



**WORKSHOP ON CBCA EXPERIENCES  
&  
ON THE UPDATE OF ACER RECOMMENDATION**

**Warsaw, 16 March 2023**

# ABOUT GAZ-SYSTEM

**Gas Transmission System Operator GAZ-SYSTEM S.A.** is a strategic company, owned entirely by the State Treasury. Supervision over the company is exercised by the Government Plenipotentiary for Strategic Energy Infrastructure.



## OUR STRATEGY:



SECURITY OF SUPPLY



MARKET DEVELOPMENT



SUSTAINABILITY



EUROPEAN PARTNER

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## CURRENT GAZ-SYSTEM'S AREAS OF ACTIVITY IN HYDROGEN

- ✓ Cooperation at European and national levels on hydrogen regulations and norms and their implementation in future
- ✓ Designing hydrogen backbone infrastructure across Poland and EU
- ✓ Enabling transport of hydrogen blends in existing gas infrastructure in Poland
- ✓ Hydrogen sector development in Poland



## CURRENT GAZ-SYSTEM'S PCI CANDIDATE PROJECTS

- ✓ Nordic-Baltic Hydrogen Corridor
- ✓ Polish Hydrogen Backbone Infrastructure
- ✓ Damastawek Hydrogen Storage

The above projects may be a subject of CBCA decisions in future.

GAZ-SYSTEM is highly interested in efficiency of the CBCA procedure and applicability of the CBCA decisions.

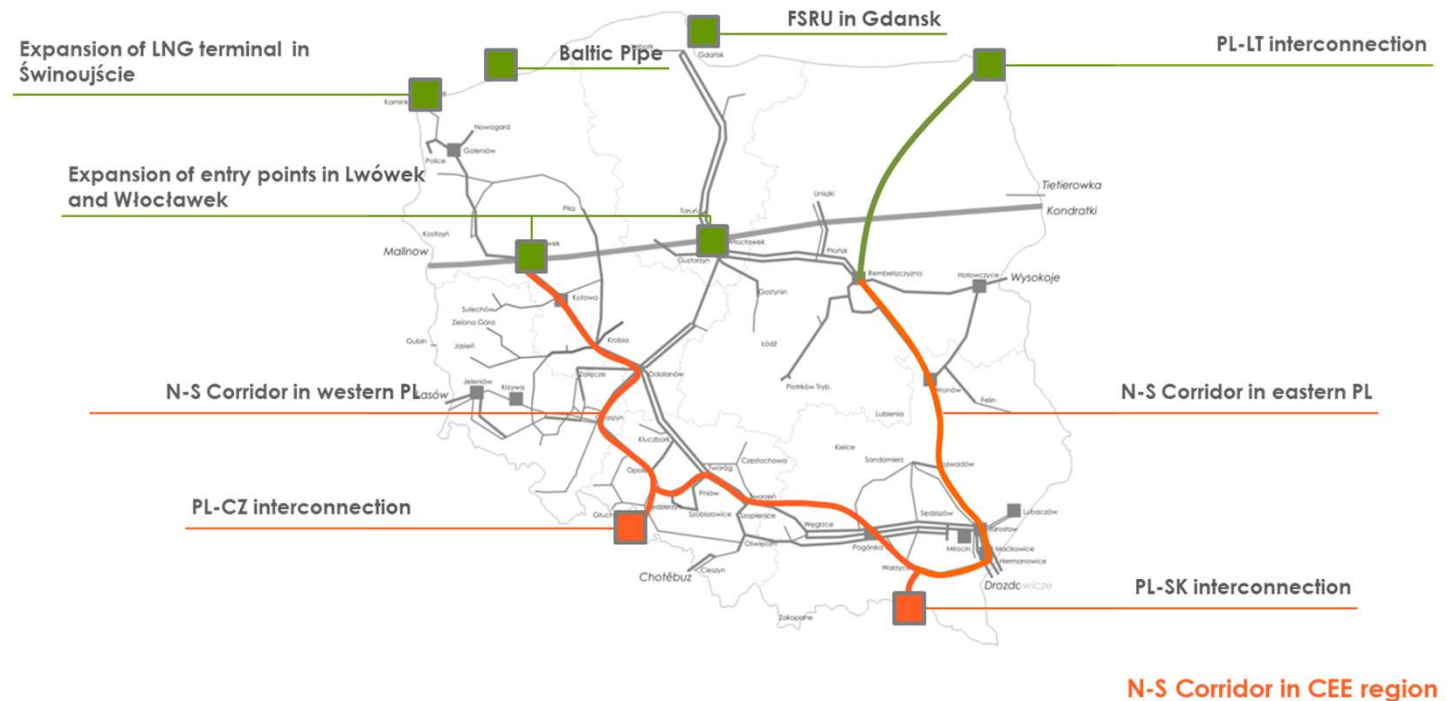


# GAZ-SYSTEM INFRASTRUCTURE PROJECTS WITH PCI STATUS SINCE 2013

GAZ-SYSTEM obtained the CBCA decisions for following PCI projects:

- ✓ Baltic Pipe,
- ✓ PL-LT interconnection (GIPL),
- ✓ PL-SK interconnection,
- ✓ PL-CZ interconnection.

## BEMIP



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## ROLE OF SCENARIOS IN THE CBCA DECISIONS

The reliable long-term forecasts of energy demand and supply are crucial element of the assumptions for the Project Specific Cost-Benefit Analysis (a part of the Investment Request).

Since cross-border cost allocation means a procedure, where concerned NRAs, or ACER, take a decision on allocating parts or all costs incurred by a project promoter in relation to a project in one Member State to an entity in another Member State benefitting from this project, it is crucial that the assumptions used for identification of the net cost bearers and net beneficiaries of the Project (also in the view that net beneficiaries may not be a Member States of the project promoters) should be widely recognized, credible and unquestionable.

In case of GAZ-SYSTEM, the gas demand forecasts based on the ENTSO-G TYNDP were adopted and it was one the cornerstones of the credibility of PS CBAs outcome, then resulting in agreeing of the common CBCA proposals by the project promoters and obtaining the CBCA decisions issued by NRAs or ACER (in case of GIPL project).

Nevertheless, it should be underlined that the ENTSO-G TYNDP demand forecasts concerned natural gas, which has been used on a large scale in economies for decades.

The use of hydrogen is a matter of the fast-coming future, but there is no hydrogen market in the EU. In such circumstances, obtaining reliable long-term hydrogen demand forecasts that would be widely recognized by NRAs, ACER and the other stakeholders may be a challenge for the project promoters applying for the CBCA decisions. It is worth considering the provision of guidance on this topic.

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## ROLE OF CBAS AND BENEFITS ALLOCATION

All Project Specific Cost-Benefit Analyses prepared for the purpose of the Investment Requests by GAZ-SYSTEM were prepared in line with the ENTSO-G CBA Methodologies and ACER recommendations, which were available at that moment (some IR were prepared based on draft methodology). It included: quantitative analysis, monetisation of benefits, qualitative and sensitivity analyses.

The quantitative analyses performed in line with the criteria defined in the TEN-E Regulation and based on the indicators proposed by ENTSOG enabled to determine the significantly impacted countries, the distribution of flow between impacted countries and the improvement, which the realisation of the PCI project should bring.

Monetisation enabled to measure externalities like security of supply, competition, market integration and sustainability. The approach used in the monetisation process was „saved cost approach”, where benefits were denominated in cash equivalent as a difference between the scenario with and without the PCI project.

The qualitative analyses enabled to capture benefits related to PCI project that were not included in the quantitative analysis, and which were not possible to monetize. The examples of externalities identified in the performed qualitative analyses are: increased economic activity and employment contribution, diversification of supply sources and routes, increased market quality/regional gas hub, increased bargaining power against the current dominant gas supplier, strengthening the energy solidarity of EU Member States, access to additional storage infrastructure, access to the LNG terminal.

In the sensitivity analysis the „critical variables” of the PCI project were identified to determine the influence of their variance on the performed economic analyses. The examples of „critical variables” are: CAPEX, OPEX, capacity bookings/physical gas flows volumes, commissioning year.

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## HOW TO DEAL WITH UNCERTAINTIES

From the perspective of the project promoter the CBCA decision, in case that part or all costs of a PCI project incurred by a project promoter are allocated to an entity in another Member State, is one of the most important elements of the financial structure necessary to take a final investment decision (FID). In such a case the CBCA decision should not be a subject of frequent amendments as it would become another source of uncertainty for investors.

The main areas of uncertainty related to the CBCA decisions are:

- ✓ CAPEX,
- ✓ the distribution of benefits between Member States.

Since obtaining the CBCA decision is one of the first steps in the PCI project implementation it takes a long time from preparation of the Investment Request until the construction phase of the PCI project. In this period some hard to predict circumstances, e.g. pandemic, economic crisis, war, extraordinary inflation, etc., may appear and significantly impact the CAPEX assumptions and thus the correctness of the costs allocation. The same refers to the distribution of benefits between Member States, which also under some hard to predict circumstances may significantly influence the correctness of the costs allocation.

It worth noting that CAPEX is an element of sensitivity analyses. Such analysis may be taken into account e.g. for the purpose of creating an adjustment/update mechanism for the CBCA decisions that could be used at the moment of taking the final investment decisions by the project promoters.



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## THE COMPENSATION MECHANISM

As regards the allocation of costs GAZ-SYSTEM is a subject of the CBCA decisions, where:

- ✓ cross-border allocation of costs incurred in connection with the implementation of the PCI project is zero. The costs resulting from the investment expenditures actually incurred by the project promoters were considered for the purpose of calculation of tariffs.
- ✓ lump-sum payments shall be provided by the TSOs of the Member States to which the project provides a significant net positive impact to GAZ-SYSTEM as the TSO of the Member State deemed to have a net negative effect from the implementation of the PCI project,
- ✓ GAZ-SYSTEM will pay lump-sum compensation to the other TSO in order to even out the distribution of net benefits resulting from the implementation of the PCI project,
- ✓ the cross-border cost allocation mechanism based on the conditional payment guarantees given to each other by the project promoters is applied.

The TSOs developed a **cross-border cost allocation mechanism based on conditional payment guarantees** provided by the TSOs to each other at the respective Exit Points of the considered interconnection point. The mechanism ensures that in case when in one country the revenues obtained from bookings of network users for exit capacities fall under a certain level (e.g. due to lowered bookings), the TSO from the neighbouring country will compensate the arising decrease of revenues up to the agreed level to the other TSO (payment guarantee). The payments for the contributing TSO were accepted by the National Regulatory Authority as regulated cost, which could be included in the contributing TSO allowed revenues allocated to transmission of domestic gas supply. Due to the fact that the PCI project is financed not only by revenues from exit capacity bookings, but also from entry capacity bookings a corresponding cost recovery guarantee was implemented for the Entry Points of the considered interconnection point in case of insufficient revenue through capacity bookings from shippers on these Entry Points in order to secure the PCI project complete financial viability. This CBCA mechanism follows the usual allocation of cross-border transmission costs via bookings of network user and works equally in both directions, so that incurred investment costs would always be allocated to the same country, independent from the fact if network users book the capacities or the neighbouring TSO would compensate missing revenues. In order to properly reflect the net economic benefits generated by PCI project for the respective countries the guarantee of the contributing TSO covers revenues only to the extent associated with cross-border benefits, and not the total revenue of PCI project. In effect, the receiving TSO has the predefined portion of revenues allocated to the Exit Point compensated to an agreed extent. The profitability of the contributing TSO is not decreased, as the costs of payments to the receiving TSO are accepted by the NRA of the contributing TSO into allowed revenues to be borne by the domestic network users through tariffs for domestic transmission. In case of the opposite scenario where the capacity bookings would increase above the base level, the TSOs project profitability and revenues would increase. However, this scenario will appear also without application of the CBCA mechanism and was not covered by it, but can be done by the tariff adjustment according to the existing tariffication regimes applied in the respective countries. Summarising, the adopted cross-border cost allocation mechanism (conditional payment guarantee) is:

- ✓ emulating the usual allocation of costs in analogy to bookings of network users. With this the costs follow the benefit in a consistent manner and ensures a non-discriminatory cost allocation
- ✓ conditional – triggered only by a decrease in revenues through capacity bookings below a determined level
- ✓ securing the project revenue base at a minimum level for both TSOs enabling investment approval
- ✓ additionally charging domestic network users of the contributing TSO only in the case of lowered capacity bookings



**Thank you!**

