



MEMORANDUM

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|-----------|-----------------------------------|-----------------------|-------------------------|
| TO | Authority for Consumers & Markets | CLASSIFICATION | C1 - Public Information |
| | | DATE | October 31, 2023 |
| | | REFERENCE | REG-N 23-048 |
| | | FROM | ██████████ |

SUBJECT Advance communication on the use of congestion income TenneT TSO B.V. for the period January 2024 - December 2024

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|-----------------|-------------------------------------|
| REPORT | <input checked="" type="checkbox"/> |
| DECISION | <input type="checkbox"/> |

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, 2023 and it shall concern the use of congestion income for the calendar year 2024.

This report contains the following information:

- Forecast congestion revenues and withdrawals for the period January 1, 2023 – December 31, 2023.
- Forecast congestion revenues and withdrawals for the period January 1, 2024 – December 31, 2024.

As the year 2023 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 2023 in order to estimate the expected opening balance for the forecast 2024.

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 2023 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 also provides a multi-year estimate in this report for the years after 2024: the remaining amount on the separate internal account balance per year end 2024 is expected to be used for redispatch costs related to critical branches.

2. Forecasted congestion revenues and withdrawals for the period January 1, 2024 – December 31, 2024 (including YE 2023 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.

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, 2023 – December 31, 2024 is included in the overview below:

| Omschrijving | Eenheid | 2019/943 reference | UCI art. 3.1 reference | 2023 | 2024 |
|---|---------|-----------------------|---------------------------|--------------|-------------|
| Opening balance congestion revenues | EUR | | | -28.161.697 | -46.731.338 |
| NorNed | | | | | |
| Plus: transmission right revenues NorNed auction | EUR | | | -48.800.000 | -48.800.000 |
| Plus: outcome NorNed bonus-penalty scheme relative availability | EUR | | | -1.799.641 | -1.853.631 |
| Minus: contribution TenneT towards auction costs | EUR | | | - | - |
| Minus: costs network losses | EUR | 19.2a | viii. c) | 1.900.000 | 1.900.000 |
| Minus: costs for balancing and reserve power | EUR | 19.2a | vii. c) | 1.600.000 | 1.100.000 |
| | EUR | | | | |
| | EUR | | | | |
| Net addition NorNed | EUR | | | -47.099.641 | -47.653.631 |
| Cobra-cable | | | | | |
| Plus: transmission right revenues COBRA auction | EUR | | | -43.900.000 | -42.000.000 |
| Minus: contribution TenneT towards auction costs | EUR | | | - | - |
| Minus: costs network losses | EUR | 19.2a | vii. c) | 12.600.000 | 6.000.000 |
| | EUR | | | | |
| | EUR | | | | |
| Net addition Cobra-cable | EUR | | | -31.300.000 | -36.000.000 |
| Interconnectors NL-DE | | | | | |
| Plus: transmission right revenues interconnectors NL-DE | EUR | | | -117.950.000 | -81.850.000 |
| Minus: contribution TenneT towards auction costs | EUR | | | 950.000 | 950.000 |
| | EUR | | | | |
| | EUR | | | | |
| Net addition interconnectors NL-DE | EUR | | | -117.000.000 | -80.900.000 |
| Interconnectors NL-BE | | | | | |
| Plus: transmission right revenues interconnectors NL-BE | EUR | | | -72.150.000 | -55.950.000 |
| Minus: contribution TenneT towards auction costs | EUR | | | 950.000 | 950.000 |
| | EUR | | | | |
| | EUR | | | | |
| Net addition interconnectors NL-BE | EUR | | | -71.200.000 | -55.000.000 |
| Other additions / withdrawals | | | | | |
| Plus: net income from participation TenneT GmbH & Co. KG | EUR | | | -35.000 | -35.000 |
| Plus: net addition interest revenues | EUR | | | -2.100.000 | -1.600.000 |
| Minus: Overhead costs Stichting Doelgelden | EUR | | | 165.000 | 165.000 |
| Minus: redispatch critical branches | EUR | 19.2a | i. | 250.000.000 | 229.000.000 |
| | EUR | | | | |
| | EUR | | | | |
| Net other additions / withdrawals | EUR | | | 248.030.000 | 227.530.000 |
| 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 | | | -18.569.641 | 7.976.369 |
| Closing balance congestion revenues | EUR | | | -46.731.338 | -38.754.969 |

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 2022/2023. After the repair of the outage of the NorNed cable of May 6, 2022 restrictions are applied to sustain the operations. As of 17 October, the NorNed cable has a reduced maximum transmission capacity of 620MW instead of 700MW. In addition, measures are being introduced to reduce intraday flow direction changes. Therefore the expected amount for 2023 is EUR 48.8 million which is lower compared to the amount for 2022. The estimated congestion income amounts approximately EUR 48.8 million for 2024.

Energy & capacity expenses

The estimated withdrawal is based on historical costs and amounts to approximately EUR 3.0 million per year in 2024. 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 1.8 / 1.9 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 1.8 / 1.9 million. During the period 2018 to 2022 TenneT incurred the maximum malus due to lower availability of the NorNed cable, in the years prior to 2018 incurred the maximum bonus. Due to the restrictions that are applicable since October 17, 2022 the remaining availability will result in the full malus for 2023. As part of the forecast the full malus is included in 2024 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 2023 and 2024 is based on historical revenues during the period January 2023 to September 2023. The estimated congestion income amounts approximately EUR 43.9 million per year for 2023 and EUR 42.0 million for 2024.

Energy & capacity expenses

The estimated withdrawal is based on historical costs until September 2023 and an estimate for the remaining part of 2023 and amounts to approximately EUR 12.6 million per year. For 2024 this amount is expected to decrease to EUR 6.0 million per year due to a decrease in the electricity price in 2024 compared to 2023 and a one-off effect in the costs for 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.

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 2023 is based on historical revenues during the period January 2023 to September 2023. The estimated congestion income amounts to approximately EUR 190.1 million per year. The expected amount of congestion income for 2024 is EUR 137.8 million. Due to the exceptionally high congestion income from the year auction in 2023 compared to prior years an average of the congestion income from the year auction 2022 and 2023 is used to forecast the expected income in 2024 from a prudent perspective.

Operational costs for the execution of the auctions for interconnection capacity

The estimated withdrawal is based on historical costs and amounts approximately EUR 1.9 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 decrease from EUR 330 million in 2022 to approximately EUR 250 million in 2023 and EUR 229 million in 2024. This decrease is mainly due to lower costs for the required outage periods for the execution of projects to increase the capacity of the existing EHV-grid and lower costs for safeguarding security limits of the grid. For subsequent years the expectation is that long window outage periods are required to execute projects and are therefore still resulting in significant redispatch costs. TenneT expects that the congestion revenues in 2023 and 2024 are sufficient to cover the abovementioned amounts for redispatch related to critical branches.

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 remaining annual amount of net auction proceeds (revenue interconnectors -/- costs to be settled with these auction receipts) is still positive. This remaining amount should be used to fulfil the priority objectives as included in the Regulation. Therefore it is expected that there will be no remaining auction receipts available for tariff reduction. However, the difficulty at this moment is that the expected costs for redispatch and the congestion income itself are still subject to a relatively high estimation uncertainty.