

FSR Benefit-Sharing consultation response

In the case of Yes or No questions, please answer them in this format:

- X Yes | No, Indicating a positive response.
 Yes | X No, indicating a negative response.

Questions

a) Do you consider that the identification of the system need(s) to which the proposed scheme could be applied poses a significant challenge to regulators, also taking into account that TSOs might support such an identification?

Yes | X No

b) If Yes: do you consider that such a challenge is greater than those associated with general transmission system planning?

Yes | No

c) If Yes: in which way? _____

d) Do you consider that the identification of the traditional standard solution to the identified system need(s) poses a significant challenge to regulators?

e) X Yes | No

f) If Yes: do you consider that the experience in addressing similar system need(s) in the past can assist in identifying the traditional standard solution to such need(s)?

Yes | X No

g) If No: why? National experience with traditional standard solutions can provide a standard solution and its costs, especially when trying to address regional variations. However, it cannot provide innovative alternative solutions (either hybrid with traditional solutions or 100% innovative). Hybrid solutions could reduce the scope of a traditional solution, making it cost e.g. per km much cheaper. As a non-exhaustive list of examples:

- Modular PFC could allow smaller traditional (line, cable, transformer) solutions to be used
- DLR could allow a smaller conductor to be used on traditional circuit solutions
- New conductors (high temperature) could avoid rebuilding a traditional line in its entirety
- Fault limiting superconductors could avoid replacing whole substation equipment

h) Do you consider that the definition of the costs of the traditional standard solution to the identified system need(s) poses a significant challenge to regulators?

Yes | No

i) If Yes: do you consider that the experience and the unit cost indicators for electricity transmission investments provided by ACER could assist in overcoming this challenge?

Yes | No

j) If No: why? ACER or national traditional standard solutions will not account for hybrid solutions with innovative technologies. However, simple solutions to this issue are possible and consistent with current best practice regulatory pricing methods in Europe. One method is to use a regulator-appointed, independent test case analysis of hybrid solutions, to create a series of multiplying factors that can be used to compare to the cost of traditional solutions. For example, a hybrid modular PFC and 220kV line solution may replace a traditional 400kV line construction, may reduce costs in a test case to 0.8PU per km and this could be applied as an alternative when considering other locations/projects as well.

k) Do you consider that regulators would find it difficult to assess and endorse the more efficient, innovative solutions to address the identified system needs proposed by the TSO(s)?

Yes | No

l) If Yes: do you think that such difficulties are greater than those involved in approving new investments to be included in the Regulatory Asset Base?

Yes | No

m) If Yes: in which respect? _____

n) In your views, which discount rate should be used to compute the net present value of the streams of annual allowed revenues related to the traditional efficient solution and the more efficient, innovative solution to the same system need(s)?

the WACC

the SRTP (approximated by the interest rate on government bonds)

the social discount rate of 4% recommended by ACER for cost-benefit analysis

X Other

o) If Other: Please specify - The answer is dependent on the use of the results from the NPV. In the consultation the WACC is used in formulas and it is agreed this would be needed to be consistent, when considering the incentive regulation alternatives to the traditional solution. An alternative like those proposed above (4% or SRTP) can only be considered if all regulatory approved projects use the same discount rate to ensure that there is no favouritism between incentive regulation-based solutions and traditional projects. There is also a risk that pre-existing projects that could be eligible for incentive-based solutions will not be altered and sought to be 'grandfathered' in if there is a new lower discount rate applied if they move to an incentive-based solution. This could result in only new projects being considered and therefore many years before any impact from the change in regulation.

p) Please explain the reasons for your choice of the discount rate - See answer to o)

q) Do you consider that the sharing factor should be fixed or should vary – increasing or decreasing – with the extent of the saving delivered by the more efficient, innovative solution?

Fixed

X Increasing with the savings (progressive)

Decreasing with the savings (regressive)

r) What level or range for the sharing factor would you consider the most appropriate in the trade-off between providing effective incentives to TSOs and delivering cost-saving benefits to grid users? 1 - 25%

s) Please explain the reasons for your choice for the level or range of the sharing factor - Investigating and developing a better investment decision, will undoubtedly require

additional work and risk, both to engineering, delivery timelines, political/social perception, reputation and ongoing operational management, and needs to be rewarded to be pursued. The scale of risk and work is almost without exception proportional to the level of reduction in costs of a project. Therefore, a greater reward will be required to cover the costs and risk that are associated. A new technology might offer the greatest reduction in societal costs for a project, but also the most work for a TSO. The TSO may need to develop new understanding, standards for modelling, planning, inclusion into system operation and deployment. It can come with new software developments for planning and operational use, training of staff, greater work in control rooms to manage, new procurement costs, new supply chain contracts, etc., as well as the repeat work of environmental assessments, consultations, new designs, tenders, etc. to migrate to this technology. Also, there may still remain a perceived fear of the unknown. To adequately encourage the uptake of new efficient technologies, a greater incentive is required to encourage taking the most efficient solution, compared to taking on a traditional technology that may be easier to 'sell' internally (because it is a known entity). Only experience and widespread use of a new technology will eliminate this 'fear of the unknown' and only the right incentive structure will drive that transition quickly and fast enough to do so. As a result, we would propose increasing the maximum incentive from 20% to at least 25% and scale the benefit progressively. It should be realized that the potential return to the TSO from managing the cost of borrowing per annum on equity markets to the national WACC allowance in the first few years must not be preferential to the incentive to avoid a conflict of interest.

t) Which profile of the incentive would you consider the most appropriate in the trade-off between providing effective incentives to the TSO(s) and delivering cost-saving benefits to grid users? - 2 year recovery profile using the sliding sharing factor 1-25% proposed

u) Please explain the reasons for your choice for the profile of the incentive to the TSO(s) - In short, any reduction in costs to the grid users is beneficial, and therefore 100% payment in one year is justifiable. This is especially so when it is considered that in the examples in the consultation would require only 4 years in saved investment costs from the grid users to be cash positive to the grid user. In essence the grid users are only actually paying 50% of the incentive from their pockets, as the other 50% is cost neutral to the grid user (e.g. they project net saving are reducing the bill they would have had

with the original reinforcement). Given the sliding scale of the sharing factor % suggested previously, which is dependent on the scale of reduction in cost of the project, the profile can be set so that the grid users always get into a cash positive within 2 years post the profile of payments to the TSO. This means that the profile could be set based on a sample selection of projects and viable alternatives to find a point where the profile used will only cost the grid user 50% of the incentive in real terms and they will benefit for the remaining 36 years thereafter.

v) Is there any other aspect not mentioned in the previous questions which you consider particularly challenging for regulators in implementing the proposed scheme? Please, justify your answer. No