



Executive summary

TenneT TSO B.V.¹ (henceforth referred to as TenneT) has managed the Dutch high-voltage network since 1998. TenneT is responsible for the transmission of electricity in the Netherlands to large companies and regional operators, who in turn pass it on to households, other businesses and non-commercial organisations. The transmission network managed by TenneT consists of a system of electricity 'highways' and 'trunk roads' with a voltage of at least 110,000 volts (110 kV). The government has decided that TenneT should be the only operator that is entitled to transmit high-voltage electricity. In other words, TenneT, which is a wholly state-owned corporation, holds a monopoly in the power transmission market. TenneT claims that the transmission network is virtually 100% reliable.

TenneT is required to make regular investments in the high-voltage network, to enable it to transmit sufficient electricity without any disruptions. The government is responsible for ensuring that these investments are in the public interest, i.e. are made with a view to securing a reliable, affordable and sustainable power supply. The *Minister of Economic Affairs* is responsible for policy and the regulation of the power supply system, in which capacity he or she is involved in authorising major investments by TenneT. The *Netherlands Authority for Consumers & Markets* supervises TenneT on behalf of the Minister of Economic Affairs. Its task is to ensure that TenneT does not make any unnecessary or needlessly expensive investments in the maintenance and expansion of the electricity network, and also that TenneT does not overcharge its customers for the transmission of electricity. The Authority is also responsible for setting standards for the quality and capacity of the network. The *Minister of Finance* manages TenneT as a state-owned corporation, acting as the shareholder on the State's behalf.

In our audit, we sought to establish whether the government's supervision of TenneT is adequate, so that it can give an assurance that TenneT's investments in the high-voltage network are indeed efficient, i.e. necessary for reasons of quality and capacity, and not too expensive.

Conclusions

Our audit showed that the Minister of Economic Affairs and the Netherlands Authority for Consumers & Markets do not exercise adequate supervision so as to ascertain whether TenneT's investments in the Dutch high-voltage network are efficient. As a result, it is not possible to say whether the tariffs charged by TenneT for the transmission of electricity are too high or too low. In other words, it is not clear whether customers are paying the right price for the transmission of electricity.

¹ TSO stands for 'Transmission System Operator', i.e. the operator of a high-voltage network.



In assessing TenneT's plans for major investments in the high-voltage network, the *Minister of Economic Affairs*' sole source of information is a Quality and Capacity Document (QCD) drawn up by TenneT itself. This document, which lists all TenneT's investment plans, describes the improvements and changes that TenneT claims need to be made in the electricity network. Although the Netherlands Authority for Consumers & Markets is supposed to undertake a comprehensive review of the QCD once every two years, it does not do this. To date, the *Minister of Economic Affairs* has not taken any action to ensure that this review is indeed undertaken.

In assessing TenneT's *routine investments*, the *Netherlands Authority for Consumers & Markets* follows a complex procedure based on the actual costs. The Authority does not examine the need for such investments. As far as TenneT's *major investments* are concerned, the Authority does not assess whether TenneT has selected the cheapest option. This means that the supervision exercised by the Authority does not provide an adequate basis for guaranteeing the efficiency of the investments.

In his capacity as TenneT's sole shareholder, the *Minister of Finance* is required to approve all investment plans costing over €100 million. In assessing such plans, the Minister is interested mainly in the way in which they are funded. His opinion on the efficiency of such investments is based on the judgements of the Minister of Economic Affairs and/or TenneT itself. The Minister of Finance does not keep a record of his activities as the manager of a state-owned corporation in the form of an orderly and verifiable set of archives.

All in all, the three government bodies involved do not adequately ensure that TenneT's investments are efficient.

Recommendations

We recommend that the Authority for Consumers & Markets express an opinion once every two years on the extent to which TenneT's investments as set out in the QCD help to ensure, in an efficient manner, that the capacity of the electricity transmission network is of sufficient quality. As the shareholder acting on the State's behalf, the Minister of Finance has to be able to rely on the Authority's opinion. It is up to the Minister of Economic Affairs to ensure that the Authority expresses this opinion. The Minister should draw up a supervision plan to this end.

We also recommend that the Minister of Economic Affairs consult with the Authority for Consumers & Markets on how best to assess the efficiency of TenneT's investments, so as to ascertain whether TenneT has opted for the cheapest solution. The Minister should then ensure that such an assessment is indeed performed.

We urge the Minister of Finance not just to state, in the annual reports on the management of state-owned corporations, the dividend as a percentage of the profit, but also to explain what agreement in principle has been made with TenneT regarding the payment of dividend.

Finally, we recommend that the Minister of Finance set up an orderly and verifiable system of records to ensure that the state-owned corporations are properly managed.



Official responses and Court of Audit afterword

The Minister of Economic Affairs and the Minister of Finance responded to our report on 23 January 2015, claiming that they do perform a serious, critical review of TenneT's investment plans. The ministers say that they will be dealing with a number of problems in the legislative agenda for the national power supply.² This will improve the way in which the need for investments is reviewed; the ministers feel that the mechanism for reviewing the efficiency of such investments is already adequate.

The Authority for Consumers & Markets responded to our report on 22 January 2015. The Authority does not share our criticism, explaining that it disagrees with us about the interpretation of the statutory regulations on its supervisory responsibilities, and operates in accordance with its own interpretation. The Authority also draws out attention to the legislative agenda for the national power supply.

In our afterword, we point out that the problems we identified in the supervision of TenneT's investments do not stem essentially from inadequate legislation. We believe that the important thing is to tackle the problems at an operational level. In our opinion, there is a need for a comprehensive review performed by an independent party, in this case the Authority for Consumers & Markets. In arriving at a judgment, the Authority should review all of TenneT's investments in conjunction with each other, and critically compare their effects with the total costs. A comprehensive review is also needed in the light of the responsibilities of the Minister of Economic Affairs and the Minister of Finance in their separate roles vis-à-vis the House of Representatives. Finally, it is also relevant to electricity consumers, who pay the price at the end of the day.

² Letter of 18 June 2014 from the Minister of Economic Affairs. House of Representatives, 2013-2014 session, 31 510, no. 49.

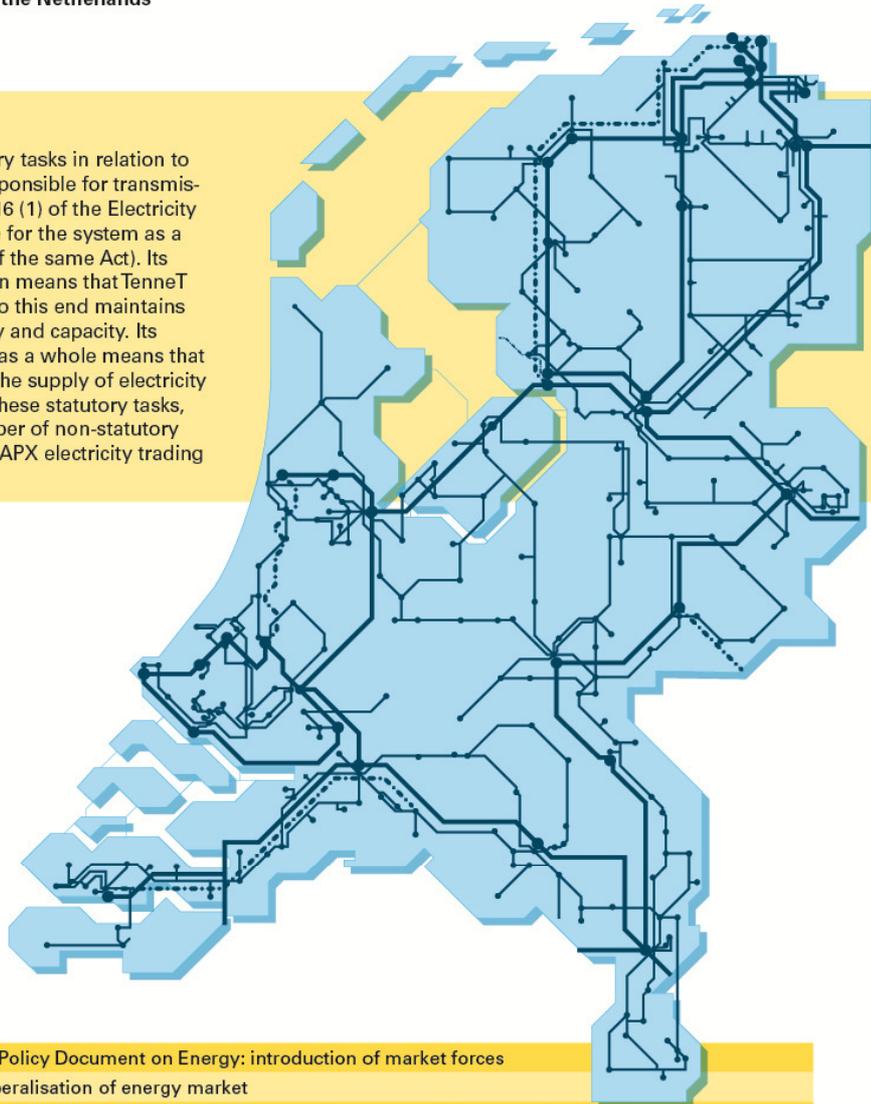


Figure 1 Key data for TenneT in the Netherlands

What does TenneT do?

TenneT performs two statutory tasks in relation to the electricity supply: it is responsible for transmission services (under section 16 (1) of the Electricity Act) and it is also responsible for the system as a whole (under section 16 (2) of the same Act). Its responsibility for transmission means that TenneT transmits the electricity and to this end maintains a network of adequate quality and capacity. Its responsibility for the system as a whole means that TenneT is required to match the supply of electricity with demand. In addition to these statutory tasks, TenneT also performs a number of non-statutory duties such as managing the APX electricity trading exchange.

Map: TenneT



- 1995 ● Publication of 3rd Policy Document on Energy: introduction of market forces
- 1996 ● EU Directive on liberalisation of energy market
- 1997 ● Electricity Bill submitted to Dutch House of Representatives: proposal for separate network operators
- 1998 ● TenneT founded by SEP
 - Government plans to transfer majority of shares to non-stakeholders
 - Electricity Act 1998 comes into force
- 2000 ● Government and SEP sign agreement on purchase of TenneT shares
 - Enactment of statutory regulation stating that all TenneT shares are to remain fully state-owned for three years
- 2001 ● TenneT shares sold to government on 1 January
 - Amendment of TenneT's articles of association
- 2002 ● Dutch House of Representatives asks for shares to remain permanently state-owned (motion tabled by Representative Crone)
- 2003 ● Enactment of statutory regulation stating that all TenneT shares are to remain permanently state-owned
- 2004 ● TenneT given option of creating group structure
- 2005 ● Amendment of TenneT's articles of association: TenneT becomes group company
 - Minister of Finance: no longer any point in government being TenneT shareholder
- 2008 ● 2008 Energy Report published in June: review of status as TenneT shareholder
 - TenneT made responsible for managing all 110 kV+ networks
- 2009 ● Assessment of plans for acquiring German Transpower electricity network
- 2010 ● TenneT takes over as manager of 40% of German high-voltage network
- 2011 ● 2011 Energy Report: paving the way for minority privatisation of TenneT
 - Start of legislative agenda for the national power supply
- 2013 ● Minister of Finance decides not to proceed with minority privatisation of TenneT
- 2014 ● Minister of Finance plans to introduce possibility of share exchanges between TenneT and foreign TSOs