

ACER



Agency for the Cooperation
of Energy Regulators

Improving cost-benefit analysis (CBA) for electricity network development

**ENTSO-E Workshop: "Join us to improve the pan-
European cost-benefit analysis methodology"
16 March 2016, Brussels**

The views expressed in this presentation are the views of the speaker and do not necessarily reflect the views of the Agency for the Cooperation of Energy Regulators, or of any of its Boards.

Improvement of the ENTSO-E CBA methodology is fundamental for better network development

- CBA has great importance and various roles in the European infrastructure development:
- **Applied for all projects in the ENTSO-E Ten Year Network Development Plan (TYNDP)**
- **and for candidate projects of common interest (PCI)**
- CBA also supports other activities foreseen by the TEN-E Regulation (cross border cost allocation, risk-related incentives, grants for works, information and publicity on PCI costs and benefits)
- **Furthermore, the ENTSO-E CBA methodology is a reference for the improvement of planning processes in many countries**

ACER key messages regarding CBA methodology

were given already in the ACER Position on CBA (January 2013)

Especially two messages are still outstanding

*"3. A **consistent clustering approach** has to be applied throughout Europe with details on the importance of each investment item for the materialisation of the expected benefits of the cluster to which this investment item belongs."*

*"4. **Clear, transparent and quantified/monetised criteria** for the CBA methodology and for the subsequent selection of PCIs from the TYNDP list are crucial requirements from the regulatory perspective."*

Executive summary

The recently agreed Regulation on guidelines for trans-European energy infrastructure introduces methodologies for a system-wide cost-benefit analysis (CBA) at Union-wide level for projects of common interest (PCIs) and for the preparation of future Ten Year Network Development Plans (TYNDP).

ENTSO-E is currently developing the methodology for assessing costs and benefits - and the related indicators - of electricity network developments. It published a discussion note, including consultation questions, on draft guidelines for the CBA of grid development projects and held a public workshop on 19 November 2012.

Following a request from the European Commission, the THINK consortium launched a consultation on its report on CBA in the context of the Energy Infrastructure Package.

The Agency appreciates the development of the draft methodology by ENTSO-E and the preparation of comments and recommendations by the THINK consortium. They form an excellent basis for further improvements of CBA for network development.

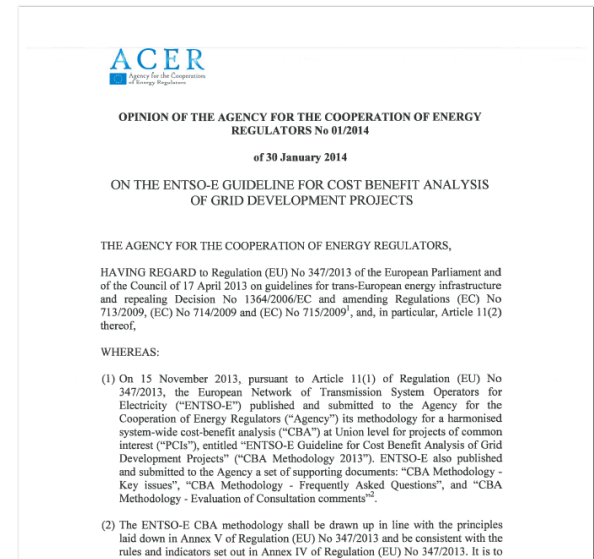
The Agency welcomes the action taken by ENTSO-E and their commitment towards improving the earlier methodology presented in the TYNDP 2012, following recommendations provided in the Agency's respective opinion. Such actions and commitment include the overall development of CBA, clarity on avoiding the double counting of economic effects, new quantified criteria aiming towards a consistent clustering approach and widely different future scenarios for the electricity system.

Taking into account the importance of i) identifying investment needs and a corresponding EU-wide plan (TYNDP) and ii) prioritising a set of PCIs from the plan, further improvement of the CBA for network development is also necessary along the following lines:

1. A consistent project assessment needs a proper data base. The TYNDP assumptions and modelling shall therefore be further improved, with the involvement of stakeholders, in order to ensure the quality and consistency of data inputs, featuring consistency in electricity and gas scenarios. The robustness of the assessment shall be supported by sensitivity analyses, for which the assumptions and results are presented in a transparent manner.
 2. A regular update of the CBA methodology, every second year, in advance of the subsequent TYNDP, accompanied by concrete proposals for future necessary updates of the CBA formula seems an appropriate way forward.
 3. A consistent clustering approach has to be applied throughout Europe, with details on the importance of each investment item for the materialisation of the expected benefits of the cluster to which this investment item belongs.
 4. Clear, transparent and quantified/monetised criteria for the CBA methodology and for the subsequent selection of PCIs from the TYNDP list are crucial requirements from the regulatory perspective.
 5. Guidance for a common disaggregation method shall be given by the CBA methodology, to enable a fair comparison of PCIs.
 6. Improved communication of CBA results promoting a guarantee of value for money for citizens is needed in order to facilitate the realisation of cost-efficient, secure and sustainable transmission infrastructure investments.
 7. Further development of the application of the Take Out One at the Time (TOOT) methodology is needed to ensure equal treatment of TSOs' and third party projects.
- Furthermore, the potential input from CBA towards CBCA decisions should not be disregarded. Therefore:
8. The methodology for the calculation of project benefits (and the simulation tools which are used for applying the methodology) shall allow for the disaggregation of benefits at national level, so as to provide quantitative input for CBCA decisions.

The ACER Opinion on CBA (2014) called for better consideration of various stakeholders' comments

- *Further monetisation of benefits*
- *Clear identification of net benefits*
- *Further categorisation of costs components*
- *Disaggregation of environmental and social costs*
- *Further indications on harmonised weighting/ranking*
- *Transparent access to and public validation of data and scenarios*
- *Extension to multiple year analysis*
- *Definition of a common EU-wide discount factor*
- *Specific evaluation of competing projects*



Meanwhile already
(at least partly)
improved!

Some stakeholders' comments today

- Proposal / comments for improving indicators

It's time for inputs to improve CBA

- In addition to the workshop provided by ENTSO-E today, ACER will organise a stakeholder workshop covering CBA in the 2nd week of May
- ACER encourages stakeholders to provide their inputs and comments on the draft CBA methodology via the ENTSO-E public consultation
 - such inputs will also be analysed in the ACER opinion on the draft CBA methodology (expected in the last quarter of 2016)

Links to Agency's documents:

- ACER Position on CBA (January 2013)

http://www.acer.europa.eu/official_documents/position_papers/position%20papers/acer%20position%20entso-e%20cba.pdf

- ACER Opinion on draft ENTSO-E CBA (January 2014)

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Opinions/ACER%20Opinion%2001-2014.pdf

Thank you for your attention!



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