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Bulletin:

Statnett's Congestion Revenue Compensates For Zero Tariffs

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STOCKHOLM (S&P Global Ratings) Oct. 12, 2022--S&P Global Ratings today said that Norwegian power transmission system operation (TSO) Statnett SF (A+/Stable/A-1) will be able to compensate for the impact on its credit metrics of temporary tariff reductions and potential payouts to distribution system operators (DSOs), thanks to exceptionally strong congestion revenue.

Statnett recently announced that it has set tariffs to zero for the last four months of 2022 and next year. Additionally, Statnett may have to transfer excessive congestion income to DSOs on a quarterly basis after it receives congestion income, if the Norwegian Energy Regulatory Authority's proposal to do so announced Oct. 7, 2022, is approved. The proposal allows DSOs in areas with increased costs to be compensated, and ultimately, reduce bills to consumers.

The regulator's proposal follows the dramatic increase in revenue from bottlenecks that Statnett (like other Nordic TSOs) has received in the past two years, due to increased price differences across price zones. For the first nine months of this year, Statnett already received congestion income of about Norwegian krone (NOK) 18.7 billion (€1.8 billion), and we expect in excess of NOK20 billion for the full year--a sharp increase from NOK5.7 billion in 2021 and NOK2.4 billion in 2020. This amount would exceed 2022 total annual tariff-based revenue, which we estimate at about NOK13 billion. While congestion income is difficult to forecast, we believe it will remain elevated for several years, compared with historical numbers.

Statnett's underlying regulatory returns remain in line with our previous base case though. We expect congestion revenue will balance or exceed the impact of reducing tariffs to zero and potential DSO payouts. Additionally, if the regulator's proposal to compensate DSOs is carried out, Statnett's liability to its customers will not continue to build up, which we see as positive.

We think the proposal shows proactiveness from the regulator, and we see less risk of exceptional regulatory intervention to carve out part of these extra earnings for the regulated entity. The regulator's recently proposed changes align with our assessment of the Norwegian regulatory framework as strong and support our continuing view of the regulator as prudent and unwilling to reduce the stability of the current framework. Should these assumptions prove incorrect, we could weaken our regulatory framework assessment, which could weigh on our rating of Statnett.

This report does not constitute a rating action.

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