The EU Energy Infrastructure Package and the list of Projects of Common Interest (PCIs)

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Energy Infrastructure Package and PCI lists

AGENDA

1. Regulation (EU) no. 347/2013
2. Union List of PCIs
3. Cost- Benefit Analysis (CBA)
4. Cross- Border Cross Allocation (CBCA)
5. Incentives for PCIs and methodology for risk evaluation
6. Connecting Europe Facility
7. The Challenges

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Regulation (EU) 347/2013

The Regulation lays down **guidelines for the timely development** and interoperability of **priority corridors** and areas of **trans-European energy infrastructure** (electricity transmission and storage; gas transmission, storage, LNG and CNG infrastructures; smart grids; carbon dioxide transport; oil infrastructure).

Addresses the identification of the **Projects of Common Interest (PCI)** that are necessary for this purpose

Regulation (EU) 347/2013

Facilitates the timely implementation of PCIs by streamlining, coordinating more closely, and **accelerating permit granting processes** and by enhancing public participation

Provides **rules and guidance for the cross-border allocation of costs** and **risk-related incentives** for PCIs

Determines the **conditions for eligibility of PCIs for Union financial assistance** (through CEF – Connecting Europe Facility)

Energy Infrastructure Package and PCI lists

Regulation (EU) 347/2013

Union List of PCIs

- Regional Groups (RGs) by priority corridors adopt regional lists of PCIs.
- In the RGs, the decision powers are attributed to Member States (MS) and to the European Commission (EC).
- Union lists on the basis of regional lists adopted **every 2 years**(1st by 30 Sep 2013)

General criteria for PCI selection

- The **overall benefits outweigh the project costs** (CBA methodologies).
- The project involves at least 2 MS by directly crossing borders or is located only in one MS and has **a significant cross-border impact**.

Specific criteria for PCI selection

- **Electricity**: market integration, sustainability and security of supply.
- **Gas**: market integration, security of supply, competition and sustainability.
- **Smart grid**: users participation, DSO-TSO interoperability, QoS, optimised planning.
- **Oil**: security of supply, mitigation of environmental risks; **CO_2**: avoid emissions

Cost-Benefit Analysis (CBA)

- In the planning of pan-European Electricity and Gas infrastrucutures (TYNDP), the ENTSOs run a cost-benefit analysis and made the results available.
- The CBA outputs are used in the PCI selection process

Regulation (EU) 347/2013

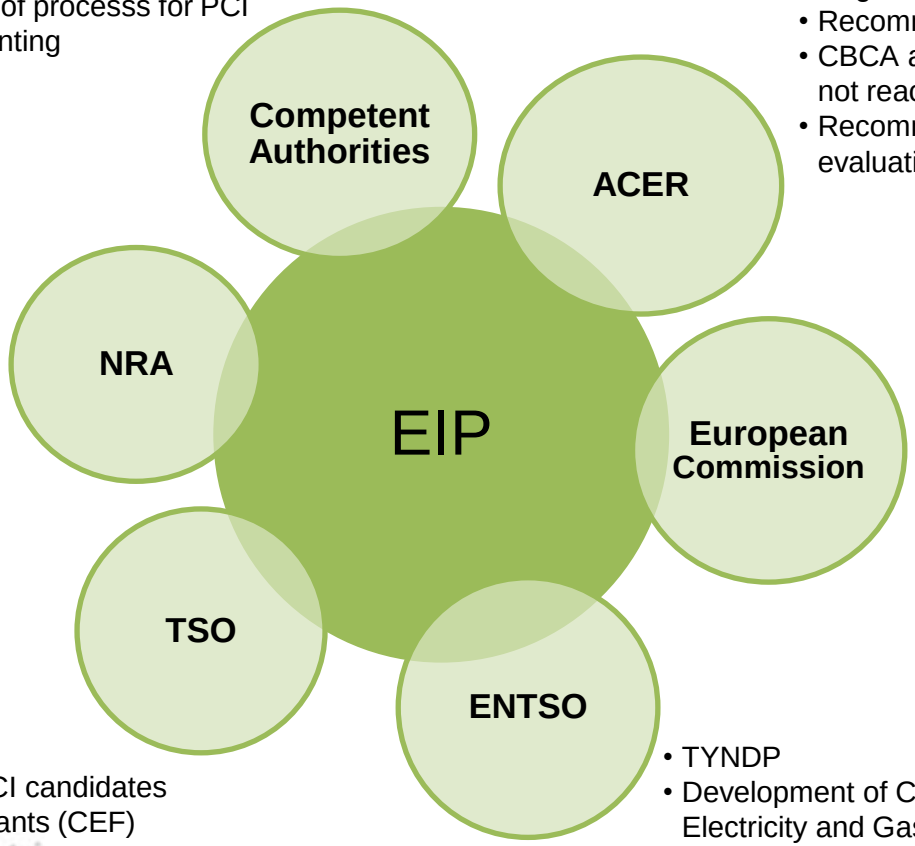
Cross-Border Cost Allocation (CBCA)	• The investment costs of a PCI may be allocated outside the hosting country, taking into account the benefits they generate in neighbouring countries • Whenever a CBCA is requested, NRAs shall take a decision
Permit granting and public consultation	• MS shall designate one national Competent Authority responsible for facilitating and coordinating the permit granting process of PCI ("**one stop shop**"). • **Priority status** for permit granting processes of PCIs. • **Public consultation** shall be carried out **at an early stage** of the project
Implementation and monitoring	• Project promoters submit a **progress report for each project** (annually). • Every year, ACER submits to RGs a **consolidated report on the progress of PCI** and makes, where appropriate, **recommendations to overcome difficulties**. • Competent Authorities report to RGs delays with regard to permit granting.
Financial support	• Grants for works and grants for studies • Financial instruments • Regulation (EU) no. 1316/2013 of 11 December 2013 , establishing the Connecting Europe Faclity (CEF)

Regulation (EU) 347/2013 – Stakeholders

The application of the Regulation 347/2013 assumes interactions among stakeholders:

- Approval of PCI candidates
- Speed-up of processs for PCI permit granting

- Regulatory harmonization
- Recommendation on CBCA decisions
- CBCA analisys and decisions (when NRAs do not reach an agreement)
- Recommedation on incentives and risk evaluation



- Analysis of PCI candidates
- CBCA analysis and decisions
- Regulatory incentives

- PCI selection and approval
- Financial support (CEF)

- Applications for PCI candidates
- Applications for grants (CEF)
- CBCA requests

- TYNDP
- Development of CBA methodologies for Electricity and Gas
- Integration of CBA methodologies of Electricity and Gas

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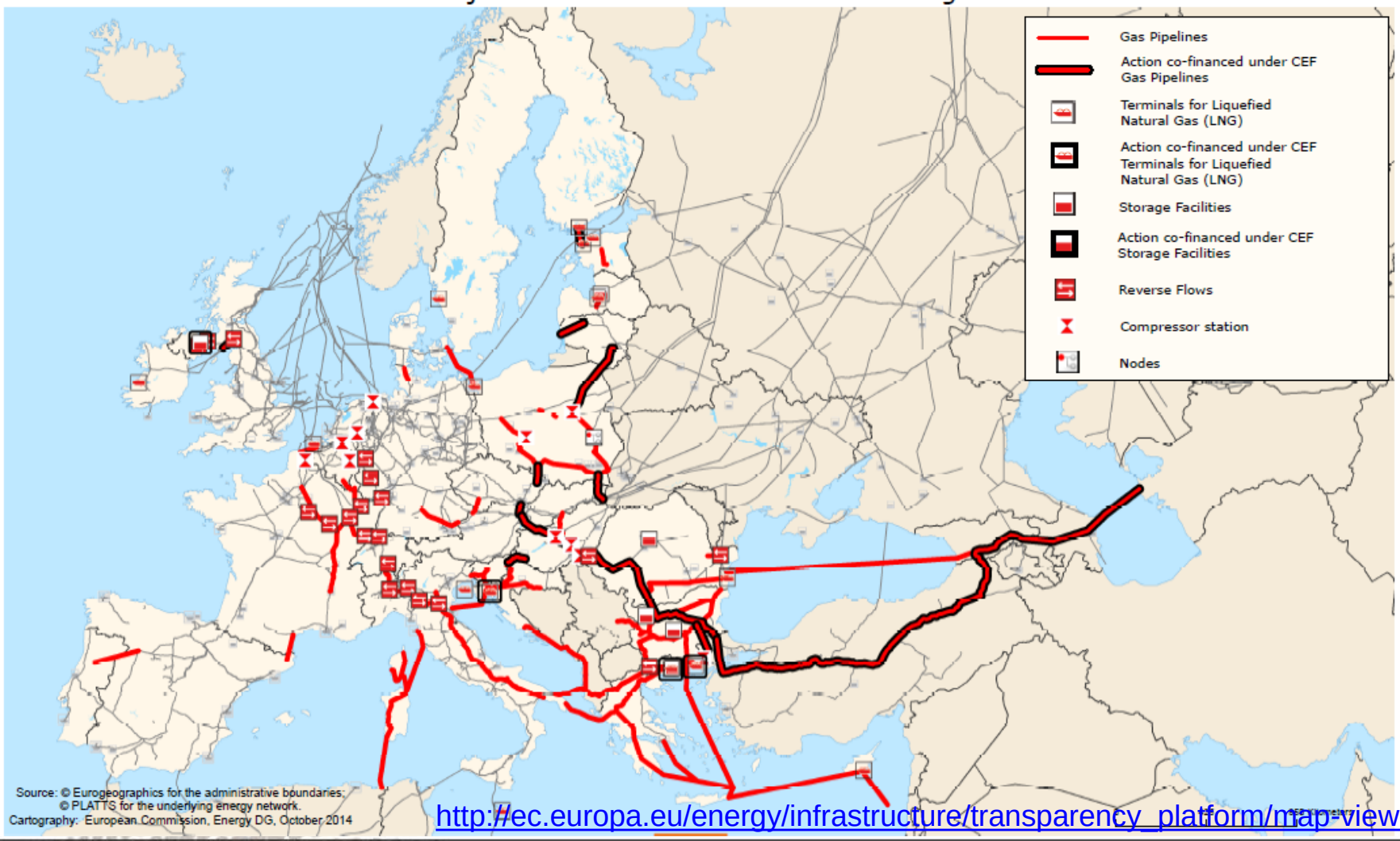
1st Union list – PCI Natural Gas



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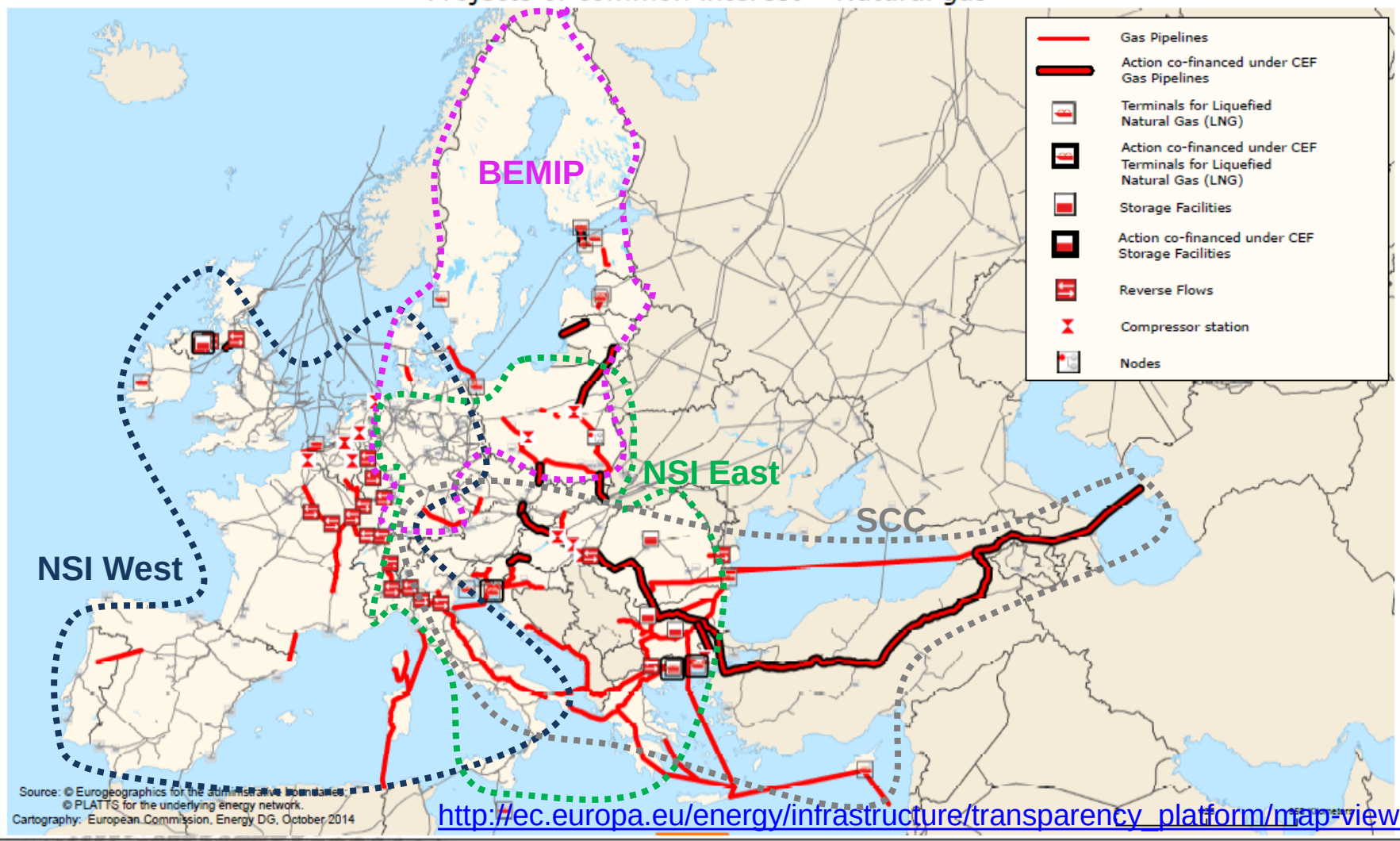
1st Union list – PCI Natural Gas



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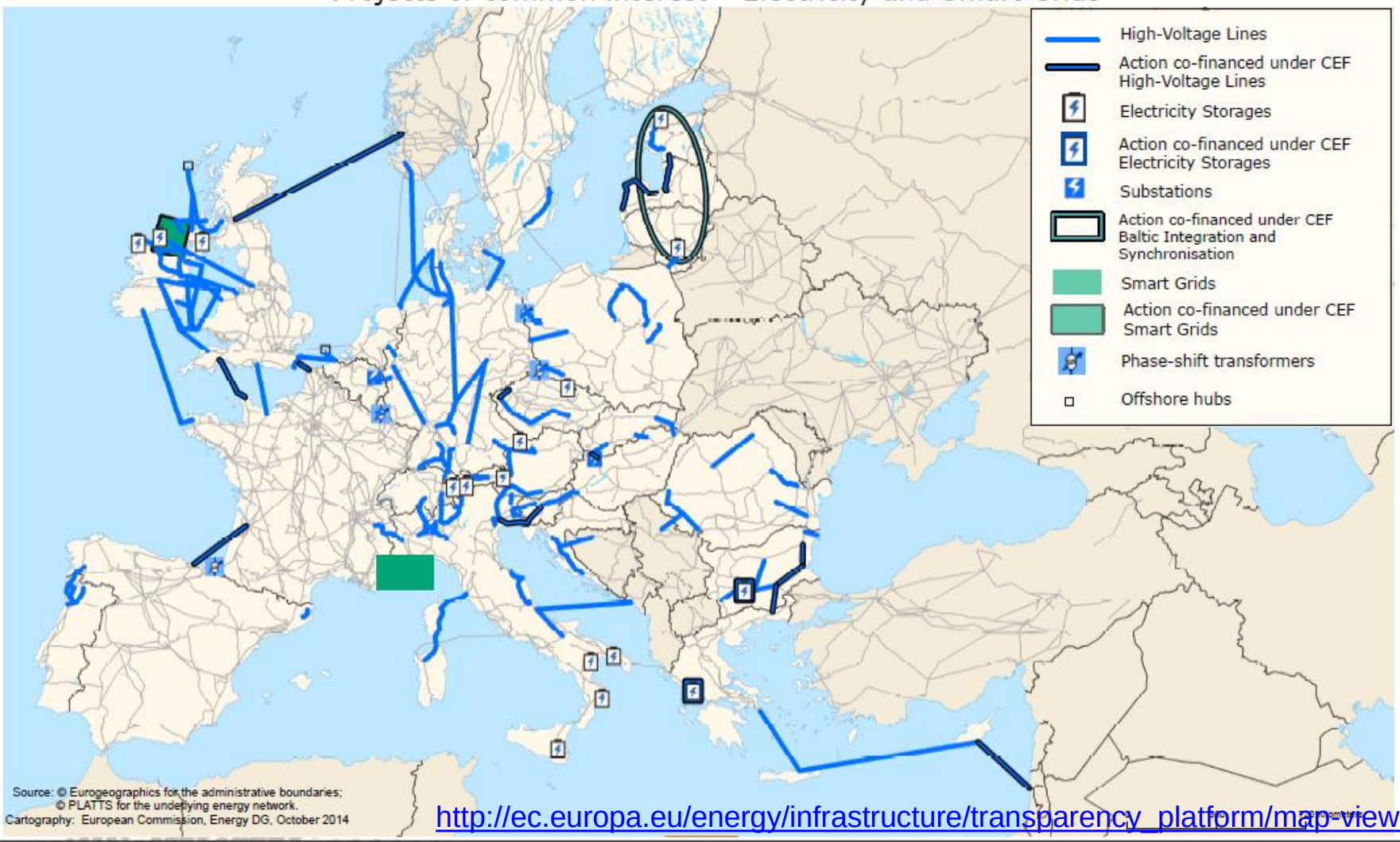
1st Union list – PCI Electricity&SG



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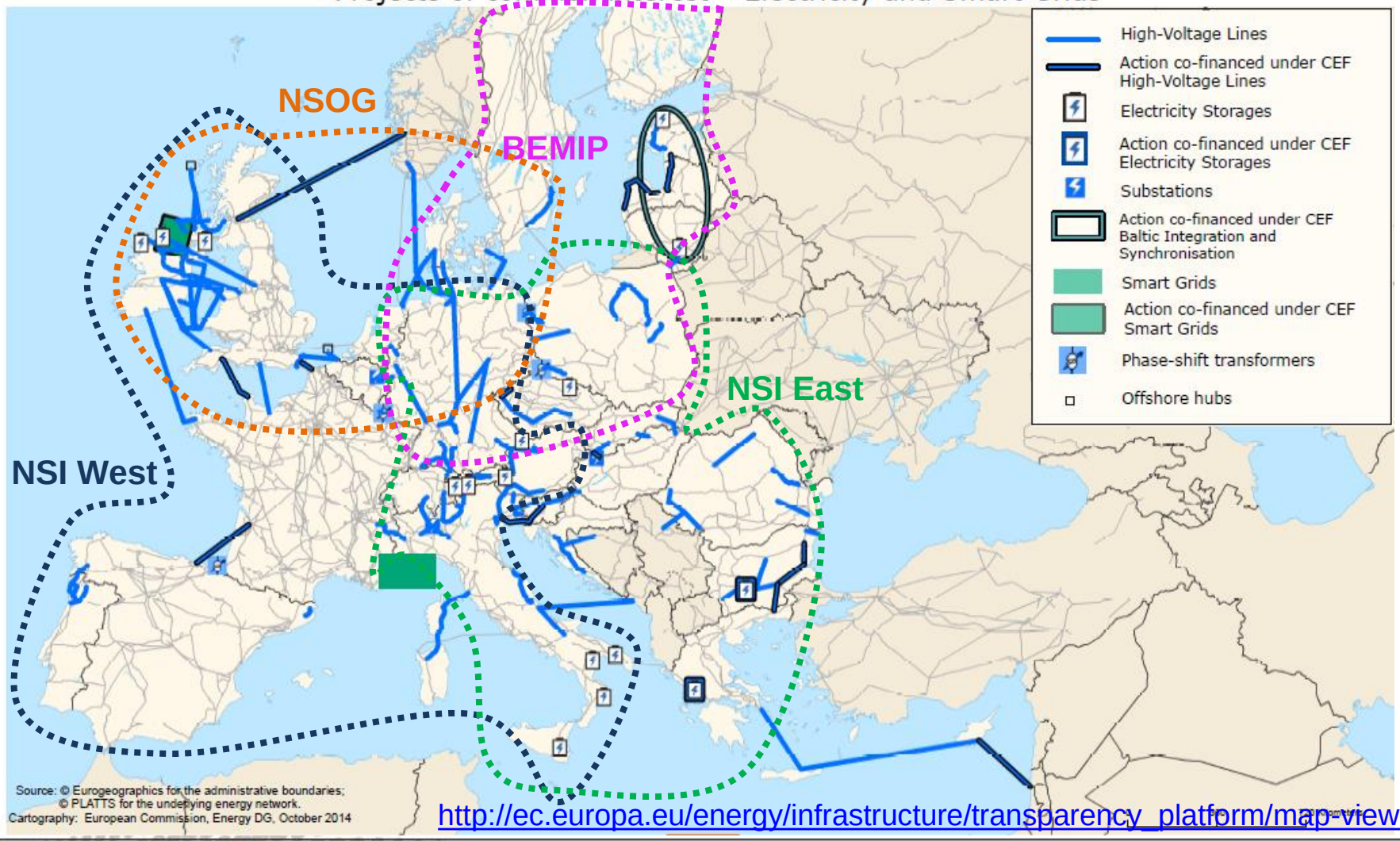

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Union lists of Projects of Common Interest

1st Union list of PCI

- **1st half 2012** — Launch of 1st PCI list process
- **2nd half 2012** — NRA assessment of PCI candidates (NRA)
- **May 2013** — End of ad-hoc PCI selection process
- **July 2013** — ACER opinion on regional lists (NRA)
- **Nov 2013** — Adoption of the 1st PCI list by EC with **248 PCIs**
- **Jan 2014** — List entry into force, after Council and Parliament scrutiny

2nd Union list of PCI

- **Set 2014** — Launch of 2nd PCI list process
- **Nov 2014** — PCI candidatures from PPs
- **Mar 2015** — Assessment methodology and elegibility check of candidates (NRA)
- **May 2015** — Ranking of PCI candidates and agreement on regional lists
- **Aug 2015** — ACER opinion on regional lists (NRA)
- **Nov 2015** — Adoption of the 2nd PCI list by EC
- **2016** — List entry into force, after Council and Parliament scrutiny

Union List of PCIs – Improvements expected in the selection process of the 2nd list

- **The selection of PCIs shall be a learning by doing process** (as well as other decision processes under the Regulation 347/2013)

- More information is available, particularly in the gas sector (system wide CBA will be presented in TYNDP 2015, while for the 1st list it was not available)

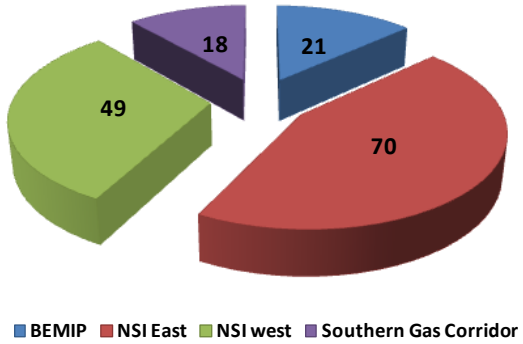
- More tools are available to help the decision of European Commission and Member States in the scope of Regional Groups

2nd Union List of PCIs – Methodology for candidates assessment

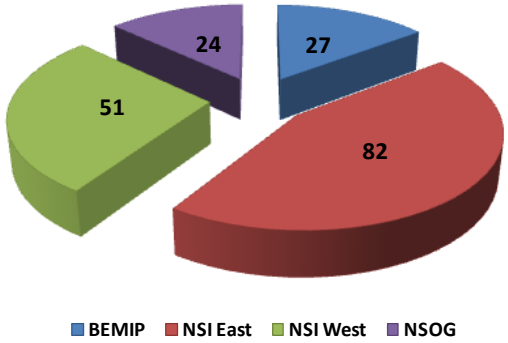
EC requested Joint Research Center to develop a methodology aimed at providing the RGs with a tool, based upon the ENTSOs' CBA outputs, to assess the PCI candidates. The methodology is based on 6 steps:

- Consistency and eligibility check
- Visions/configurations treatment
- Composite indicators construction
- RGs intermediate assessment
- Additional JRC supporting analysis
- RG final assessment

Natural Gas – 158 candidates



Electricity – 184 candidates



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Cost-Benefit Analisys (CBA)

Main features:

- **Common input data set** representing the Union's electricity and gas systems in the medium and long term (possible different scenarios).
- **Data consistency check** involving a formal consultation to Member States.
- **Expected costs and benefits** for medium and long term.
- **Elegible costs**: capital costs, O&M costs, decommissioning costs, waste management costs.
- **Benefits for the electric system** associated with security of supply, socio-economic welfare, RES integration, network losses reduction, variation in CO_2 emissions, system resilience, operational flexibility (CBA methodology ENTSO-E)
- **Benefits for the gas system** associated with system security, system resilience, supply sources diversification (CBA methodology ENTSO-G)
- Common pan-European discounting approach

Cost-Benefit Analisys (CBA)

CBA

- The methodology shall be drawn up in line with the principles laid down in the Regulation.
- **ENTSO-E** and **ENTSO-G** publish the methodologies including **network and market modeling**, for an **harmonised energy system-wide CBA at Union level** for PCIs.
- The **ACER provides an opinion** and the **Commission shall approve** the CBA methodologies.

TYNDP

- CBA methodologies applied for the **preparation of each subsequent TYNDP** developed by the ENTSO-E and ENTSO-G.

PCI Selection

- The **PCI selection** shall consider the **results of the system wide CBA**.
- Each PCI shall have **overall benefits that outweigh the project costs.**

UIC

- By May 2015, NRAs/ACER shall establish a set of **indicators and reference values for the comparison of unit investment costs** (UIC) for comparable projects of Electricity and Gas PCIs (currently the data is being collected from TSOs and PPs).
- ENTSO-E and ENTSO-G may use the UIC for the cost-benefit analysis carried out for subsequent TYNDP.

Ele&GN model

- By Dec 2016, **ENTSO-E and ENTSO-G** shall jointly submit a **consistent and interlinked electricity and gas market and network model including electricity and gas infrastructures**, covering the energy infrastructure priority corridors and areas

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Cross Border Cost Alocation (CBCA)

Enabling investments with cross-border impacts

- Investment costs efficiently incurred in PCIs
- Shall be borne by the TSO or PP of the MS to which the project provides a net positive impact
- Assessment of market demand must indicate that those costs cannot be covered by the tariffs in the hosting MS
- PCI investment costs are paid through network access tariffs, by the users of the hosting country as well as by the users of other net benefiting MSs

PPs submitt an investment request to the NRAs concerned

- Request for a cross-border cost allocation
- Include in the investment request:
  - a) project-specific CBA
  - b) business plan evaluating the financial viability of the PCI
  - c) if the PPs agree, a substantiated proposal for the cross-border cost allocation

CBCA decisions

- NRAs shall take coordinated decisions to allocate the costs partly or totally and notify the ACER (within 6 months)
- If NRAs do not reach an agreement they shall inform the Agency, which will decide the way the investments costs of the PCI are reflected in the tariffs of the concerned MS

Cross Border Cost Alocation (CBCA)

Set 2013

Recommendation of the ACER n.º 07/2013 of 25 september 2013
Regarding the CBCA requests submitted in the framework of the 1st Union list of Electricity and Gas PCI

Nov 2014

Internal report on the Cross Border Cost Allocation decisions in 2014
Summarizes the CBCA requests and decisions made by the NRAs and ACER, including the issues that require further analysis and follow up

Nov 2014

Public position of European Commission about CBCA decisions
CBCA decisions connected to the applications for CEF grants (as it is a pre-requisite) and suggestion to revise the ACER recommendation

2015

2nd CBCA Recommendation
Harmonised approach of all NRAs, revision of the concepts of “no net negative benefit” and “significance threshold”, CBCA decision of allocation 100%-0 not elegible for EC funding, harmonised methodology for the calculation of tariffs impacts, CBCA decisions as a continuous process

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Incentives for PCIs and common methodology for risk evaluation

PCIs shall have improved regulatory treatment (article 13 of the Regulation)

ACER Recommendation (no. 03/2014 of 27June 2014)

Risk evaluation

1. Availability of information on project risks
2. Identification of the nature of the risk from a regulatory point of view
3. Risk-mitigation measures by the project promoters
4. Assessment of systematic risk and definition of cost of capital
5. Risk-mitigation measures already applied by NRAs
6. Risk quantification
7. Comparable project

Incentives

NRAs should be free to decide on the combination of regulatory measures, monetary reward/penalty schemes, taking into account the relevant national regulatory systems. Risk premiums are a possible instrument, particularly if the NRA decides to leave a specific risk fully with the PP.

NRA

Methodology at national level for evaluation of investments in electricity and gas infrastructure projects and the higher risks incurred by them

EC

Possible guidelines for regulatory incentives to PCI

Study on regulatory incentives for investments in electricity and gas infrastructure projects

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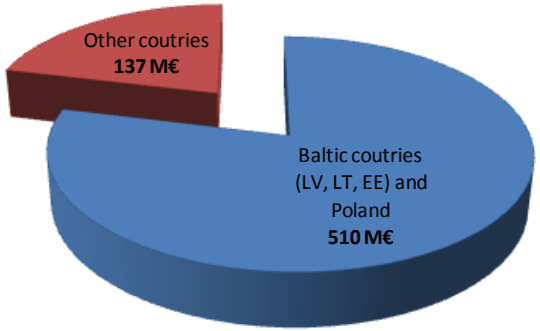
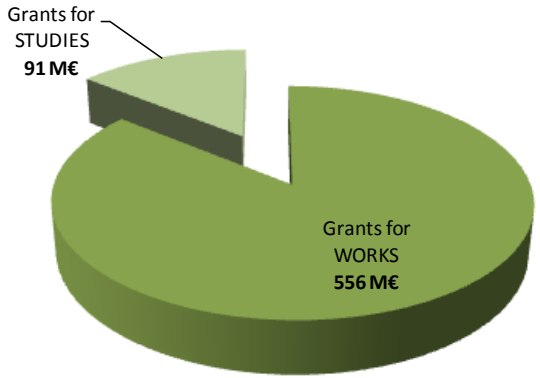
Connecting Europe Facility (CEF)

Regulation (EU) no. 1316/2013 of 11 December 2013, establishing the CEF:

- **5,8 billion EUR** budget for the energy sector in the period **2014-2020**
- Maximum assistance of 50% of eligible costs of studies and works
- Forms of financial assistance: Grants, Procurement and Financial Instruments
- Eligibility conditions:
  - Actions contributing to PCIs, in accordance with Regulation (EU) 347/2013
  - the PCI has received a CBCA decision (grants for works not necessary for grants for studies)
  - the PCI is commercially not viable

CEF Energy 2014 (call May to Aug 2014) : **647 million EUR allocated to 34 PCIs**





CEF Energy 2015 (call Mar to Apr 2015): **1340 million EUR** to be allocated to PCIs of the 1st list

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The Challenges

Example:
The need of more international interconnections to overpass the “energetic islands”

The Challenges

- **How can the different roles/view points of several Member States, Regulators, Project Promoters and Consumers be aligned to converge to a single objective: "development of european wide energy infrastrucutres focused in the maximization of overall benefits"?**

- **What are the most effective mechanisms: accelerate the licensing process, regulatory incentives, subsidies, financing facilities, institutional coordination at European level?**

- **How can Regulators better contribute for the development of PCIs: Opinions and Recommendations (ACER), CBCA decisions (NRA), regulatory incentives (NRA), others?**

- **Is this model for the development of trans-European energy applicable in Latin America?**

Thank you for your attention

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Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
BEMIP	Baltic Energy Market Interconnection Plan
CBA	Cost-Benefit Analysis
CBCA	Cross-Border Cross Allocation
CEF	Connecting Europe Facility
CNG	Compressed Natural Gas
EC	European Commission
EIP	Energy Infrastructure Package
ENTSO	European Network of Transmission System Operators (E-Electricity, G-Gas)
LNG	Liquefied Natural Gas
MS	Member States
NSI East	North-South gas interconnections in Central Eastern and South Eastern Europe
NSI West	North-South gas interconnections in Western Europe
NSOG	Northern Seas offshore grid
NRA	National Regulatory Authority
PCI	Project of Common Interest
PP	Project Promoter
RG	Regional Group
SCC	Southern Gas Corridor
TSO	Transmission System Operator
TYNDP	Ten-Year Network Development Plan
UIC	Unit Investment Costs