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## **Response to ENTSOG Informal Public Consultation 20.3.2013, " Developing a CBA methodology for Projects of Common Interest (PCIs)"**

This document includes Gasum's, a Finnish integrated gas company, answers to the questions of ENTSOG consultation of developing a CBA methodology for Project of Common Interest.

Responses should be sent to CBA-methodology@entsog.eu and Adela.Comanita@entsog.eu no later than 15 May 2013.

In case of further questions, please contact direct to Ari Suomilammi, ari.suomilammi@gasum.fi

### ***Q.1. Do you agree with the approach taken by ENTSOG to the development of the methodology? Which additional elements should be included in the ENTSOG approach?***

Yes, it is crucial to develop a common EU -level methodology, which takes into account versatile gas business environments in different EU countries, for evaluating benefits and profitability of gas infrastructure project both from the socio-economic and the commercial viability point of views. The presented elements in the Public Consultation are reasonable.

However, it is important to include the perimeter country\* features in this cost benefit analysis, like a non-EU country as a main gas supplier, security of supply aspects and EU objectives relating to energy independence. In addition, one of the main elements in the analysis is to understand the current gas market integration not only on the regional level but also in each country involved in cost benefit analysis. This follows country specific input figures and reference values, like national price levels instead of internationally agreed reference prices.

\* Perimeter Country is a country that shares a border with an EU country and a non EU country. The EU countries in the Baltic Sea Area can be seen as perimeter countries, which will be integrated with cross border gas pipelines. Gas in the region is mainly imported from the same source, non EU country Russia.

### ***Q.2. Considering the obligation to prove a project's cross-border impact, what information could the project promoters provide to demonstrate this?***

The main criteria are presented in the chapter 4. We see that the use of following additional criteria will increase understanding about country specific environment and quality of cost benefit analysis.

Criteria:

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*Gas market model*, A) not only physical connection but also applied market mechanism and maturity of the market model including commercial aspects and B) effect of neighbouring markets including perimeter area

*Gas market size*, A) national and regional demand including peaks and B) future market potential and C) role of gas in energy mix

*Gas regulation framework*, A) economic regulation relating to gas infrastructure including regime and incentives for investments and B) commitments for TSO, like N-1 and other security of supply criteria, and gas market players, like energy storage commitments and C) national energy policy including taxation, feeding tariffs and subsidies for different energy classes

*A role of gas in power generation and cross border impacts*, A) a level of power system integration including electricity cross border connections and electricity generation capacity location and type of capacity, B) Role of gas in energy mix (balancing, base load, disturbance reserves)

**Q.3. Should we consider any additional information for the ESW modelling in order to reflect the impact of candidate PCI projects?**

The current project clusters are quite good as well presented in the criteria. However, it would be useful somehow to understand better how feasible the projects are, like main customers, level of technical planning, financial resources etc. and the current status of the project.

**Q.4. What assumptions should ENTSOG make for the ESW CBA on the sustainability criterion?**

EU level sustainability criterion will create the base for ESW CBA when analysing sustainability effects. However, it is important to include in the main assumptions the country specific targets and "steering effects" relating to sustainability targets, like subsidies and taxation for different energy forms. In addition, when doing assumptions it is crucial to understand the current sustainability criterion and status in each country. A role of biogas would be included in the sustainability criterion.

**Q.5. How should the CBA methodology reflects the contribution of Gas infrastructure to sustainability, for instance by replacing other fossil fuels plants by gas-fired power generation or through micro-cogeneration and transportation?**

National "steering methods" like grants for new investment, feeding tariffs and energy taxation should be identified and understood. It is also important to understand the current power generation mix and how it could be developed in each country, e.g. one country may prefer gas as a main fuel when other sees that nuclear has a key role. Amount of injected biogas to the main gas grid (or forecasted biogas use) is a reasonable assumption to be included in the sustainability criterion. More specific criteria, like amount of CO<sub>2</sub>, sulphur, NO<sub>x</sub> and particulates, would also be included in the evaluation.

**Q.6. What assumptions should ENTSOG make for the ESW CBA on the competition criterion considering the existing TYNDP<sup>1</sup> methodology?**

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TYNDP methodology is comprehensive and gives a good base for the ESW CBA. It is important to deal with all the relevant aspects in assumptions relating to the ESW CBA, like physical infrastructure, commercial viability and gas market model and options relating to market model in the future.

***Q.7. According to the Regulation (Annex III. 2), the project promoters of potentially eligible PCIs shall submit, as a first step, to the Regional Groups an analysis on the fulfillment of the relevant criteria defined by the Regulation***

***Considering that for projects not mature enough, the promoters will not have to submit a PS CBA, do you consider useful to have guidance on how such an analysis should be carried out by the project promoters in a consistent way across the Regional Groups? If yes, please provide details on what such guidance should include.***

Yes, it is important to have a common methodology evaluating benefits of gas infrastructure projects. The methodology could be also applied for the projects, which are not PCI candidates. This would support project funding and investment evaluations, increase understanding relating to gas infrastructure projects general and commercial viability of the projects.

Guidance should include methodology for identifying and reporting benefits and risks of the project both from the socio-economic and commercial point of views. This guidance would present key input and output data and a simple evaluation model.

ENTSOG has a good knowledge and know-how to evaluate gas infrastructure project specific costs and implementation plans. So a task force of ENTSOG, could verify that a project is mature enough.

***Q.8. In addition to the approach described by ENTSOG in developing CBA, what other elements do you consider to be relevant for the development of the Methodology?***

When the economic analysis includes both the project's contribution to the economic welfare and commercial viability of the project, it is also important to understand the business model of the project and related risks.

Project financing and implementation are very important points that should be included somehow in the CBA methodology as well. In addition, the regulatory environment, and incentives, especially for cross border project is an area, which should somehow be included in the Methodology.

***Q.9. Which effects, related to the Regulation criteria, do you consider to be the best for quantification and/or monetisation within the PS CBA? For example, in assessing security of supply as one potential effect of implementing a project, do you consider appropriate to assess the impact of a disruption? If yes, please explain your answer.***

National regulatory characteristics relating to rate of return, quality issues and possible regulatory incentives are important criteria within the PS CBA.

Yes, when using security of supply as one potential effect of implementing a project we have to open what means security of supply in each country and/or for each project. We see that disruption is one dimension of security of supply, in addition we can use fulfillment of service secure norm, planned outage management and/or balancing. There are different gas systems and markets in Europe. E.g. for the countries having only one major supplier the impact of a disruption in gas transmission may have dramatic effects

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to the whole power system compared to a country with meshed grid with several suppliers and integrated gas system.

**Q.10 According to the Regulation, UGS and/or LNG Terminals may have cross border impact. What recommendations would you give for such assessment of this type of infrastructure along the specific criteria requested by the Regulation? Which should be the main parameters for such analysis**

When a storage capacity project has a cross border impact it is important to understand future gas flows, market effects and needs for supporting infrastructure like gas grid infrastructure and country specific economic regulation of infrastructures, gas market model and legal requirements for gas player.

The parameters like:

The main difference between the regulatory regimes (regulatory asset base, allowed rate of return, incentives, limitations in tariffication etc..),

Limitations relating to market models (capacity allocation, balancing, security of supply commitments etc..)

Technical aspects and need for grid investments in both countries and ability to implement needed grid investments

Enhancing cross border investment there should be clear regulatory incentives for the cross border projects like extra WACC. The right and sufficient infrastructure offers a platform for efficient gas markets.

**Q.11 Which are, in your opinion, "other relevant parameters" (as referred to in the Regulation) to be considered within a sensitivity analysis?**

**Q.12 According to the standard approach described in the DG Regio CBA Guidelines, the economical flow derives from the financial flow. Do you consider this translation as applicable considering the lack of some necessary data? For the purpose of creating the economical flow, how do you consider that the externalities can be reflected?**

**Q.13. An indicator can demonstrate a beneficial effect across a number or all the criteria defined in the Regulation. To what extent do you agree with this assessment?**

Only partly agree using a single indicator for demonstrating the beneficial effects. In order to give more understandable picture about the results of CBA a kind of balanced scorecard framework with few selected indicators could be used.

Gas markets, infrastructures, players and regulation regimes are different in each country in the EU region. When using a single indicator to demonstrate the beneficial effects normalization of national differences and evaluated areas play an important role.

**Q.14. How do you see the applicability of HHI indicator at the capacity level? Please explain.**

***Q.15. Considering the crucial importance of choosing the correct discount rate to be applied for the economic analysis, what factors do you consider important to be included in the guidance?***

***Q.16. What references to discount rates could be used in the methodology?***

Discount rate should reflect risk associated to the investment project. So, one approach is to apply different discount rates for different type of investments. Possible investment classes: grid replacement investment, new grid capacity investment and new grid cross border capacity investment, gas storage investments.

***Q.17. How do you consider that price convergence<sup>2</sup> effect could be reflected for the different types of projects (Pipeline, UGS, LNG)?***

Mentioned asset types (pipeline, USG, LNG) have different operational and economic risk levels. Gas demand and role in power system, gas transmission volumes and regulatory regimes can be seen as the main risks. The customer counterparty risk is higher in gas storage business than in gas transmission business

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