

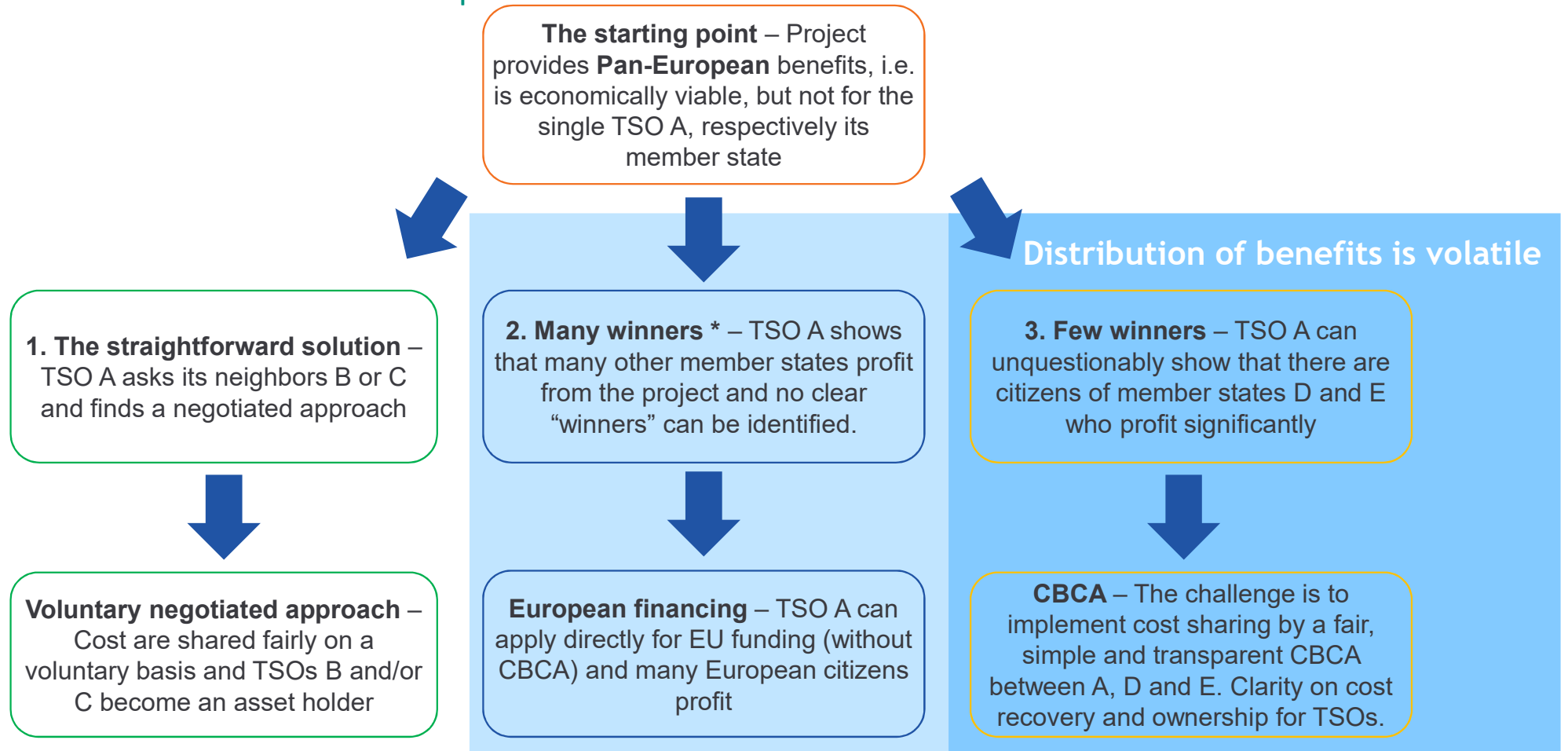
Role of CBAs and Benefits Allocation

Gerald Kaender



Allocation of Benefits and incidence on CBCA

CBCA should serve as a last resort option



* Direct path to funding (CEF etc.) if requirements for CBCA (option 3) cannot be fulfilled

ENTSO-E views on Dealing with Uncertainty

Session 3 – Gerald Kaendler (Chair of the System Development Committee)



Cost Recovery and Payment Methods

How to recover the Costs?

What payment options can mitigate risks?

ACER guideline for non-hosting TSOs: lump sum payment of TSOs to hosting TSOs

Lump sum CBCA payments lead to high financial risks for TSOs. Ownership and decision rights as well as treatment in balance sheets are unclear and credit rating deterioration possible.

Cost recovery without any time lag from tariffs has to be ensured to avoid huge financial risk for TSOs and their ratings

It must be ensured that the CBCA paying TSO actually gets benefits as expected. Paying non-hosting TSOs need security/return for their payments. Options:

Periodic payments of non-hosting TSOs which are related to the delivery of the project

Contractually governed **minimum availability of the project** and refunding of CBCA payment if criteria are not fulfilled

Adaptation of the ownership/governance of the project to include non-hosting contributing countries

Allow for flexibility based on agreement

CBCA for non-hosting countries is complex and always carries the risk of unfairness

- A customer of a country may pay twice: for the infrastructure in their own country which most likely is the precondition for the benefit created by the new infrastructure and for the new infrastructure (with CBCA charges) .
- CBCA does not address the possibility that, beyond the hosting countries there are not only beneficiaries in the overall European SEW benefit resulting from a project; there may also be losers.

Consequently

- find a negotiated solution for CBCA
- find agreement on the projects to be included
- no country should benefit from delaying a project (to reap a higher value of the SEW)

CBCA must be Robust

ACER guideline to apply a fixed methodology

CBCA for non-hosting countries based on a methodology carries the risk not foreseeing the benefits correctly

- If a CBCA is based on *one* scenario, the benefits may be different
- If the CBCA is based on several planning scenarios, a negotiated approach is needed to decide on the scenarios to be considered
- Even if several scenarios are considered, disruptions may appear
- **Customers will complain** if they pay for a project without getting the benefits

Consequently

- find *agreement* on the CBCA payment
- find solutions if real benefits are significantly different to foreseen benefits

ENTSO-E views on the Compensation Mechanism

Session 4 – Gerald Kaendler (Chair of the System Development Committee)



Significance Threshold

Who has to pay?

ACER guideline: 10 % threshold of absolute SEW-benefit

Fairness - Relative SEW benefit should be relevant, if a country has to pay

- Applying the 10%-threshold on the **absolute** SEW-benefit will always lead to different treatment of **small countries** compared to **large countries**, although these countries might have a high relative benefit in relation to their size
- Make the significance threshold **relative** to the “size” of the country (using criteria like GDP, consumption of a country or population) for a **fair** determination of influenced member states

Cost distribution

How much do countries have to pay?

Fairness - Absolute SEW benefit should be relevant, how much a country has to pay

- The determination of the costs to be borne by countries exceeding the “**relative 10%-threshold**”, should be based on **their share** of the project’s **total benefit**
- $\text{Cost Share}_{\text{CountryA}} = \text{SEW-Benefit}_{\text{CountryA}} / \text{SEW-Benefit}_{\text{Whole project}}$
- Use an **EU fund** to cover the portion of the costs that **exceeds** the benefits for the hosting countries and which is **not reallocated** to other countries. If, for example, multiple countries with a benefit < 10 % are excluded from the CBCA, the costs should **not** be allocated to the countries with a benefit > 10 %, as **currently in practice**. To finance the share of countries below the 10% threshold, CEF funding would be an option.

ENTSO-E views on Cross border cost allocation for offshore grid projects

Session 5 – Gerald Kaendler (Chair of the System Development Committee)



Revised TEN-E: Enabling infrastructure development

Art. 14.2

2) Offshore Network Development Plans

24/01/2024

Art. 15.2

4) Results of Sea Basins' Cost benefit – Cost sharing calculations

24/06/2025



Art. 14.1

1) MS agreements on offshore goals for 2030, 2040 and 2050

24/01/2023

Art. 15.1

3) EC Guidance on specific cost-benefit, cost sharing methodology

24/06/2024)

How to ensure alignment with Project-level CBCA to make this a success?

Interactions with the Sea-Basin Cross-Border Cost Sharing

Distinguishing the different processes to be applied to the new offshore grid development

As the EC is asked to develop guidance on a CBCS on sea-basin level, many questions remain on how this will be reflected into project-specific CBCAs.

- Where is the boundary between a project, a cluster of projects, and a sea-basin?
- Which countries have to be involved in the CBCA or SB-CBCS? Only the countries as listed in the offshore priority corridors?
 - What if any project crosses sectors? TEN-E corridors for different project-categories do involve different lists of countries.
- Within a sea basin, there may be PCI/PMI and non-PCI/PMI projects that will be taken into account in the SB- CBCS assessment. How will this be dealt considering that the CBCA is only required for PCI projects (article 16 of TEN-E)?
- How to ensure generation and transmission costs/benefits are consistently kept separate across both exercises, considering national regulatory differences (e.g. grid connection regime)

Answering these questions will be a key first step to avoid **double counting or sharing of costs.**

Considerations on a CBCA for future offshore projects

A negotiated voluntary solution should remain the default approach for project financing.

- Not all offshore grid projects will apply for PCI status. Some projects costs will be shared via CBCA, and some directly via bi- or multi-lateral contracts, and some perhaps through new mechanisms as a result from the SB-CBCS.
- Administrative burden must be avoided and visibility of liabilities for TSOs, especially land-locked ones, must be given.

If a CBCA is applied, the following questions come up:

- How to account for the “net effect” of infrastructure development? i.e. initial projects being more costly compared to later ones but giving greater benefits to the whole infrastructure?
- A project based CBCA will not be able to capture a correct view of the full benefits & costs (e.g. energy hub to which an interconnector or renewables are connected at a later stage)
- Additionally, the large monetary value of the projects concerned stresses even more the need to consider applying a significance threshold relative to the size of the country.