

MEMORANDUM

to	Authority for Consumers & Markets	CLASSIFICATION	C3: Confidential Information
		DATE	July 17, 2019
		REFERENCE	BCC-2019-100
		FROM	[REDACTED]

SUBJECT Report auction receipts TenneT TSO B.V. for the period January 2018 - June 2019

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

1. Introduction

TenneT TSO B.V. ("TenneT") provides this report in order to enable the Authority for Consumers & Markets ("ACM") to comply with the requirements as defined in article 6.5 of annex 1 of REGULATION (EC) No 714/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 ("Regulation").

This report contains the following information:

- Realised auction receipts and withdrawals for the period January 1, 2018 – June 30, 2019.
- Intended withdrawals from the auction receipts for the period July 1, 2019 – June 30, 2020.
- Annex 1: realised auction receipts and withdrawals for the period January 1, 2018 – December 31, 2018, accompanied by an unqualified auditor's report.

The withdrawals from the auction proceeds comply with the purposes mentioned in the Regulation.

2. Realised auction receipts and withdrawals for the period January 1, 2018 – June 30, 2019

2.1 General information

TenneT is certified as transmission system operator ("TSO") for the Dutch national (extra) high voltage grid and as the interconnector operator for the southern part of the NorNed Cable. TenneT is exclusively charged with the management of cross-border interconnections with alternating current on the Belgian and German borders. The management includes applying non-discriminatory and transparent transfer capacity allocation mechanisms as prescribed by the EC Electricity Regulations (EC Regulations no. 96/92, 2003/54, 2009/72, 2009/714) the Electricity Act and implementing regulations. These mechanisms include the auctions performed by Joint Allocation Office S.A. ("JAO"). JAO is a joint service company of twenty-two Transmission System Operators in nineteen countries. JAO's principle activity is facilitating the yearly, monthly and daily auctions of transmission rights on 29 borders in Europe. Furthermore TenneT operates the so-called NorNed Cable, an interconnector with direct current between Norway and the Netherlands.

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 relevant competence agreement (bevoegdhedenovereenkomst) with ACM the surplus funds of The Foundation will be used for (future) tariff reductions.

In accordance with article 16.6 of the Regulation the auction receipts shall be used for the following purposes:

6. Any revenues resulting from the allocation of interconnection shall be used for the following purposes:

- (a) guaranteeing the actual availability of the allocated capacity; and/or*
- (b) maintaining or increasing interconnection capacities through network investments, in particular in new interconnectors.*

If the revenues cannot be efficiently used for the purposes set out in points (a) and/or (b) of the first subparagraph, they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

The rest of revenues shall be placed on a separate internal account line until such time as it can be spent on the purposes set out in points (a) and/or (b) of the first subparagraph. The regulatory authority shall inform the Agency of the approval referred to in the second subparagraph.

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 auction receipts.

In 2018 the management of the allocated funds was executed by The Foundation. The overview of auction receipts provided in this report reconciles with the financial administration of TenneT. The figures for the auction receipts 2018 have been used for the preparation of the statutory annual accounts of TenneT for the year 2018. The figures for the auction receipts during the first half of 2019 will be used for the preparation of the half-year report 2019 of TenneT Holding B.V.

2.2 Overview realised auction receipts and withdrawals

The movement schedule for the auction receipts during the period January 1, 2018 – June 30, 2019 is included in the overview below:

Table 2 - Congestion revenues TenneT TSO B.V.

714/2009 reference	Book year (numbers in EUR)	2018 (1-1 t/m 30/6)	2018 (1-7 t/m 31/12)	2018 (1-1 t/m 31/12)	2019 (1-1 t/m 30/6)
	Opening balance congestion revenues	-645.793.491	-608.561.456	-645.793.491	-555.454.386
	NorNed				
	Plus: transmission right revenues NorNed auction	-8.864.297	-15.015.901	-23.880.197	-3.881.139
16.6a	Minus: contribution TenneT towards auction costs	118.068	206.095	324.164	122.882
16.6a	Minus: costs network losses	199.997	272.834	472.832	95.488
16.6a	Minus: costs for balancing and reserve power	715.530	588.208	1.303.737	1.822.333
	Net revenue NorNed	-7.830.701	-13.948.763	-21.779.465	-1.840.436
16.6a	Plus: outcome NorNed bonus-penalty scheme relative availability	-	-1.484.635	-1.484.635	-
	Net addition NorNed	-7.830.701	-15.433.398	-23.264.100	-1.840.436
	Auctions other interconnectors				
	Plus: transmission right revenues interconnectors: NL-DE and NL-BE	-37.631.021	-37.533.124	-75.164.145	-26.261.743
16.6a	Minus: contribution TenneT towards auction costs	1.538.487	1.093.861	2.632.348	1.221.040
	Net addition other interconnectors	-36.092.533	-36.439.263	-72.531.797	-25.040.703
	Plus: net income from participation TenneT GmbH & Co. KG	-13.856.031	2.991.756	-10.864.275	-13.856.531
	Plus: net addition interest revenues	-	-	0	-
	Net other revenues	-49.948.564	-33.447.507	-83.396.072	-38.897.234
	Other additions / withdrawals				
16.6a	Minus: overhead costs (according to Netcode art. 5.6.15)	145.895	117.979	263.874	120.668
16.6a	Minus: redispatch critical branches	22.327.145	29.331.737	51.658.882	11.494.010
	Total other additions / withdrawals excluding usage for reduction transmission tariffs	22.473.040	29.449.716	51.922.756	11.614.678
	Total net addition	-35.306.226	-19.431.190	-54.737.416	-29.122.991
16.6	Minus: congestion revenues used for reduction of transmission tariffs	72.538.261	72.538.261	145.076.521	58.763.469
	Mutation congestion revenues	37.232.035	53.107.071	90.339.105	29.640.478
	Closing balance congestion revenues	-608.561.456	-555.454.386	-555.454.386	-525.813.908

Please note that the report for the period 2018 accompanied by an unqualified auditor's report is attached in annex 1 to this report.

2.3 Disclosures to overview realised auction receipts and withdrawals

2.3.1 Receipts and withdrawals NorNed

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 auction receipts are equally divided between TenneT and its counterpart Statnett SF. The TenneT part of these receipts has been added to the auction receipts since the start of NorNed.

In accordance with article 16.6 of the Regulation TenneT has withdrawn an amount of EUR 0.5 million regarding grid losses for the NorNed cable in 2018 and an amount of EUR 0.1 million for the first half of 2019.

In accordance with article 16.6 of the Regulation TenneT has withdrawn an amount of EUR 1.3 million regarding balancing and reserve power for the NorNed cable in 2018 and an amount of EUR 1.8 million for the first half of 2019.

In accordance with article 16.6 of the Regulation TenneT has withdrawn an amount of EUR 0.3 million regarding operational costs for the execution of the auctions for the NorNed cable in 2018 and an amount of EUR 0.1 million for the first half of 2019. Per specific request of the ACM these operational costs for the execution of the auctions for the NorNed cable can be splitted as follows between EPEX SPOT and other suppliers:

Book year (numbers in EUR)	2018 (1-1 t/m 31/12)	2019 (1-1 t/m 30/6)
Norned		
Minus: contribution TenneT towards auction costs	324.164	122.882
These costs can be splitted as follows:		
EPEX		
Other		
Total	324.164	122.882

In accordance with ACM decision 101783_2-76 TenneT is obliged to add a malus to the auction receipts in the situation that the availability of the NorNed cable is below the predefined limits. Based on the decision of ACM dated February 27, 2019 (reference: ACM/UIT/507971) TenneT is obliged to add an amount of EUR 1.5 million to the auction receipts with regard to the availability of the NorNed cable during 2018.

2.3.2 Receipts and withdrawals other interconnectors

The yearly, monthly and daily auctions of transmission rights for the other interconnectors 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 system operators have created shared rules governing the explicit auctions for allocating annual and monthly capacity. TenneT receives 50% of the auction receipts 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 TSO's organise this by means of day-ahead 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.

In accordance with article 16.6 of the Regulation TenneT has withdrawn an amount of EUR 2.6 million regarding operational costs for the execution of the auctions for the other interconnectors in 2018 and an amount of EUR 1.2 million for the first half of 2019.

Per specific request of the ACM these operational costs for the execution of the auctions for the other interconnectors can be splitted as follows between EPEX SPOT and other suppliers:

Book year (numbers in EUR)	2018 (1-1 t/m 31/12)	2019 (1-1 t/m 30/6)
Auctions other interconnectors		
Minus: contribution TenneT towards auction costs	2.632.348	1.221.040

These costs can be splitted as follows:

EPEX		
Other		
Total	2.632.348	1.221.040

2.3.3 Participation in TenneT Germany

In 2010 The Foundation participated in the acquisition of transpower stromübertragungs GmbH (subsequently renamed TenneT TSO GmbH). The Foundation contributed EUR 375 million and obtained 2,000 Class B shares in TenneT TSO Duitsland B.V. in return. Based on the requirements set by the Dutch government The Foundation financed EUR 300 million of this transaction through the auction receipts and obtained a loan of EUR 75 million from TenneT Orange B.V. for the remaining amount.

In order to protect the allocated funds and to ensure their immediate availability upon request from ACM a put- and a call option have been emitted at 25 February 2010. The call option with an exercise price of EUR 375 million and a maturity period of ten years entitles TenneT Holding B.V. to acquire the investment from The Foundation. The put option has an exercise price of EUR 375 million and a maturity period of ten years and requires TenneT Orange B.V. to buy the investment for The Foundation upon offer. TenneT

Orange B.V.'s obligation is substantially covered by a guarantee issued by the Dutch State for an amount of EUR 300 million expiring in 2020.

All proceeds and costs related to the above mentioned structure have been added / withdrawn from the auction receipts. In 2018 the total net proceeds that are added to the auction receipts amount to EUR 10.9 million. For the first half of 2019 the total net proceeds that are added to the auction receipts amount to EUR 13.9 million.

2.4 Other additions / withdrawals

2.4.1 Tariff reduction

In accordance with article 16.6 of the Regulation and the competence agreement (bevoegdhedenovereenkomst) with ACM of December 15, 2015 (reference: ACM/DE/2015/206388_OV) TenneT will use the auction receipts for (future) tariff reductions. The calculation method for the annual withdrawal from the auction receipts for this purpose is included in this agreement. Based on this calculation method TenneT used an amount of EUR 145.1 million to reduce its tariffs for 2018 and TenneT will withdraw an amount of EUR 117.5 million to reduce its tariffs for 2019 (refer to tariff decision 2019 with reference: ACM/UIT/495421).

2.4.2 Operational costs of The Foundation

An amount of EUR 0.3 million (rounded) has been withdrawn in 2018 for operational costs of The Foundation for the management of the allocated funds and an amount of EUR 0.1 million for the first half of 2019. This withdrawal is in accordance with article 16.6 of the Regulation.

2.4.3 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 16.6 of the Regulation these activities can be funded from the revenues resulting from the allocation of interconnection (hereinafter cross-border congestion income). TenneT has withdrawn an amount of EUR 51.7 million regarding redispatch costs related to critical branches in 2018 and an amount of EUR 11.5 million for the first half of 2019.

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 income 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.

These situations are further explained in the following sections:

I. Expansion of capacity of critical branches

TenneT is planning to increase the capacity of a significant number of critical branches. It is expected that these capacity increases require certain periods of planned non-availability (planned outage) for these critical branches as the expansion work needs to be conducted with these branches disconnected from the operating network.

Naturally TenneT plans to perform these activities when the market does not require this capacity, however TenneT expects that this will not be possible in all situations. Increasing the capacity of existing branches is a complex process which requires relatively long periods in which the relevant assets are disconnected from the operating network.

Any costs arising from the application of costly measures such as redispatch and/or countertrade to allow investments in the increase of capacity of critical branches are funded through the cross-border congestion income, as they contribute to the primary goals of the regulation to increase and maintain the cross-border capacity.

II. Temporary non-availability of a critical branch (planned outage)

In case a critical branch is temporarily not available due to planned work, for instance maintenance, it will be disconnected from the operating network. As the work contributes to maintain the cross border and/or critical branch capacity, the associated redispatch and/or countertrade costs will be funded from the cross-border congestion income.

III. Temporary not foreseen non-availability (unplanned outage)

In case there is unforeseen non-availability of a critical branch, TenneT needs to take action to ensure that the network returns to a normal state which is characterised by operational security limits. These measures contribute to maintaining the planned use of the critical branch and thus to guaranteeing the already allocated cross-border capacity. Any costs arising from these measures can thus be funded from the cross-border congestion income.

IV. Scheduled transport on the critical branch exceeds operational security limits

It is the intention of the Flow Based Methodology to maximise cross-border capacity provided to the market, while respecting a secure operation of the transmission grid. The flow based market coupling algorithm respects actual limitations in the transmission grid and takes them into account while calculating the cross-border capacity. This is a complex process which applies amongst other things Flow Reliability Margins (FRM) and takes into account the already allocated long term transmission capacity (LTA inclusion).

The FRM for instance is determined based on statistical methods. The method does not consider the 10% of most extreme deviations when setting the margin. This could result in overloads on specific critical branches in the operational time frame even when the methodology aims not to provide more capacity than is physically secure. The allocated capacity could also breach the operational security limits for a number of other reasons for instance due to the LTA inclusion.

These examples demonstrate that even with the application of the Flow Based Methodology it is still possible to have overloads on critical branches in the operational time frame.

As TenneT should comply with the operational security limits these overloads may result in redispatch or other actions in the day-ahead, intra-day or real timeframe. The costs of the associated actions will be funded with cross-border congestion income, as they contribute to guaranteeing already allocated cross-border capacity.

The redispatch costs related to critical branches can be allocated to the abovementioned categories as follows:

Cat.	Description	Amount 2018	Amount 1 st HY 2019
I	Expansion of capacity of critical branches	-	-
II	Temporary non-availability of a critical branch (planned outage)	EUR 8.589.194	EUR 3.397.230
III	Temporary not foreseen non-availability (unplanned outage)	-	EUR 53.895
IV	Scheduled transport on the critical branch exceeds operational security limits	EUR 43.069.688	EUR 8.042.885
	Total	EUR 51.658.882	EUR 11.494.010

3. Intended withdrawals from the auction receipts for the period July 1, 2019 – June 30, 2020.

In accordance with article 16.6 of the Regulation TenneT intends to use the auction proceeds in the period July 1, 2019 – June 30, 2020 for the following purposes:

I. Energy & capacity expenses for the NorNed cable.

The estimated withdrawal is based on historical costs and amounts approximately EUR 2.0 million. These withdrawals are in accordance with article 16.6 of the Regulation.

II. Operational costs for the execution of the auctions for interconnection capacity on the borders with Belgium, Germany and Norway.

The estimated withdrawal is based on historical costs and amounts approximately EUR 3.0 million. These withdrawals are in accordance with article 16.6 of the Regulation.

III. 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 1.5 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 1.5 million.

IV. Operational costs of The Foundation

The estimated withdrawal for operational costs of The Foundation amounts to approximately EUR 0.1 million. This withdrawal is in accordance with article 16.6 of the Regulation.

V. Redispatch, countertrade and curtailment costs related to critical branches

As already disclosed in paragraph 2.4.2 of this document TenneT will withdraw the costs for redispatch, countertrade and curtailment related to critical branches from the auction receipts. Given the unpredictable nature of these costs TenneT is not able to provide an estimated withdrawal for this period. This withdrawal is in accordance with article 16.6 of the Regulation.

- VI. In accordance with article 16.6 of the Regulation and the competence agreement (Bevoegdhedenovereenkomst) with ACM of December 15, 2015 (reference: ACM/DE/2015/206388_OV) TenneT will use the auction receipts for (future) tariff reductions. The calculation method for the annual withdrawal from the auction receipts for this purpose is included in this agreement. Based on this calculation method TenneT will withdraw an amount of EUR 117.526.938 to reduce its tariffs for 2019 (refer to tariff decision 2019 with reference: ACM/UIT/495421).

The withdrawal from the auction receipts for the reduction of the tariffs 2020 will be calculated as part of the tariff proposal 2020.