



MEMORANDUM

TO Authority for Consumers & Markets

CLASSIFICATION

C1 - Public Information

DATE

October 31, 2022

REFERENCE

REG-N 22-066

FROM

SUBJECT Advance communication on the use of congestion income TenneT TSO B.V. for the period
January 2023 - December 2023

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 advance communication is due by October 31, 2022 and it shall concern the use of congestion income for the calendar year 2023.

This report contains the following information:

- Forecast congestion revenues and withdrawals for the period January 1, 2022 – December 31, 2022.
- Forecast congestion revenues and withdrawals for the period January 1, 2023 – December 31, 2023.

As the year 2022 is not yet closed at the issuance date of this report it is necessary to forecast the expected movements for the remaining period as of September 2022 in order to estimate the expected opening balance for the forecast 2023.

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. As in the previous year TenneT proposes to submit an update of this forecast early December 2022 in order to reduce the estimation uncertainty prior to the decision of the ACM on this advance communication.

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 2023 as the expectation is that the separate internal account balance will already be nil per year end 2022.

2. Forecasted congestion revenues and withdrawals for the period January 1, 2023 – December 31, 2023 (including YE 2022 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, 2022 – December 31, 2023 is included in the overview below:

Omschrijving	Eenheid	2019/943 reference	UCI art. 3.1 reference	2022	2023
Opening balance congestion revenues	EUR			-53.449.663	-
NorNed					
Plus: transmission right revenues NorNed auction	EUR			-73.501.417	-120.000.000
Plus: outcome NorNed bonus-penalty scheme relative availability	EUR			-1.606.823	-1.799.641
Minus: contribution TenneT towards auction costs	EUR			-	-
Minus: costs network losses	EUR	19.2a	viii. c)	200.000	800.000
Minus: costs for balancing and reserve power	EUR	19.2a	viii. c)	7.800.000	1.200.000
	EUR				
Net addition NorNed	EUR			-67.108.240	-119.799.641
Cobra-cable					
Plus: transmission right revenues COBRA auction	EUR			-87.099.265	-87.099.265
Minus: contribution TenneT towards auction costs	EUR			-	-
Minus: costs network losses	EUR	19.2a	vii. c)	16.000.000	18.000.000
	EUR				
Net addition Cobra-cable	EUR			-71.099.265	-69.099.265
Interconnectors NL-DE					
Plus: transmission right revenues interconnectors NL-DE	EUR			-52.703.182	-39.812.780
Minus: contribution TenneT towards auction costs	EUR			923.097	923.097
	EUR				
Net addition interconnectors NL-DE	EUR			-51.780.085	-38.889.683
Interconnectors NL-BE					
Plus: transmission right revenues interconnectors NL-BE	EUR			-41.602.427	-31.427.102
Minus: contribution TenneT towards auction costs	EUR			923.097	923.097
	EUR				
Net addition interconnectors NL-BE	EUR			-40.679.330	-30.504.005
Other additions / withdrawals					
Plus: net income from participation TenneT GmbH & Co. KG	EUR			-31.434	-31.434
Plus: net addition interest revenues	EUR			-	-
Minus: Overhead costs Stichting Doelgelden	EUR			160.600	160.600
Minus: redispatch critical branches	EUR	19.2a	i.	283.725.970	258.163.428
Minus: interest costs	EUR			261.447	-
	EUR				
Net other additions / withdrawals	EUR			284.116.583	258.292.594
Reduction of transmission tariffs					
Minus: congestion revenues used for reduction of allowed revenue for EHS-grid	EUR				
Part attributed to costs resulting from ongoing investments that are relevant to reduce interconnector congestion	EUR	19.2b	vi.		
Part attributed to costs resulting from past investments that are relevant to reduce interconnector congestion	EUR	19.2b	vii.		
	EUR				
Part used as income taken into account for calculating network tariffs	EUR	19.3		-	-
Mutation congestion revenues	EUR			53.449.663	-0
Closing balance congestion revenues	EUR			-	-0

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 2021/2022, due to the outage of the NorNed cable since May 6, 2022 only a limited number of months is available in 2022. Therefore the expected amount for 2022 is EUR 73.5 million which is lower compared to the expected amount for 2023. The estimated congestion income amounts approximately EUR 120.0 million for 2023.

Energy & capacity expenses

The estimated withdrawal is based on historical costs and amounts to approximately EUR 2.0 million per year in 2023. 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. Please note that the costs in 2022 are significantly affected by the unexpected outages of NorNed and are therefore deemed not to be forecasted to 2023.

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 2021 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 the full malus is included in order to apply a prudent approach.

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 for 2022 and 2023 is based on historical revenues during the period January 2022 to August 2022. The estimated congestion income amounts approximately EUR 87.1 million per year.

Energy & capacity expenses

The estimated withdrawal is based on historical costs until August 2022 and an estimate for the remaining part of 2022 and amounts to approximately EUR 16.0 million per year. For 2023 this amount is expected to increase to EUR 18.0 million per year due to a further increase in energy prices. 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.

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

Congestion income

The long term 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 financial transmission rights. The European transmission system operators have created shared rules governing the explicit auctions for allocating long term monthly capacity. TenneT receives 50% of the congestion revenues on the Belgian and German borders.

The daily capacity is allocated to market parties through an implicit allocation mechanism. The power exchanges and the involved TSOs organise this by means of day-ahead market coupling. Per June 8, 2022 day ahead flow based market coupling was introduced in the Core Capacity Calculation Region. As a result the distribution of the auction proceeds between the involved TSO's, which is performed by JAO, has also been changed. In the methodology used in CWE market coupling the so called "socialization" of Long Term Transmission Rights (LTTR) remuneration was used. This meant that the day ahead congestion income is first distributed on borders, then on each border this income is reduced by LTTR remuneration for that border. If the result is negative (net negative congestion income) the missing money is taken from other borders with positive net congestion income. Due to there not being a coordinated process for long term capacity allocation in the Core region yet, a socialization principle as previously known in the CWE region is not yet applied in the Core region. This means that some TSOs may not be able to cover LTTR remuneration

obligations for some time frames on their borders from Day Ahead congestion income but they will have to do it from Long Term congestion income or other sources.

The estimated congestion income for 2022 is based on historical revenues during the period January 2022 to August 2022. The estimated congestion income amounts to approximately EUR 94.3 million per year. This congestion income has been allocated to the DE-NL and BE-NL borders based on the ratio in 2021 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 1.8 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.

The estimated redispatch costs related to critical branches are expected to increase from EUR 299 million in 2021 to approximately EUR 330 million in 2022 and EUR 470 million in 2023. This increase is mainly due to the required outage periods for the execution of projects to increase the capacity of the existing EHV-grid in combination with costs for safeguarding security limits of the grid. Also for subsequent years the expectation is that long window outage periods are required to execute projects resulting in significant redispatch costs. TenneT expects that the congestion revenues in 2022 and 2023 are insufficient to cover the abovementioned amounts for redispatch related to critical branches. Therefore the amounts in the table of paragraph 2.2 have been lowered to such an extent in order to prevent a positive closing balance for the congestion revenues. The remaining costs for redispatch related to critical branches will be settled through the regular settlement of costs for energy & capacity in year t+2. This situation is depicted in the following table:

Book year (numbers in EUR)	2022 (1-1 t/m 31/12)	2023 (1-1 t/m 31/12)
Expected costs related to critical branches	330.000.000	470.000.000
Expected available CI to cover these costs	-283.725.970	-258.163.428
Redispatch costs related to critical branches to be settled via regular settlement of costs for energy & capacity (t+2)	46.274.030	211.836.572

TenneT emphasizes that the forecasted costs for redispatch related to critical branches are subject to a relatively high estimation uncertainty.

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) would already become nil as of 2022 and therefore there will be no remaining auction receipts available for tariff reduction. However, the difficulty at this moment is that the expected costs for redispatch are still subject to a relatively high estimation uncertainty.