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By email only

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Submission of the Adapted ENTSOG 2nd CBA Methodology

Dear Mr. Borchardt,

Based on the experience of TYNDP 2015 and TYNDP 2017 and the 2nd and 3rd PCI selection processes, in early 2017 ENTSOG triggered the update of the current Energy-System Wide Cost-Benefit Analysis Methodology (hereafter the CBA Methodology), approved by the European Commission in 2015, to be applied for the preparation of ENTSOG TYNDP 2018.

The 2nd CBA methodology has been developed under Regulation (EU) 347/2013 on “guidelines for trans-European energy infrastructure” (the Regulation), which sets forth the process for the development and update of the CBA methodology, and indicates the different fields of its application.

From early 2017, ENTSOG set up a specific “Prime Movers” group of stakeholders which was consulted to identify what were the most expected improvements in the CBA methodology. Additionally, ENTSOG has held an extensive stakeholder public consultation in May-June 2017. The draft 2nd CBA Methodology (the draft Methodology) has been therefore developed by ENTSOG and reflected the input from Prime Movers and the feedback received from stakeholders in the public consultation.

On 24th July 2017, pursuant to Article 11.1 of the Regulation, ENTSOG published and formerly submitted to the Agency for the Cooperation of Energy Regulators (ACER) and the European Commission (the Commission) the draft Methodology¹.

As per Articles 11.3 and 11.4 of the Regulation, ACER and Commission submitted their opinions respectively on 24th October 2017 (“ACER 15-2017”) and 17th October 2018 (“C(2018) 6649

¹ Reference letter: EGM1063-17.

Final”). In line with Article 11.4 of the Regulation, ENTSG, within three months of the day of receipt of the last opinion, shall adapt the draft methodology taking due account of the opinions received.

ENTSG, welcoming the recommendations from ACER and the Commission, has duly taken into consideration the input provided in their respective opinions when drafting the Adapted 2nd CBA Methodology. The 2nd CBA Methodology also builds on the draft report issued by Deloitte/Florence School of Regulation in December 2017² (hereafter EC Gas CBA Study).

Additionally, ENTSG has appreciated the open dialogue had with the European Commission in the past months. This has allowed ENTSG to ensure that the draft Methodology meets all the main received recommendations.

The 2nd CBA Methodology, in its adapted version, is significantly improved from the 1st CBA Methodology, and also provides strong improvements compared to the draft Methodology submitted by ENTSG to ACER and the Commission in July 2017.

Respect to the opinions received, here below the main improvements included in the Adapted 2nd CBA Methodology:

1. **Restructuring to the document:** the Adapted 2nd CBA Methodology has been significantly restructured compared to the draft methodology;
2. **Increase in transparency:** compared to previous TYNDP editions, the application of the CBA Methodology to TYNDP foresees the performance of project-specific cost-benefit analysis (project-specific CBA) as part of the TYNDP process for all projects intending to apply for the PCI label, ensuring in such a way transparency, level-paying field and comparability of results. Additionally, the Adapted 2nd CBA Methodology sets as a requirement that all project promoters provide cost data when submitting their project to TYNDP;
3. **Project grouping guidelines:** the Adapted 2nd CBA Methodology includes basic grouping principles to be applied when running the project-specific CBA;
4. **Refined market modelling assumptions:** as one of the main expectations from ACER, the Commission and stakeholders, the Adapted 2nd CBA Methodology provides an enhanced market modelling approach. The Methodology includes an extensive section that elaborates on market modelling assumptions and provides guidelines for the inclusion of additional market elements in the assessment. These market elements include infrastructure tariffs and other commercial provisions such as long-term contracts. Additionally, the Methodology also includes a section on demand elasticity;
5. **Indicators simplification:** the 2nd CBA Methodology focuses on the most relevant indicators from the perspective of decision-makers and project promoters. Overlapping indicators have been discarded, preventing from the risk of double counting. The methodology also explains how to correctly interpret the remaining ones;

² <http://fsr.eu.eu/event/gas-cba-2-0-online-consultation/>

6. **Accompanying documents:** the Adapted 2nd CBA Methodology is accompanied by the three supporting documents
 - a. Compliance of the 2nd CBA Methodology with the Regulation (EU) 347/2013, which describes how the different requirements of Regulation (EU) 347/2013 are addressed in the 2nd ENTSG CBA Methodology;
 - b. Consideration of stakeholders' feedback in the 2nd CBA Methodology and main changes compared to the 1st CBA Methodology;
 - c. Roadmap for future projects CBA assessment, describing how the actual application of CBA Methodology be refined over time as part of the successive TYNDP processes. This is in fact seen by ENTSG as an opportunity to regularly improve projects CBA assessment, in a timely and efficient manner, while ensuring proper involvement of stakeholders under the ACER and Commission guidance.
7. **Net Present Value calculation:** the Adapted 2nd CBA Methodology recommends using a uniform economic life and discount rate in order to ensure comparability of results. It also recommends as a basis and conservative approach that projects are assessed without residual value. However, since physical life of projects may well exceed the economic life defined in the Methodology, a sensitivity analysis can be performed considering the residual value;
8. **Sensitivity Analysis:** in line with Annex V.11 of the Regulation, the Adapted 2nd CBA Methodology includes an extensive section on sensitivity analysis recommended to be performed on different relevant parameters concerning gas market factors (e.g. demand evolutions), project-specific data (commissioning year) and monetary or financial data (e.g. social discount rate).

Further to the 2nd CBA Methodology, ENTSG is currently engaged with ENTSG-E in adapting the "consistent and interlinked electricity and gas market and network model" (Interlinked Model). The Interlinked Model will represent an additional cross-sectoral methodological improvement, which once approved will form an additional part of the 2nd CBA Methodology.

As per Article 5 of the Regulation, ENTSG will publish the 2nd CBA Methodology within two weeks of the approval by the Commission. ENTSG, hoping in a timely approval, will publish the draft TYNDP 2018 once the 2nd CBA Methodology is officially approved.

ENTSG looks forward to further cooperating with the Commission and ACER in the application of the Adapted 2nd CBA Methodology to the 4th PCI selection process and in view of its update in the next TYNDP editions.

Yours sincerely,



Jan Ingwersen
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