Tennet's investments in the Dutch high-voltage network

The Netherlands Court of Audit sought to establish whether the Dutch government takes proper care to guarantee that the investments made by Tennet, the Dutch network operator, in the country's high-voltage network are efficient. In other words, the government should seek to ensure that such investments are necessary for the purpose of maintaining the quality and capacity of the electricity supply, and also are not too costly. TenneT is a wholly state-owned corporation and is the only operator that is entitled to transmit electricity through the high-voltage network, i.e. it holds a monopoly in the power transmission market.

Conclusions

The three government bodies who are required to scrutinise TenneT's activities does not exercise adequate supervision so as to ascertain whether TenneT's large-scale investments in the high-voltage network are indeed efficient. The three government bodies are:

- the Minister of Economic Affairs, who is responsible for government policy on the electricity supply system;
- the Netherlands Authority for Consumers and Markets, which 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 it does not overcharge for the transmission of electricity; and
- the Minister of Finance, who manages TenneT as a state-owned corporation, acting as the shareholder on the State's behalf.

With a view to safeguarding the efficiency of the country's energy supply, all major investments made by TenneT in the high-voltage network need to be critically reviewed so as to assess whether they are strictly necessary and have been made at the lowest possible cost. If the latter is not the case, TenneT's customers will be overcharged. In practice, however, these critical reviews are not adequate. There are shortcomings in the way in which the government bodies supervise TenneT's major investments:

- In assessing the need for major investments, the Minister of Economic Affairs makes use only of data supplied by TenneT itself. This does not constitute an independent review.
- In assessing the cost of TenneT's major investments, the Netherlands Authority for Consumers and Markets does not seek to ascertain whether TenneT has selected the cheapest option. As a result, the efficiency of the investments cannot be guaranteed.
- When deciding whether to approve investment plans costing over €100 million, the Minister of Finance is interested mainly in how they are to be 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 same situation applies with regard to TenneT's routine investments: supervision is not watertight. In assessing these 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.

All in all, it is not possible to say whether the tariffs charged by TenneT for the transmission of electricity are too high or too low. As a result, it is not clear whether customers are paying the right price for the transmission of electricity.

Recommendations

We recommend that the Authority for Consumers & Markets express an opinion once every two years on whether TenneT's investments help to ensure that the capacity of the electricity transmission network is of sufficient quality. 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 in order to ensure that an assessment is made of the efficiency of TenneT's investments, and that such an assessment also involves ascertaining whether TenneT has opted for the cheapest solution. The Minister should then see to it that such an assessment is indeed performed.

Official responses

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. This should 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.

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.