

Tennet's earnings model under the regulatory regime

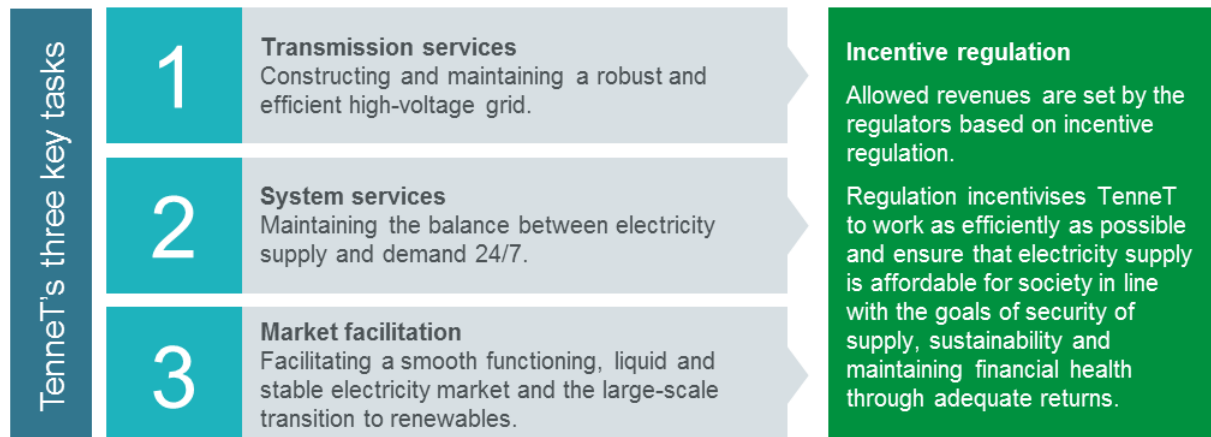
About the document

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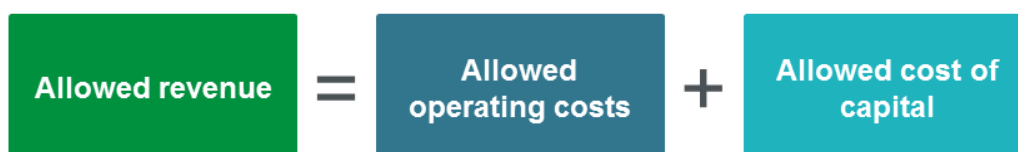
Introduction

TenneT's primary tasks are to provide power transmission and system services and to facilitate the energy market. These tasks stems from the appointment as transmission system operator (TSO) under the Dutch Elektriciteitswet (E-wet) and the German Energiewirtschaftsgesetz (EnWG). Consequently, our earnings consist mainly of revenues from regulated activities. This document provides an overview and explanation of our earnings model under the current Dutch and German regulatory regimes.



Given that TenneT has a monopoly as a TSO both in the Netherlands and its service area in Germany, our key tasks are regulated by independent regulatory bodies, namely the Netherlands Authority for Consumers and Markets (ACM) and the German federal network agency Bundesnetzagentur (BNetzA). Their role is to balance the interests of consumers, businesses and system operators against the goals of affordability, security of supply and sustainability, providing system operators with incentives for efficient operations, using benchmarks where possible, and setting the allowed rate of return on invested capital. The key parameters of the regulatory frameworks in the Netherlands and Germany are set for a 5-year period. In 2017, the seventh Dutch regulatory period started, lasting until 2021. In Germany, the currently running second regulatory period lasts until the end of 2018.

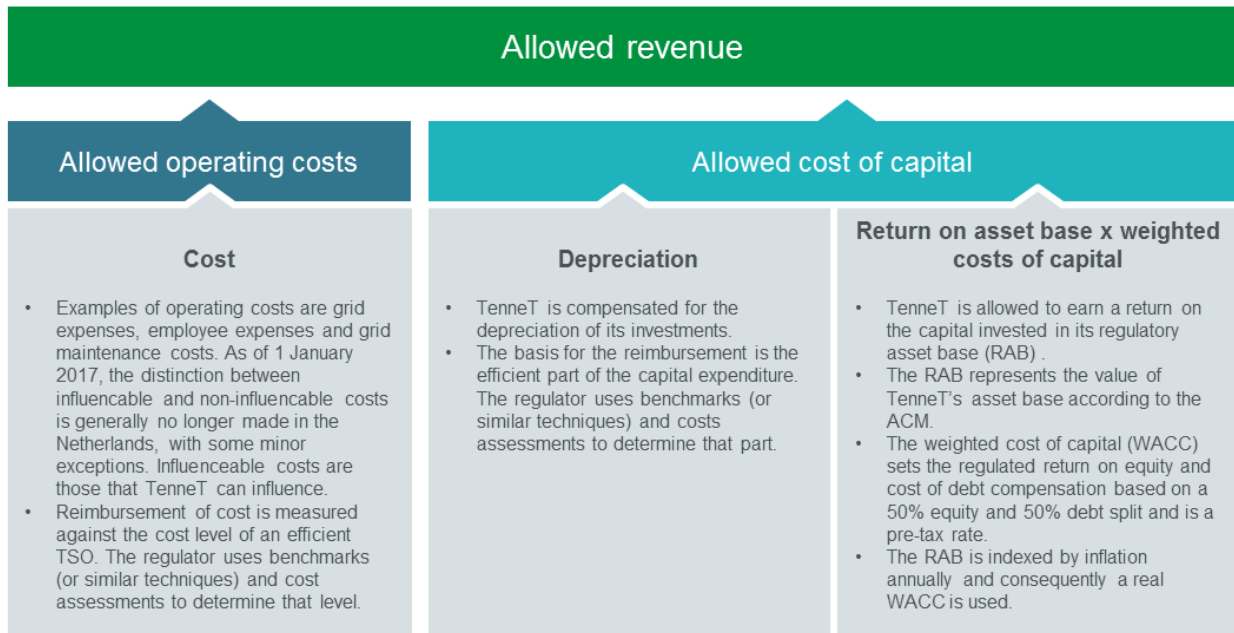
Incentive regulation is used in both the Netherlands and Germany. In general, this form of regulation uses rewards and penalties to encourage a TSO to achieve the regulator's goals, while giving the TSO some discretion in operational decision-making and achieving company goals. The allowed regulatory revenue reflects the costs of an efficient TSO and comprises the reimbursement of operating expenses, depreciation and a return on invested capital, as shown in the figure below.





Although this type of regulation is similar in the Netherlands and Germany, the details of the regulatory framework (including how the allowed revenue is determined) is different. The following figures provide an overview of the earnings model for TenneT TSO B.V. and TenneT TSO GmbH.

TenneT's earnings model for the Netherlands for 2017-2021



TenneT's earnings model for Germany for 2014-2018

