## 2.2 Overview forecasted congestion revenues and withdrawals

The movement schedule for the congestion revenues during the period January 1, 2021 – December 31, 2022 is included in the overview below:

**Table 2 - Forecast congestion revenues TenneT TSO B.V. 2022 (incl. YE 2021)**

2019/943 reference	UCI art. 3.1 reference	Book year (numbers in EUR)	2021 (1-1 t/m 31/12) 2022 (1-1 t/m 31/12)	
		<b>Opening balance congestion revenues</b>	-322.265.141	-41.094.332
		<b>NorNed</b>		
		Plus: transmission right revenues NorNed auction	-74.100.672	-74.100.672
		Plus: outcome NorNed bonus-penalty scheme relative availability	0	0
19.2a		Minus: contribution TenneT towards auction costs	158.218	158.218
19.2a	viii. c)	Minus: costs network losses	804.340	804.340
19.2a	viii. c)	Minus: costs for balancing and reserve power	1.685.083	1.685.083
		<b>Net addition NorNed</b>	-71.453.031	-71.453.031
		<b>COBRA</b>		
		Plus: transmission right revenues COBRA auction	-39.123.746	-39.123.746
19.2a		Minus: contribution TenneT towards auction costs	67.409	67.409
19.2a	viii. c)	Minus: costs network losses	4.137.524	4.137.524
		<b>Net addition COBRA</b>	-34.918.813	-34.918.813
		<b>Interconnectors NL-DE</b>		
		Plus: transmission right revenues interconnectors NL-DE	-29.061.157	-29.061.157
19.2a		Minus: contribution TenneT towards auction costs	638.761	638.761
		<b>Net addition interconnectors NL-DE</b>	-28.422.396	-28.422.396
		<b>Interconnectors NL-BE</b>		
		Plus: transmission right revenues interconnectors NL-BE	-21.832.604	-21.832.604
19.2a		Minus: contribution TenneT towards auction costs	638.761	638.761
		<b>Net addition interconnectors NL-BE</b>	-21.193.843	-21.193.843
		<b>Other additions / withdrawals</b>		
		Plus: net income from participation TenneT GmbH & Co. KG	31.025	31.025
		Plus: net addition interest revenues	0	0
19.2a		Minus: overhead costs (according to Netcode art. 5.6.15)	161.166	161.166
19.2a	i.	Minus: redispatch critical branches	316.000.000	200.000.000
		<b>Net other additions / withdrawals</b>	316.192.191	200.192.191
		<b>Total net addition</b>	160.204.108	44.204.108
19.3		Minus: congestion revenues used for reduction of transmission tariffs	120.966.701	0
		Mutation congestion revenues	281.170.809	44.204.108
		<b>Closing balance congestion revenues</b>	-41.094.332	3.109.776

## 2.3 Disclosures to overview forecasted congestion revenues and withdrawals

### 2.3.1 Receipts and withdrawals NorNed

#### Congestion income

In accordance with the ACM decision dated November 14, 2007 (reference: 102746) the capacity of the NorNed cable becomes available for the market through an auction. The congestion revenues are equally divided between TenneT and its counterpart Statnett SF. The TenneT part of these receipts has been added to the congestion revenues since the start of NorNed. The estimated congestion income is based on historical revenues during the period December 2020 to November 2021, due to the outage of the NorNed cable in Q1/2021 the Q1/2020 congestion income was used as a substitute in in the calculation. The estimated congestion income amounts approximately EUR 74.1 million per year.

#### Energy & capacity expenses

The estimated withdrawal is based on historical costs until November 2021 and an estimate for December 2021 and amounts approximately EUR 2.5 million per year. This corresponds to cost category viii c) of article 3.1 of the UCI methodology. These costs are directly related to the priority objectives included in article 19.2a of the Regulation as these are necessary to provide the cross-zonal capacity.

#### Availability incentive NorNed

In accordance with ACM decision 101783\_2-76 TenneT is entitled to an incentive in the situation that the availability of the NorNed cable exceeds predefined limits. If a higher availability is realised TenneT will withdraw an amount with a maximum of approximately EUR 1.6 million from the auction receipts. If a lower availability is realised TenneT will add an amount to the auction receipt with a maximum of approximately EUR 1.6 million. During the period 2018 to 2020 TenneT incurred the maximum malus due to lower availability of the NorNed cable, in the years prior to 2018 incurred the maximum bonus. As part of the forecast an amount of nil is included in order to apply a prudent approach.

#### Operational costs for the execution of the auctions for interconnection capacity

The estimated withdrawal is based on historical costs and amounts approximately EUR 0.2 million per year. These costs are necessary to generate the congestion income on these borders and should therefore be netted with the gross congestion income. For the purpose of transparency TenneT separately reports these amounts in the overview.

## 2.3.2 Receipts and withdrawals COBRA

### Congestion income

In accordance with the ACM decision dated October 17, 2019 (reference: ACM/UIT/519787) the capacity of the COBRA cable becomes available for the market through an auction. The congestion revenues are equally divided between TenneT and its counterpart Energinet. The TenneT part of these receipts has been added to the congestion revenues since the start of COBRA. The estimated congestion income is based on historical revenues during the period January 2021 to November 2021 and an estimate for December 2021. The estimated congestion income amounts approximately EUR 39.1 million per year.

### Energy & capacity expenses

The estimated withdrawal is based on historical costs until October 2021 and an estimate for November/December 2021 and amounts approximately EUR 4.1 million per year. This corresponds to cost category viii c) of article 3.1 of the UCI methodology. These costs are directly related to the priority objectives included in article 19.2a of the Regulation as these are necessary to provide the cross-zonal capacity.

### Operational costs for the execution of the auctions for interconnection capacity

The estimated withdrawal is based on historical costs and amounts approximately EUR 0.1 million per year. These costs are necessary to generate the congestion income on these borders and should therefore be netted with the gross congestion income. For the purpose of transparency TenneT separately reports these amounts in the overview.

## 2.3.3 Receipts and withdrawals interconnectors NL-DE and NL-BE

### Congestion income

The yearly and monthly auctions of transmission rights for the interconnectors NL-DE and NL-BE are performed by JAO. The annual and monthly capacity is allocated by means of explicit auctions. At such auctions, the market party acquires long term transmission rights. The European transmission system operators have created shared rules governing the explicit auctions for allocating annual and monthly capacity. TenneT receives 50% of the congestion revenues on the Belgian and German borders.

The daily auctions are performed by EPEX Spot SE and the NEMO's as of July 3, 2019. The daily capacity is allocated to market parties through an implicit allocation mechanism. The power exchanges and the involved TSO's organise this by means of day-ahead market coupling and intraday market coupling. Per May 21, 2015 flow based market coupling was introduced in the CWE region. As a result the distribution of the auction proceeds between the involved TSO's has also been changed.

The estimated congestion income is based on historical revenues during the period January 2021 to November 2021 and an estimate for December 2021. The estimated congestion income amounts approximately EUR 51.0 million per year. This congestion income has been allocated to the DE-NL and BE-NL borders based on the ratio in 2020 actuals as reported to the ACM.

#### Operational costs for the execution of the auctions for interconnection capacity

The estimated withdrawal is based on historical costs and amounts approximately EUR 1.3 million per year. These costs are necessary to generate the congestion income on these borders and should therefore be netted with the gross congestion income. For the purpose of transparency TenneT separately reports these amounts in the overview.

## 2.4 Other additions / withdrawals

### 2.4.1 Operational costs of The Foundation

The estimated withdrawal is based on historical costs and amounts approximately EUR 0.2 million. These costs of The Foundation for the management of the allocated funds are necessary to separately account for the residual congestion income as required in article 19.3 of the Regulation. For the purpose of transparency TenneT separately reports these amounts in the overview.

### 2.4.2 Redispatch costs related to critical branches

The Regulation requires TSOs to optimise cross-border capacity of the interconnections and the transmission networks affecting cross-border flows, while complying with safety standards of secure network operation. As a result guaranteeing the actual availability of allocated capacity and maintaining or expanding capacity of the interconnections and of the transmission networks affecting cross-border flows contributes to the purposes laid down in the EU legislation. In accordance with article 19.2a of the Regulation and cost category i) of article 3.1 of the UCI methodology these activities can be funded from the revenues resulting from the allocation of interconnection capacity (hereinafter cross-border congestion revenues). The interconnectors and relevant parts of the transmission network that are affected by cross-border flows are identified as 'critical branches' in accordance with the implemented Flow Based Allocation Methodology.

In the following situations TenneT is using cross-border congestion revenues to fund the costs of solving congestions on critical branches (both upward and downward adjustment of transported volumes by means of redispatch and/or countertrade):

- I. If planned non-availability of a critical branch is required to enable the increase of capacity of the critical branch.
- II. If the critical branch is temporarily not available.

- III. If there is an unplanned outage of a critical branch.
- IV. If the scheduled transport on the critical branch exceeds security limits.

Recent developments since September 2021 lead to a significant increase in the actual costs to date and expected costs for redispatch costs for December 2021 related to critical branches. The estimated redispatch costs related to critical branches are expected to increase from EUR 67 million in 2020 to approximately EUR 316 million in 2021 and EUR 200 million in 2022. This increase is mainly due to the required outage periods [REDACTED] in combination with costs for safeguarding security limits [REDACTED]. Also for subsequent years the expectation is that long window outage periods are required to execute projects resulting in significant redispatch costs. The expected cost level for 2021 and 2022 can be specified as follows:

Book year (numbers in EUR)	2021 (1-1 t/m 31/12)	2022 (1-1 t/m 31/12)
Preliminary actuals YTD November	[REDACTED]	[REDACTED]
<i>Subtotal actual costs</i>	[REDACTED]	[REDACTED]
Forecast December	[REDACTED]	[REDACTED]
Other planned outages	[REDACTED]	[REDACTED]
Rolling forward (normalised) for 'regular' redispatch critical branches	[REDACTED]	[REDACTED]
<i>Subtotal forecasted costs</i>	[REDACTED]	[REDACTED]
<b>Redispatch costs related to critical branches</b>	<b>316.000.000</b>	<b>200.000.000</b>

Please note that the table and parts of the text above the table should be treated as confidential.

TenneT emphasizes that the forecasted costs for redispatch related to critical branches are subject to a relatively high estimation uncertainty. The forecasted costs are now based on recent cost levels that TenneT experienced during the period September – November 2021.

### 2.4.3 Tariff reduction

Based on this forecast and predominantly the expected developments in redispatch costs related to critical branches TenneT expects that the annual amount of net auction proceeds (revenue interconnectors +/- costs to be settled with these auction receipts) will already become negative as of 2021 and therefore the remaining available amount of auction receipts is expected to decline rapidly to nil. However the difficulty at this moment is that the expected costs for redispatch are still subject to a relatively high estimation uncertainty. As a result of this forecast the ACM decided in its tariff decision that no auction receipts will be used in 2022 to reduce the tariffs of TenneT (reference: ACM/UIT/566185).