

Summary report
Experience with Cross-Border Cost Allocation
September 2015

1. Background and purpose of the document

In order to facilitate future cross-border cost allocation (CBCA) processes and to provide further good practices, the Agency included in its Work Programme 2015 the revision of the Agency's Recommendation No 07/2013 of 25 September 2013 regarding the cross-border cost allocation requests, in the light of the experience that will be gained with the first investment requests.

In this context, the present summary report accompanies the Agency's Recommendation No. 5/2015 of 18 December 2015 on good practices for the treatment of the investment requests including cross border cost allocation requests for electricity and gas projects of common interest (PCI). It provides an overview of recent cross-border cost allocation decisions, as well as some preliminary lessons learned from this process. It also aims at facilitating understanding of the purposes of revisions and new elements of the Recommendation.

2. Overview of CBCA decisions as of 31 August 2015:

Based on the information provided to the Agency by the National Regulatory Authorities (NRAs), since the adoption of the first Union list of PCIs in October 2013, 16 (5 electricity and 11 gas) investment requests resulted in a decision on how to allocate the costs of the projects. 14 decisions have been taken by NRAs themselves, while 2 have necessitated an arbitration by the Agency. These two latter cases are the decision on the Gas Interconnection Poland–Lithuania (GIPL) and the decision on the Lithuanian part of the electricity interconnection between Lithuania and Poland (LitPol).

For “GIPL” the overall economic benefits delivered by the project to the countries involved were assessed twice as high as the costs. Concerning the national balances, Poland was a cost bearer while Lithuania, Latvia and Estonia were beneficiary countries. The Agency therefore decided that following the commissioning of the project, Polish TSO would be compensated with €85.8 million, of which €54.9 million would be paid by Lithuanian TSO, €29.4 million by Latvian TSO and €1.5 million by Estonian TSO.

For “Litpol” the Agency's assessment indicated that, although this interconnection will provide benefits to several Member States beyond Lithuania, the latter, as a beneficiary of the project, does not require compensation for the investment from the other Member States benefiting from the project. Therefore, the Agency allocated all investment costs to the Lithuanian TSO.

3. Lessons learned from the CBCA monitoring:

In the second half of 2014 the Agency carried out a CBCA monitoring activity, with regard to cross-border cost allocation decisions taken by NRAs by 31 August 2014¹.

The Agency's major findings were the following:

- a) The vast majority of the investment requests were submitted on PCIs located in one Member State;

¹ As only 3 cross-border cost allocation decisions were taken between 1 September 2014 and 31 August 2015 (2 by NRAs and 1 by the Agency), the activity was not repeated in its entirety in 2015. The Agency's decisions are summarised in Section 2.

- b) The project specific CBA calculations submitted by the project promoters generally followed the draft Cost Benefit Analysis (CBA) of the European Networks of Transmission System Operators (ENTSOs) for Electricity and for Gas and took into account the results of its application in the latest Ten-Year Network Development Plan (TYNDP), but shortcomings were also identified (e.g. benefits are calculated not for the PCI but for the project cluster only, use of one scenario only and lack of sensitivity analysis). In most cases the NRAs carried out further work to verify the CBA results;
- c) The national net impacts calculated based on the project-specific CBA led the NRAs in 10 cases to allocate costs only to those Member State(s) which are hosting the project. In one case 13.92%, in another case 5.25% of the allocated costs is a contribution from a non-hosting Member State beneficiary of the project. In 4 cases, the decision to allocate costs only to those Member State(s) hosting the project was justified with the lack of net negative impact in the hosting country(s); in 6 cases, the reason was the lack of significant net positive impact (less than 10% of the total net positive impacts) in each of the non-hosting Member States
- d) In 8 cases 100% of the efficiently incurred investment costs were allocated, while in 4 instances the NRAs decided to allocate only part of the investment costs. In case of partial allocation of the investment costs the NRA(s) relied on EU funds to fill the financing gap. The main reason for partial cost allocation and reliance on EU funds was the excessive increase in transmission tariffs in a hosting Member State, while the project provides significant benefits to other Member States. In 4 decisions the NRAs retained the right to revise the cross border cost allocation decisions in case the funding from external source will prove to be insufficient.

The Agency also identified a number of challenges with regard to the process and the content of the first CBCA decisions based on the concerns and open issues raised by the European Commission, NRAs and TSOs. Table 1 summarises some of the main challenges and open issues identified by the NRAs and stakeholders², and the sections of the revised version of the Agency's Recommendation which address such concerns.

² Some of the concerns raised by the stakeholders were deemed to be out of the scope of the Recommendation.

Annex

Table 1. Challenges and open issues

Challenge / open issue	Reflection in the Recommendation
Treatment of interdependencies among projects	Section 1.1, Determination of complementarities between projects Annex I. Common recommendations for Electricity & Gas
How promoters should define to which NRAs to address the investment request	Section 1.4, Addressees and language of the investment request
Lack of details of TSO consultation prior to submitting an investment request	Section 1.3, TSO consultation
Assessment of sufficient maturity	Section 1.2, Sufficient maturity
Definition of the start of the six-month period for NRAs to take coordinated decisions	Section 2.2, Completeness of the investment request Section 2.3, Quality of the information provided with the investment request
CBA as input for the CBCA calculations	Section 1.6, Calculation of national net impacts Section 2.6, Allocation of costs Annex I. – Project-specific Cost-Benefit Analysis Annex II – Calculation of national net impacts
Procedural aspects of NRA's CBCA process	2.1, Cooperation and coordination between NRAs
The identification of the eligible costs to be allocated	Section 2.4, Identification of costs to be allocated
Criteria for the cross-border payments	Section 2.8, Payments for implementation of the cost allocation
Inclusion of allocated costs in tariffs	Section 2.10, Inclusion of allocated costs in tariffs
Guidance on calculations of the impact on tariffs	Annex III – Evaluation of impacts on network tariffs
Adjustment of a CBCA decision	Section 2.7, Mechanisms for adjustments of the cost allocation
The monitoring of the projects and the CBCA decisions	Section 3, On reporting requirements of project promoters

Table 2 – Summary data for electricity CBCA decisions (as of 31 August 2015)

Promoter/TSO	PCI Code	Project name	NRAs CBCA agreement/ decision (see links at end of table)	Cost allocation -Allocated amount (% total CAPEX) - Shares (% MS)
Elektroenergien Sistemen Operator	3.7.4.	Internal line between Maritsa East 1 and Burgas	CBCA decision adopted on 24 April 2015	Allocated: 50% (assuming other 50 % of grants) Shares: BG: 100%
Elering AS, Augstsprieguma tikli AS	4.2.1	Interconnection between Kilingi-Nõmme (EE) and Riga CHP2	<u>CBCA decisions:</u> EE: 30 April 2014 LV: 23 April 2014	Allocated: 25% (assuming other 75% of grants) Shares: LV: 90.1%

		substation (LV)		EE:9.9%
Elering AS	4.2.2	Internal line between Harku and Sindi (EE)	CBCA decisions: EE: 30 April 2014 LV: 23 April 2014	Allocated: 25% (assuming other 75% of grants) Shares: EE:100%
Augstsprieguma tikli AS, Latvijas Elektriskie tikli AS	4.4.1	Internal line between Ventspils, Tume and Imanta (LV)	CBCA decision adopted on 9 April 2014	Allocated: 50% (assuming other 50% of grants) Shares: LV: 100%
Litgrid AB	4.5.1	LT part of interconnection between Alytus (LT) and LT/PL border	Agency's CBCA decision adopted on 16 April 2015	Allocated: 100% Shares: LT: 100%

Links to electricity CBCA decisions:

3.7.4.

<http://www.dker.bg/docsbg.php?d=3>

4.2.1

<http://www.sprk.gov.lv/uploads/doc/LemumsN090D23042014.pdf>

<http://www.konkurentsiamet.ee/file.php?26500>

4.2.2

<http://www.sprk.gov.lv/uploads/doc/LemumsN090D23042014.pdf>

<http://www.konkurentsiamet.ee/file.php?26499>

4.4.1

<http://www.sprk.gov.lv/uploads/doc/LemumsN077D09042014.pdf>

4.5.1

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Individual%20decisions/ACER%20Decision%2002-2015.pdf

Table 3– Summary data for gas CBCA decisions (as of 31 August 2015)

Promoter/TSO	PCI Code	Project name	NRA's CBCA agreement/decision (see links at end of table)	Cost allocation - Allocated amount (% total CAPEX) - Shares (% MS)
Fluxys	5.10	Reverse flow interconnection on TENP pipeline in Germany	Decisions adopted by 9 May 2014	Allocated: 100% Shares: DE: 100%
Fluxys	5.12	Reverse flow interconnection on TENP pipeline to Eynatten interconnection point (Germany)	Decisions adopted by 9 May 2014	Allocated: 100% Shares: DE: 100%

Bayernets	5.18	Reinforcement of the German network to reinforce interconnection capacities with Austria [Monaco pipeline ph. I] Haiming/Burghausen-Finsing)	Decisions adopted by 10 April 2014	Allocated: 100% Shares: DE: 100%
Gaslink Gas System Operator	5.2	Priority Corridor North-South Gas Interconnections in Western Europe Twinning of Southwest Scotland Onshore System between Cluden and Brighthouse Bay	Decisions adopted by 6 May 2014	Allocated: 100% Shares: IE: 100%
Shannon (LNG) Pipeline facility	5.3	26 km regulated third party access Shannon Pipeline which will connect the proposed Shannon LNG terminal in Count Kerry to the national gas grid at Foynes in County Limerick	Decisions adopted by 6 May 2014	Allocated: 100% Shares: IE: 100%
GRT Gaz	5.7	Reinforcement of the French network from South to North on the Bourgogne pipeline between Etrez and Voisines” also named “Val de Saône project”.	Decisions adopted by 25 April 2014	Allocated: 100% Shares: FR: 100%
GAZ-SYSTEM S.A. and NET4GAS	6.1	The Polish - Czech Interconnector II Project	<u>CBCA decisions:</u> PL: 24 June 2014, CZ: 23 June 2014 NRAs and PPs have signed latter MoU on the implementation of the decision.	Allocated: 100% Shares: PL: 59.8% CZ: 40.2%
GAZ-SYSTEM S.A. and Eustream a.s.	6.2	Interconnection Poland - Slovakia	PL and SK decisions adopted on 28/11/2014	Allocated: n.a. Shares: PL: 73% SK: 27%
AB „Amber Grid“	8.2.3	Capacity enhancement of Klaipeda – Kiemenai pipeline in Lithuania	<u>CBCA decisions:</u> LV: 30 April 2014 LT: 29 April 2014	Allocated: 56% Shares: LT: 94.75% LV: 5.25%
JSC Latvijas Gaze	8.2.4	Modernization and Expansion of Incukalna Underground Gas Storage	<u>CBCA decisions:</u> LV: 30 April 2014 LT: 29 April 2014	Allocated: 100% (assuming 41.76 % of grants) Shares: LV:44.32% LT and EE:13.92%
GAZ-SYSTEM S.A., AB „Amber Grid“	8.5	Gas Interconnection Poland- Lithuania (GIPL)	Agency’s CBCA Decision adopted 11 August 2014	Allocated: 100% Shares: PL:60.2% LT: 34.2%

				LV: 5.3% EE: 0.3%
--	--	--	--	----------------------

Links to gas CBCA decisions:

5.10

http://www.bundesnetzagentur.de/DE/Service-Funktionen/Beschlusskammern/1BK-Geschaeftszeichen-Datenbank/BK4-GZ/2013/2013_1700bis1799/BK4-13-1702_BKV/BK4-13-1702_Beschluss.pdf?_blob=publicationFile&v=3

5.12

http://www.bundesnetzagentur.de/DE/Service-Funktionen/Beschlusskammern/1BK-Geschaeftszeichen-Datenbank/BK4-GZ/2013/2013_1700bis1799/BK4-13-1703_BKV/BK4-13-1703_Beschluss.pdf?_blob=publicationFile&v=2

5.18

http://www.e-control.at/documents/20903/26585/V-GKV-G-01_13-BESCHEID-Monaco_GCA_280414_geschwaerzt_bayernets.pdf/a721dfea-c4ee-4f72-b4fe-7c854ca06e6c

http://www.bundesnetzagentur.de/DE/Service-Funktionen/Beschlusskammern/1BK-Geschaeftszeichen-Datenbank/BK4-GZ/2013/2013_1600bis1699/BK4-13-1699_BKV/BK4-13-1699_Beschluss.pdf?_blob=publicationFile&v=1

5.2

[http://www.cer.ie/docs/000972/CER14137%20Coordinated%20Decision%20Gaslink%20Twinning%20PCI%205.2%20\(1\).pdf](http://www.cer.ie/docs/000972/CER14137%20Coordinated%20Decision%20Gaslink%20Twinning%20PCI%205.2%20(1).pdf)

[http://www.cer.ie/docs/000972/CER14137a%20CER%20CBCA%20Final%20decision%20Letter%20Gaslink%20Twinning%20PCI%205.2%20\(1\).pdf](http://www.cer.ie/docs/000972/CER14137a%20CER%20CBCA%20Final%20decision%20Letter%20Gaslink%20Twinning%20PCI%205.2%20(1).pdf)

[http://www.cer.ie/docs/000972/CER14137c%20Utility%20Regulator%20CBCA%20Final%20decision%20letter%20Gaslink%20Twinning%20PCI%205.2%20\(1\).pdf](http://www.cer.ie/docs/000972/CER14137c%20Utility%20Regulator%20CBCA%20Final%20decision%20letter%20Gaslink%20Twinning%20PCI%205.2%20(1).pdf)

[http://www.cer.ie/docs/000972/CER14137b%20OFGEM%20CBCA%20Final%20decision%20letter%20Gaslink%20Twinning%20PCI%205.2%20\(1\).pdf](http://www.cer.ie/docs/000972/CER14137b%20OFGEM%20CBCA%20Final%20decision%20letter%20Gaslink%20Twinning%20PCI%205.2%20(1).pdf)

5.3

(search "Shannon" in link below)

<http://www.cer.ie/latest-documents/year/2014>

<http://www.cer.ie/docs/000973/CER14138%20Coordinated%20Decision%20Shannon%20LNG%20PCI%205.3.pdf>

<http://www.cer.ie/docs/000973/CER14138a%20CER%20CBCA%20Final%20Decision%20Letter%20Shannon%20LNG%20PCI%205.3.pdf>

<http://www.cer.ie/docs/000973/CER14138c%20Utility%20Regulator%20CBCA%20Final%20Decision%20Letter%20Shannon%20LNG%20PCI%205.3.PDF>

5.7

<http://www.cre.fr/en/documents/deliberations/decision/val-de-saone>

http://www.cnmc.es/Portals/0/Ficheros/Energia/Informes/140424_ENER_72_2014_Gas_a_firmar_CNMC_CRE%20espa%C3%B1ol.pdf

6.1

(search for "PG 57/2014" in link below)

<http://bip.ure.gov.pl/bip/taryfy-i-inne-decyzje/inne-decyzje-informacji/1203,Inne-decyzje-informacje-sprawozdania-opublikowane-w-2014-r.html>

6.2

(search for "PG 109/2014" in link below)

<http://bip.ure.gov.pl/bip/taryfy-i-inne-decyzje/inne-decyzje-informacji/1203,Inne-decyzje-informacje-sprawozdania-opublikowane-w-2014-r.html>

8.2.3

<http://www.sprk.gov.lv/uploads/doc/LemumsN097D30042014.pdf>

<http://www.regula.lt/Puslapiai/statine/komisijos-nutarimu-sarasas.aspx#InplviewHashfec69e4e-42c9-420f-bb1d-11a1af03c1d3=FilterField1%3DDocCategory-FilterValue1%3DDujos-FilterField2%3DDocAcceptDate-FilterValue2%3D2014%252D04%252D29-FilterField3%3DDocNumber-FilterValue3%3DO3%252D118>

8.2.4

<http://www.sprk.gov.lv/uploads/doc/LemumsN096D30042014.pdf>

8.5

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Pages/Individual-decision.aspx