

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?

For the purposes of determining an adequate size for the Framework Fund, it's important to identify the correct network share impacted by transits in cross-border flows context.

In this context, about the determination of Framework Fund, Consentec adopts just a method with three variants. In our opinion it should be better investigated the evaluation of assets share impacted by transits because the use of the parameter GTS has no strong technical foundations. Furthermore the same parameter has been used in the past as a commercial parameter in order to determine the ITC cash flows but it has been hardly criticized. So, this parameter is clearly not adequate for the purpose of determining the assets share impacted by transits, and the fact that the same parameter is used in the EU Regulation 838-2010 only for a mere commercial computation of cash flows shares is not a sufficient argument. With this method in the computation are considered also internal lines even not meshed that are clearly not impacted by transits

So we believe it should be better investigated the technical methods for the correct identification of assets impacted by transits.

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?

TERNA believes that in the method analyzed are not considered the following two principles:

- **an adequacy principle:** according to EU regulation 714-2009, ITC compensation of transits has to be consistent with costs really incurred while according to the published results, any option gives results far from national tariffs that should be considered as a reference point;
- **market integration incentive principle:** ITC cannot create any obstacle in the creation of the target model of Integrated European electricity Market but an overestimated amount of the fund (as appear in the Consentec report for all the three variants analyzed) could create a great disincentive and distortion.

As an alternative model, in consideration of the above mentioned target model of Integrated European electricity Market, it could be considered a mechanism which could create a sort of global European remuneration of the assets based on the criteria just used at national level and paid by all European customers even if this approach could lead to a global revision of all the criteria used till now. This would represent a model based on ITC compensation linked to the average of national tariffs, in line with article 14 of regulation 714-2009 which explicitly states that national regulation authorities are in charge of determining what are the costs to be covered for the transmission business.

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

For each methods arbitrary assumptions are made conceptually questionable and also is not considered the benefits of internal network's under-utilizations resulting from transit flows and the consequent reduction of eventual redispatching costs. These considerations, at least in terms of assets, are present instead in WWT method.

In our opinion all three methods have too many rough approximations:

- **Incremental approach:** TERNA believes that is not correct to consider in the equation 3.2 the actual size (100 M€) of the Framework Fund. The value of the fund need to be restated and can't be used as a starting point. Setting in the EU Regulation 838/2010 the value of framework fund to 100M€ in the

interim period doesn't mean it is considered as the right amount for compensating TSO for hosting cross border flows otherwise, there wouldn't have been the need for a study in order to assess the value of the fund.

Furthermore, the depreciation period of the starting fund is set considering that the infrastructure has been built today and this is clearly not correct;

- **Absolute approach:** the decision not to distinguish existing from new infrastructures, involves the inclusion of already depreciated lines. This position is in contradiction with an evaluation of system's real costs incurred;
- **Restricted approach:** the great weakness of this method is the not simple assessment of the date for evaluating the depreciation period. Furthermore Terna believes that for the depreciation period is not correct to adopt the year 1996 (date of the first electricity market directive) as starting date but, would be more correct to consider the infrastructures projected starting from 1996. The real weak point of this method is that a few years variation involves too different results.

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?

Considering the discrepancies between projects planned in the TYNDP and the effective realized ones in the past drives to the conclusion that using TYNDP will lead to overestimate the increase of assets amount.

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

First of all Terna wants to highlight that it is important to make clear the use of congestion rents within the fund assessment in order to avoid possible disincentive for TSOs in using this source to finance investment in grid assets. Regarding this point Terna opinion is that 100% of congestion rents or European grants should be deducted from the ITC. This position is also in line with EU provision of adjusting costs of making infrastructures available for cross border flow assets in case of infrastructure financed by sources other than charges for access to networks tariff.

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

In our opinion, ITC infrastructure mechanism leads to wrong incentives and as such, needs to be set to 0€. That's why we cannot agree at all with Consentec's assessment and also with their preliminary conclusions.

Furthermore going in deep on the analysis only one option was investigated with three variants but in any case even not considering the above mentioned weak points, results appear to be clearly not realistic. Other methods should be investigated and LRAIC should be replaced by a more "market-compatible" mechanism, which gives correct incentives to the completion of the European electricity internal market.

In the end we do not agree with the conclusion that LRAIC should be considered as the method to be used in order to define the framework fund until another method is not considered clearly better. In our opinion Consentec it should express in the study a clear technical opinion about the suitability of LRAIC (as requested in the EU regulation) and not an opinion based on the possible comparison with other not better specified methods. Otherwise such opinion should be considered as a negative opinion on the suitability of LRAIC.

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?

In our opinion the approach of LRIC used for telecommunication had different goals. In the telecom sector the development of new services and innovation was needed and the LRIC costs were used in order to define transparent and competitive price to new competitors.

The electricity transmission sector is a natural monopoly and in the ITC context LRAIC would be used for a complete different goal and not to introduce different operators.

According to these considerations in our opinion LRAIC is not suitable for the transmission sector.

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 ACER's proposal on the infrastructure fund?

According to Terna opinion it is important to underline the impact of an increase in the total compensation of ITC could have on the development of the IEM giving great disincentives to further investments and reducing the efficiency of market coupling among TSOs. In fact, with ITC, cross border capacity is not allocated efficiently because ITC costs are not considered in the allocation algorithm leading to a possible situation where there is no price difference between two adjacent countries (and so no congestion rents) while the importing/exporting TSOs will have negative incomes from the exchange due to ITC costs.

Another relevant aspect to be taken into account in sizing the ITC fund is related to the benefits that network incurs as result of hosting cross-border flows. According to art 13.6 of EU Regulation 714/2009, these benefits should reduce the compensation received but if from the mechanism in place this criteria is somehow respected in the remuneration of TSO for losses that in some case can be negative decreasing the amount of compensation, it is not considered in sizing the infrastructure fund.