CBA methodology

Scoping document for the Informal Public Consultation

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Background

*Regulation establishes rules for identifying PCIs*

- It defines 12 European energy priority corridors and establishes Regional Groups to assess PCI candidates project.
- Four corridors have been identified for gas projects: NSI-West Gas, NSI East Gas, Baltic Energy Market Interconnection Plan in Gas (BEMIP), Southern Gas Corridor.
- Structure of the Regional Groups:
  - EC, MSs, NRAs, TSOs, ACER, ENTSOs;
  - Project promoters could be invited when appropriate;
  - 3rd party representatives invited based on consensus.
- The EC shall adopt the Union-wide list through a delegated act.
- The first Union wide list-based on external methodology.
- The list is established every two years.
- For the following list: selection based on CBA methodology and inclusion of projects in TYNDP.

*The Regulation is supposed to enter into force in May 2013*
Priority Gas Corridors – Regional Groups

Legend of colours:

- Member in 1 Regional Group (RG)
- Member in 2 RGs
- Member in 3 RGs
- Member in 4 RGs
Priority Gas Corridors

BEMIP Gas:
DK, EE, FI, DE, LV, LT, PL, SE

NSI West Gas:
BE, DK, FR, DE, IE, IT, LU, MT, NL, PT, ES, UK

NSI East Gas:
AT, BG, HR, CY, CZ, DE, GR, HU, IT, PL, RO, SK, SI

Southern Gas Corridor:
AT, BG, HR, CZ, CY, FR, DE, HU, GR, IT, PL, RO, SK, SI

Legend of colours:
- Member in 1 Regional Group (RG)
- Member in 2 RGs
- Member in 3 RGs
- Member in 4 RGs
Council/Parliament vote on Regulation

Indicative procedural steps

Selection process of 1st Union-wide PCI list

- Regulation Entry into Force
- CBA Development by ENTSOG
- CBA submission to ACER and COM

* according to the text of the Regulation as approved by the EP Plenary
Objective and scope of the Public Consultation

**Informal public consultation**
> Provide broadest opportunity for stakeholders feed-back and engagement prior to the entry into force of the Regulation

*The Questionnaire for the informal public consultation is targeting a relevant feedback for the main issues and identified sensitive areas*

**Formal public consultation**
> Will consist of two parts: Stakeholder Joint Working Sessions (2 sessions) and the Formal Public Consultation

**The approach in developing CBA methodology aims to ensure:**
> **Equitability**: equal treatment and objective methodology for all the projects
> **Consistency**: Project Specific CBA (PS CBA) builds on the Energy System Wide CBA (ESW CBA) based on a uniform use of the input data
> **Robust and justifiable analysis**: consistent use of the modelling, relevant indicators, and relevant results, avoid double accounting; performing sensitivity analysis
> **Efficient and reflective**: enable the understanding and applicability of the PS CBA and reflection of the societal value of the projects
Stakeholder Engagement Plan for the CBA Methodology Development Process

1. Informal Public Consultation
   - Scoping Document Riga WS

2. Development of Draft CBA
   - 2 SJWSs - Processing Feedback

3. Formal Public Consultation
   - Draft CBA Workshop

4. Finalization and Adoption
   - Final CBA Adoption - Submission to ACER&COM

- After Regulation has Entered into force, there are 6 months for CBA Methodology development

STAKEHOLDER INVOLVEMENT:
- Feedback on ENTSOG Scoping Document
- Participation on Riga WS
- Stakeholder Joint Working Sessions after Entry into Force of Regulation
- Feedback on Draft Methodology and ENTSOG Questionnaire
- Participation on WS
- TYNDP WS Including CBA Methodology

INFORMAL, BI-LATERAL and ADHOC INTERACTIONS AS REQUIRED THROUGHOUT THE PROCESS
# Stakeholder Roles of Participation

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<td><strong>Prime Movers</strong> *</td>
<td>• Committed to work on bilateral basis&lt;br&gt;• Dedicate resources&lt;br&gt;• Most engaged in methodology development on bilateral basis</td>
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<tr>
<td><strong>Active SWJS Participants</strong> *</td>
<td>• Attend all SJWSs&lt;br&gt;• Play active role during the intensive SJWS discussions&lt;br&gt;• Read, review and prepare SJWS documents</td>
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<tr>
<td><strong>Consultant Respondent</strong></td>
<td>• Detailed answer received for the Questionnaire</td>
</tr>
<tr>
<td><strong>Observers</strong></td>
<td>• No active contribution expected&lt;br&gt;• Participation on TYNDP Workshops&lt;br&gt;• Oral commentary during WSs possible</td>
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*stakeholders are invited to identify themselves as soon as possible

Stakeholders shall inform ENTSOG about their role in the process according to the above categories
General and specific criteria

- **Urgency** to meet EU Energy Policy targets
- **Number of MSs** affected and equal opportunities for projects involving peripheral MSs
- **Complementarity** with regard to other proposed projects

**General criteria**
- The project is necessary for at least one of the priority corridors and areas identified in the Regulation and
- The potential overall benefits of the project outweigh its costs including on longer term and
- The project has cross-border impact

**Specific criteria**
- Market Integration
- Competition
- Sustainability
- Security of Supply

**Contribution to Territorial Cohesion**
The ESW CBA will build on the TYNDP methodology and add additional clusters to reflect the PCI impact. The ESW CBA will include:

- Description of the network model applied by ENTSOG
- Definition of scenarios and cases for n+5, n+10, n+15, and n+20 year time horizons, where n is the year of the analysis
- Extrapolations for n+20 year time horizon, based on the TYNDP 10-year data and executed specifically for the scope of the CBA
- Definition of variables for the Sensitivity analysis
- Definition of indicators
CBA methodology- main principles (2)

**Project Specific CBA (PS CBA)**

- To enable Project promoters to carry out a detailed analysis of their projects according to a robust and agreed methodology, ensuring consistency between results and between the project and the TYNDP ESW
- To assess the foreseeable impact of the project on the European gas infrastructure system, along the criteria requested by the Regulation
- Criteria are interlinked, therefore the infrastructure indicators are not to be bundled with a specific criteria

**When a PS CBA is required?**

- Upon entering the PCI selection process, for projects having reached a sufficient degree of maturity (Annex III 2)
- Cross border cost allocation (art.13 4.a)
- Request for financial assistance (art.15 2.a)
CBA methodology - main principles (3)

*ENTSOG methodology will cover at least the following sections:*

> Identification of the project’s objectives, according to the criteria described by the Regulation
> Economic analysis that reflects the benefits for the society instead of expressing just the benefits of the investor, as within the financial analysis
> Sensitivity analysis of the main parameters
> Guidance on discount rates to be used for the analysis
## CBA methodology - Reflection of benefits

**Gives a monetary/quantitative view on the value of the project and on the level a project fulfils the objectives and specific criteria requested by the Regulation**

| Cost benefit analysis as a classical method | • Based on the cash flow forecast (financial and economic)  
• Performance indicators results (with focus on: Economic Net Present Value - ENPV, Economic Internal Rate of Return - EIRR, Benefit Cost Ratio - B/C) |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Quantitative assessment is applied where the monetisation of benefits cannot be done | • Specific infrastructure indicators  
• Target values for the specific infrastructure indicators  
• Differential approach: value of the indicators without and with the project |
| Combined CBA with quantitative/qualitative assessment, considered to be the most reflective method | • Check the criteria suitable for the CBA or quantitative assessment  
• Check the specific infrastructure indicators reflecting criteria  
• Identify the areas which could be monetised and enhance the quantitative reflection of the benefits based on specific infrastructure indicators with the qualitative assessment |
Challenges

**Legislative- and Lack of Data issues:**
- Maturity of the project - not clarified yet
- Significant impact - not clarified yet
- Cost of disruption
- Commercially sensitive data
- N-1 at Regional level
- HHI index calculated at capacity level:
  - Allocation of capacity between users at the respective IP
  - Concentration of Entry Capacities

**Controversial issues:**
- Social Discount Rate (SDR) is a controversial issue even within the academic area
- The level of SDR has a significant impact on the value of economic performance indicators and different SDRs could hinder the equitability and distort the results
- SDR should be settled either at the level of each Regional Group or as a unique SDR
How to avoid the trap of quantification ...?

The combination of the 3 approaches...

- The combination of the three seems at this stage to be the most promising approach to a robust methodology.

- In any case, the value of the methodology will depend on how the challenge of comprehensive, accurate input data and assumptions is resolved.
Thank You for Your Attention

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