

**ACER**



Agency for the Cooperation  
of Energy Regulators

# **ACER Recommendation on Cross-Border Cost Allocation Requests**

***Riccardo Vailati***  
***TSO cooperation officer - team leader, ACER***

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Development Stakeholder Group**

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## Outline

- Background
- Information to be submitted by project promoters
  - » List of accompanying documents
  - » The project-specific Cost-Benefit Analysis (elec)
- Treatment of CBCA requests
  - » Project maturity
  - » Suggested rules for cost allocation
  - » Examples
- Concluding remarks and next steps

## The Infrastructure Regulation (“TEN-E”)

- Regulation (EU) No 347/2013:
  - » envisages cross-border allocation of the costs of PCIs in order to enable such investments based on **ex-ante** calculation of costs and benefits
  - » allows project promoters to submit to the concerned NRAs a CBCA request as soon as the project has reached **sufficient maturity**
  - » requires the NRAs to take **coordinated decisions** on the allocation of investment costs
  - » does not specify in detail the information to be submitted by promoters and the rules for cost allocation

## Why an ACER recommendation on CBCA?

- The ACER recommendation contributes towards:
  - » submission of complete CBCA requests by project promoters
  - » a consistent approach among National Regulatory Authorities (NRAs)
  - » streamlined NRAs' decision-making process
  - » minimisation of delays
- In particular, the ACER recommendation provides:
  - » **description of information** to be submitted by project promoters (not too burdensome)
  - » **guidance on treatment of CBCA requests** by NRAs

## List of accompanying documents (1)

1. Evidence of sufficient maturity of the project
2. Preliminary investment decision (when relevant)
3. Detailed technical description of the project
  - *Including an explanation of the rationale behind the choice of the technology*
4. Detailed Implementation plan
  - *Promoters to provide evidence about the progress achieved in the development of their project*
  - *ACER has defined key steps in the project development and requires promoters to indicate start date and end date (potentially expected dates) for each step*
  - *Tables included in both electricity and gas template*

## List of accompanying documents (2)

### Template for the implementation plan (electricity)

#### Part III: the detailed implementation plan for the project

Project stage	(expected) start date	(expected) end date
Consideration phase		
Planning approval		
Preliminary design studies		
Preliminary investment decision		
Permitting		
Financing and CBCA		
Final investment decision		
Detailed design		
Tendering		
Construction		
Commissioning		

## List of accompanying documents (3)

5. Short description of the permitting status
  - *Detailed schedule for each hosting country*
6. Evidence on TSO consultations and results
  - Consultation of the TSOs from the Member States to which the project provides a significant net positive impact (above the contribution threshold)
  - Information on sharing of calculation of the CBA and the feedback from the consulted TSO(s)
  - Indicate elements where the involved TSOs can agree and where they cannot agree
7. Project specific CBA study
  - *Assessment of costs and benefits using the electricity and gas CBA recommendations and templates*

## List of accompanying documents (4)

8. Analysis of the expected ITC revenues (electricity projects only)
9. Analysis of other revenues/charges
10. Market test results (only for Gas PCIs creating bookable capacity)
  - Either binding or non-binding market test results
  - What matters is that promoters provide a sufficiently reliable insight into their ability to cover the efficiently incurred investment costs by revenues from capacity bookings
11. Business plan and financing strategy
  - *Including grants*
12. CBCA proposal (if agreed by project promoters)



## General requirements

- Project-specific CBA
  - » Disaggregated **per country**
  - » Consistent with energy-system wide CBA (Article 11, Annex IV and Annex V of Reg. 347/2013)
- Key dimensions to be addressed:
  - » **Complementarity** with other projects
  - » **Cost** components
  - » **Benefit** components
  - » Treatment of **uncertainties**
  - » **Time horizon** and **discounting method**
- Annex III template for project promoters to enable a precise assessment of these dimensions

## Complementarity

- The benefits of a project can be influenced by the potential development of other projects
- Project promoters are invited to indicate **potentially complementary PCIs**
- **CBAs as input for NRAs** to decide whether it is necessary to coordinate their decision-making processes for interacting CBCA requests
- Projects may be considered complementary if the aggregated benefits of a joint development of the relevant PCIs are higher than the sum of projects' individual benefits estimated on a stand-alone basis

## Costs

- Net present values of **each cost component** (investment costs and other components) per country should be presented separately
  - » Materials and assembly costs
  - » Temporary solutions
  - » Environmental costs
  - » Consenting/social costs
  - » Replacement of devices
  - » Dismantling
  - » Maintenance and other life-cycle
- Total costs before commissioning should be **yearly disaggregated**

## Benefits (1)

- **At least\*** the following benefits should be monetised:
  - » Socio-economic welfare SEW (calculated by a European market study)
  - » Variation in losses (calculated by network studies)
  - » Security of supply (load) (calculated by network studies)
  - » Relieving national constraints (SEW variation calculated by local market studies, while avoiding double counting effects with other SEW figures)
  - » Variation in generation curtailments (SEW variation calculated by network studies, while avoiding double counting effects with other SEW figures)

\*A broader list of 11 benefit components is available in the ACER position on the ENTSO-E guideline to CBA (30 January 2013)

## Benefits (2)

- For SEW benefit
  - » **total surplus approach**: disaggregated for stakeholder groups for country (variation of producer surplus PS, of consumer surplus CS and of congestion revenues CR)
  - » CR separately presented per border (no 50%-50% allocation to countries)
- For Losses and SoS benefit (if not zero), indicate:
  - » assumption on value of losses (€/MWh)
  - » assumption on value of lost load (€/MWh not supplied)
- Benefits should be presented **for each Member State separately**

## Treatment of uncertainties

- ACER recommends using of an uncertainty range ( $-x\%$ ;  $+y\%$ ) for the assessment in each country:
  - » Expected cost; downward variation ( $-x\%$ ); upward variation ( $+y\%$ )
  - » Expected benefit; downward variation ( $-x\%$ ); upward variation ( $+y\%$ )
  - » Good knowledge about the factors affecting expected costs and benefits and their ranges

## Time horizon and discounting method (1)

- Benefit figures:
  - » Year 2020 (mid-term)
  - » Year 2030 (long-term)
- Interpolate/extrapolate:
  - » Before 2020, mid-term backwards
  - » Between 2020-2030, linearly interpolate
  - » After 2030, use long-term value

## Time horizon and discounting method (2)

- **Transparency on CBA assumptions** (social discount rate, economic lifetime, residual value)
- To the extent possible, a **common approach**
- In its opinion on CBA (30 January 2014), ACER recommended a consultation by ENTSO-E on the basis of Frontier's short-term approach:
  - » a common discount rate of 4% (real), based on European Commission "Impact assessment guidelines"
  - » a common time range of 25-years operational lifetime
  - » no residual value
  - » a common reference year (present year) for discounting



## Project maturity and completeness of request

- Regulation 347 allows project promoters to submit a CBCA request to the concerned NRAs as soon as the project has reached 'sufficient maturity'
- PCIs are 'sufficiently mature' if:
  - » There exists **strong confidence about the expected costs and benefits** and their ranges
  - » **permitting procedures have started** in all hosting countries;
  - » **project construction is about to start** reasonably soon
- If a CBCA request is considered as incomplete, promoters should submit further info (as asked by NRAs)

## Compensation to be provided to promoters

- WHEN? Compensations are provided only if **at least one country hosting the project is deemed to have a negative net benefit**
- TO WHOM? To all countries hosting the project and exhibiting a negative net benefit
- HOW MUCH? Compensate negative net benefit in the relevant countries as much as possible
- **Unless the relevant NRAs agree otherwise**

## Allocation to the contributing countries

- Only countries with a **significant positive net benefit** should contribute to provide compensation
- A positive net benefit is deemed to be significant if it exceeds a **"significance threshold" equal to 10 % of the sum of positive net benefits** accruing to all net benefiting countries
- A **lower significance threshold** may be considered, in particular
  - » if the net benefits above the threshold are not sufficient to cover the compensation required or
  - » if the amount of compensation places an unreasonable burden to a contributing country
- **Allocation rule** (for contributors): proportionately to the level of net benefits of each country exceeding the significance threshold

## Electricity transmission projects

PCI types	Substation	PST	1 country	2 countries	3 countries
North Seas (24)	1	0	5	18	0
NSI West (28)	2	2	12	11	1
NSI East (57)	1	1	37	17	1
BEMIP (10)	0	0	6	4*	0
<b>Total (119)</b>	<b>4</b>	<b>3</b>	<b>60</b>	<b>50</b>	<b>2</b>

**Source: Regulation (EC) No 1391/2013**

- 56% of projects located in one country
- 44% of projects located in two or more countries

- What is the result of the “national CBA” of the country hosting the project?
  - » Benefits greater than costs → No need for a CBCA compensation
  - » Benefits lower than costs → Need for CBCA compensation to the country

	Country A	Country B
Cost	100	0
Benefit	80	40
<b>Net benefit</b>	<b>-20</b>	<b>40</b>

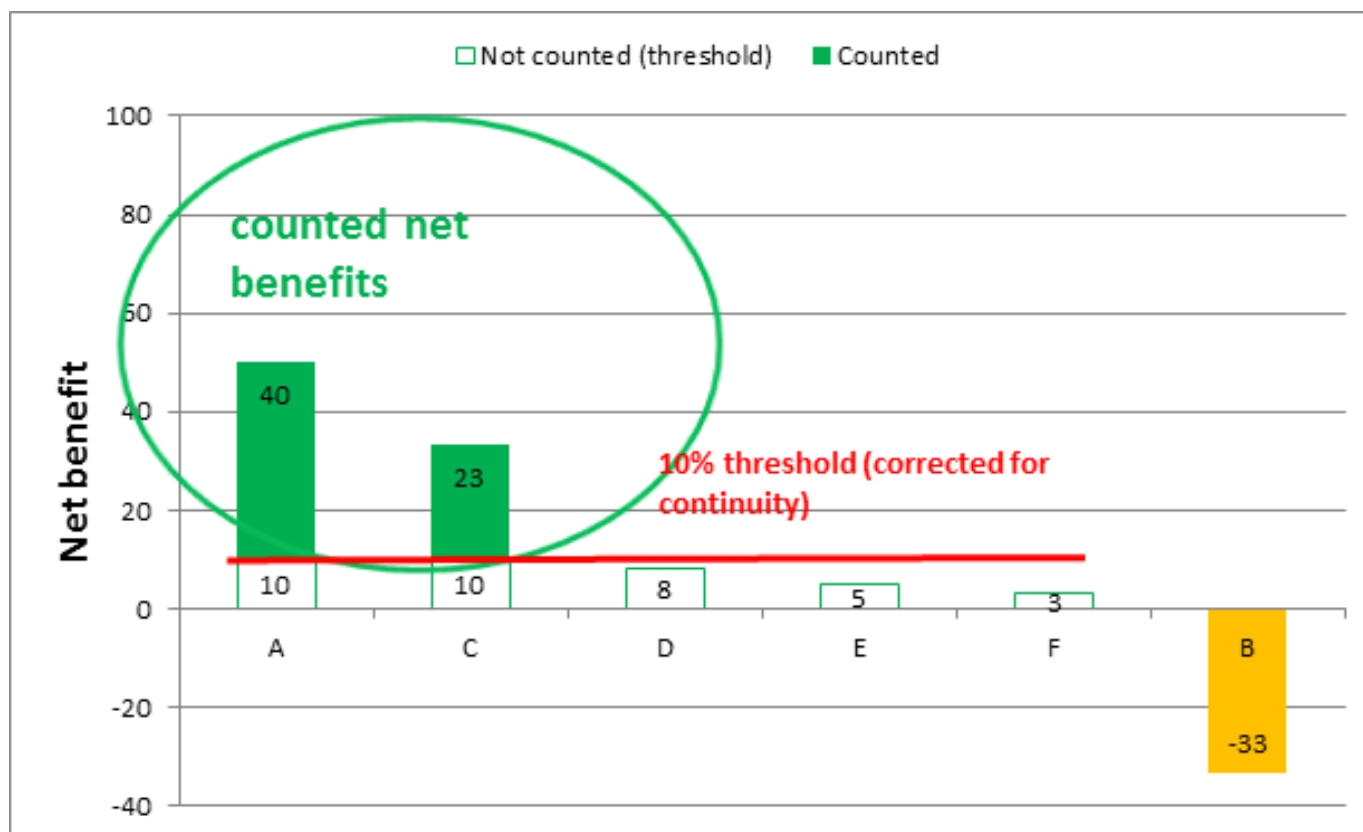
- » Contribution (=payment) from country B to compensate the negative net benefit of country A

- Example of (expected average) costs and benefits
  - » Sum of positive net benefits accruing to all net benefiting countries = 100
  - » Sum of negative net benefits (of countries hosting the project) = -33

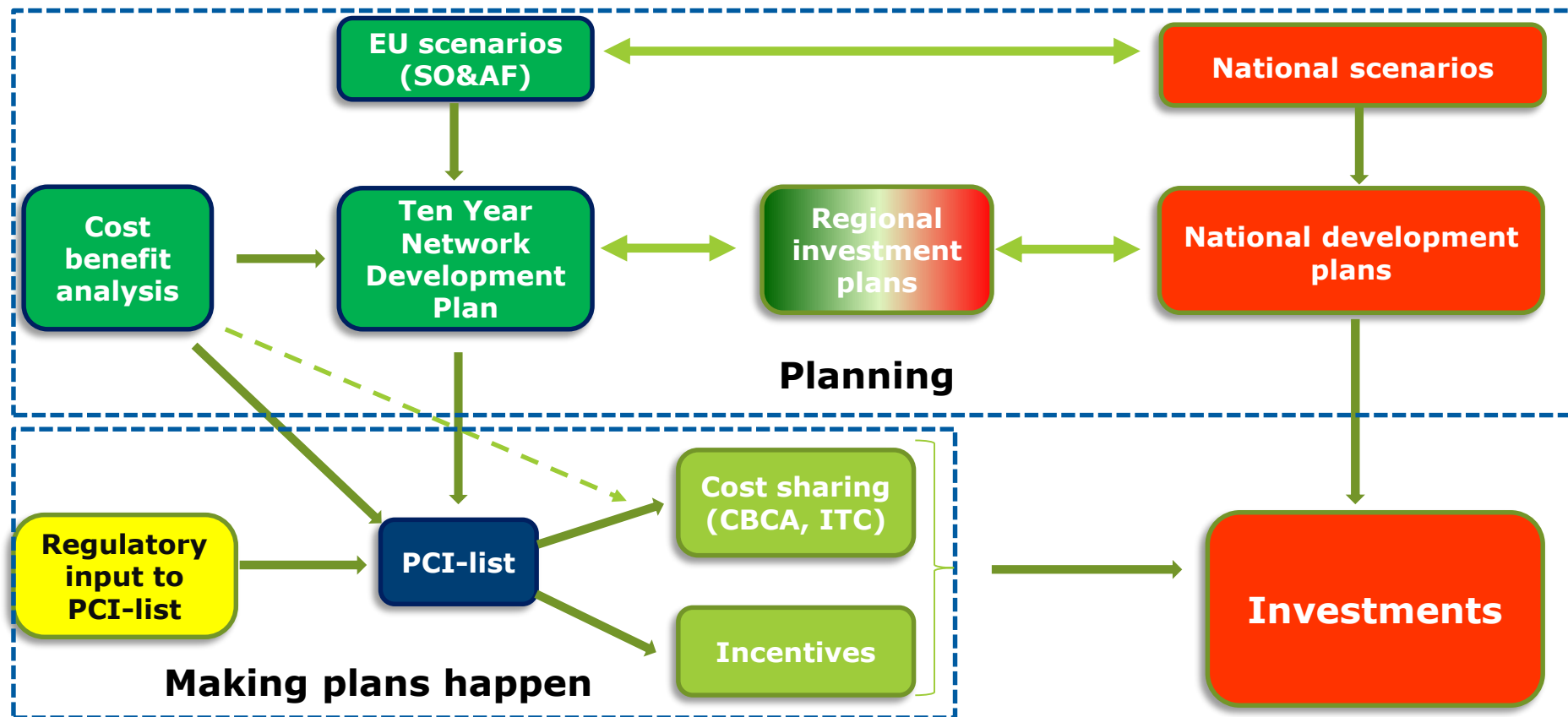
	Country A	Country C	Country D	Country E	Country F	Country B
Cost	50	0	0	0	0	50
Benefit	100	33.3	8.3	5	3.3	16.7
<b>Net benefit</b>	<b>50</b>	<b>33.3</b>	<b>8.3</b>	<b>5</b>	<b>3.3</b>	<b>-33.3</b>

- » Compensation for the negative net benefit of country B

- Application of the significance threshold
  - » Proportionate contribution from Countries A and C
  - » Countries D, E and F do not contribute



# Concluding remarks: CBCA to make investments happen



Clarification for color scheme

Done by  
ENTSO-E,  
ACER opinion

Done by EC  
(and MSs),  
ACER opinion

Done by NRAs  
in Regional  
Groups

Decision by  
NRAs / ACER

Done by TSOs.  
NRAs' opinion  
needed



## **ACER recommendation on ITC (March 2013)**

- Where appropriate, NRAs - under ACER coordination - should engage into CBCA agreements for new investments of EU relevance
- The current ITC infrastructure compensation should be limited to existing (at the end of year 2015) infrastructures
- The corresponding ITC infrastructure fund should be phased out

## Next steps

- ACER is receiving notification of requests submitted to NRAs and may be tasked to take individual decisions (if no agreement between NRAs or upon joint NRA request)
- ACER is monitoring the current process and assisting NRAs which ask for clarifications
  - ACER included in its 2014 work programme a “Guidance on Cross-Border Cost Allocation methodology”. This activity has been recently deprioritised (due to the missing assignment of human resources to ACER) and will be considered in the framework of the ACER 2015 work programme

# **Thank you for your attention!**



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