The EU's financial support for Energy Infrastructure

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"Networks & Regional Initiatives"
DG Energy
Energy Infrastructure Package

Regulation 347/2013
Trans-European Energy Networks Guidelines - TEN-E

Improved project (PCI) identification
Accelerated permit granting
Enhanced public participation
Improved regulatory treatment

Regulation 2016/89
2nd Union List of PCIs

Improved project (PCI) identification

Regulation 1361/2013
Connecting Europe Facility – CEF

Union's financial support
The Union's financial support

- Main EIB instruments:
  + project finance
  + corporate finance

- Source of money (CEF, European Fund for Strategic Investment) is of secondary importance
- Commission acts as a broker (trilaterals)

- EIB lending to energy projects 2010-2014:
  €68 billions of which €30 billion to electricity and gas networks
- EIB signed loans worth €3.5 billion for 9 PCIs and approved loans worth €750 million for 5 PCIs

Negotiated by the MS & EC
- Partnership Agreements and Operational Programmes
- €24bn for energy investment (infrastructure, RES, energy efficiency) for years 2014-2020.
Connecting Europe Facility (CEF)

4 stages:
- Evaluation of projects
- CEF Committee
- Award decision
- Individual grant agreements

Total budget for 2014-2020 for the energy sector: €5.3bn

- cross-border cost allocation (CBCA) decision needed for grants for works

Annual competitive calls for proposals - INEA
- 1st call in 2014
- 2nd & 3rd calls in 2015
- 4th & 5th calls in 2016

Grants for
- works
- studies
+ financial instruments

Maximum co-financing: 50%
(in exceptional cases of works - 75%) of eligible investment costs

Only for PCIs that have significant positive externalities but are NOT commercially viable
Rules (carrots&sticks)+ Wallet (more carrots)
TEN-E Regulation and CEF strongly interlinked

**CEF** (1361/2013) determines "How to spend it?"
- centrally managed by the Commission
- amounts (5.3 bn EUR)
- form (grant, financial instruments)
- co-funding rates
- eligibility of costs
- procedures
- responsibilities of all actors involved

**TEN-E guidelines** determine "On what?" and "Under what conditions?" CEF can be spent (PCI specific eligibility [significant positive externalities, CBCA, Commercially not viable])
CEF to ease the investment challenges

- Assist in better project preparation and minimising risk factors (*grants for studies*)

- Decrease the cost of and improve the access to long term financing (*financial instruments*)

- Help overcome the funding gap for commercially non-viable, but needed PCIs (*grants for works*)
Some practical considerations
Orientations in view of setting the award criteria

Article 17.6 – Part VII - CEF Regulation

(a) maturity of the action in PCI development;
(b) soundness of the implementation plan;
(c) stimulating effect of Union support on public and private investment, when applicable;
(d) need to overcome financial obstacles such as the lack of market finance;
(e) when applicable, economic, social, climate and environmental impact, and accessibility;
(f) cross-border dimension, when applicable.
Issueing a Cross-Border Cost-allocation decision
Regulatory framework under TEN-E

Enabling investments with cross-border impact:

- Cross-border cost allocation
- NRA joint decision on investments and cost allocation
- ACER decision if no agreement

*Once a CBCA-decision has been obtained, projects which are *not commercially viable* are eligible to apply for grants for works under CEF*
Rules governing the cross-border cost allocation

Recommendation No 5/2015 of the Agency for the Cooperation of Energy Regulators of 18 December 2015

Recommendation: *a minimum standard*: if a hosting MS is deemed to have a net negative impact (i.e. is a cost bearer), at least the net negative impact shall be compensated by the MS on which the project have a net positive impact (net beneficiaries).
Steps in preparing the CBCA decision (minimum standard)

1. Verification if any of the Member States (MS) is a net cost bearer. (Which MS should be paid/compensated?)

2. Calculation of the total financial cross-border compensation. (How much should the MS be paid/compensated?)

3. Verification which of the MS are net beneficiaries. (Which of the Member States should pay/compensate?)

4. Calculation of the cross-border compensations to be paid by each of the Member States that are net beneficiaries. (How much each of the Member States should pay/compensate)
Technical parameters of GIPL

• **Promoters:**
  o Polish TSO: Gaz-System S.A.
  o Lithuanian TSO: AB Amber Grid

• **Length:** 534 km long, including 357 km in Poland and 177 km in Lithuania.

• **Capacity (1st stage):**
  o up to 2.4 bcm/y Poland → Lithuania
  o up to 1.7 bcm/y Lithuania → Poland.

• **Commissioning:** by December 2019.
Detailed steps in preparing the CBCA decision

1. Calculation of the **socio-economic benefits** of the concerned Member States (MS).

2. Calculation of the **costs** of the concerned MS.

3. Calculation of the **net benefits** of the concerned MS (net-cost bearer or net-beneficiary).

4-5. Calculation of the **total financial cross-border compensation** by applying the net benefits and the expected revenues.

6-7. Calculation of the **cross-border compensations to be paid by each of the concerned MS** by applying the 10% threshold and the proportionality rule.
Key data used in the CBGA process

→ The socio-economic **benefits** were calculated as follows:
  - Poland: € 301,400,000
  - Lithuania: € 723,200,000
  - Latvia: € 359,600,000
  - Estonia: € 118,500,000

→ The **total costs** were calculated as follows:
  - Poland: € 528,100,000
  - Lithuania: € 145,000,000
  - Latvia: € 600,000
  - Estonia: € 0

→ **Value of financial revenues***:
  - Poland: € 140,800,000
  - Lithuania: € 31,600,000

*Not included in the process of calculating the benefits.
### Table 1: Net Benefits and Cost Bearers by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Benefits</th>
<th>Costs</th>
<th>Net Benefits</th>
<th>Net Cost Bearer or Net Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>301.4</td>
<td>528.1</td>
<td>-226.7</td>
<td>Net cost bearer</td>
</tr>
<tr>
<td>Lithuania</td>
<td>723.2</td>
<td>145.0</td>
<td>578.2</td>
<td>Net beneficiary</td>
</tr>
<tr>
<td>Latvia</td>
<td>359.6</td>
<td>0.6</td>
<td>359.1</td>
<td>Net beneficiary</td>
</tr>
<tr>
<td>Estonia</td>
<td>118.5</td>
<td>0</td>
<td>118.5</td>
<td>Net beneficiary</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1502.7</strong></td>
<td><strong>673.7</strong></td>
<td><strong>829.1</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Table 2: Net Benefits, Benefit Over 10% Threshold and Compensation

<table>
<thead>
<tr>
<th>Country</th>
<th>Net benefit</th>
<th>Benefit over 10% threshold of 108.6</th>
<th>Compensation contribution indicator</th>
<th>Required total financial compensation</th>
<th>Value of financial revenues a)</th>
<th>Total financial cross-border compensation due after financial revenues</th>
<th>Cross-border cost allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>n/a (cost bearer)</td>
<td>n/a (cost bearer)</td>
<td>n/a (cost bearer)</td>
<td>226.7</td>
<td>140.8</td>
<td>85.8</td>
<td>0</td>
</tr>
<tr>
<td>Lithuania</td>
<td>578.2</td>
<td>472.6</td>
<td>64.0%</td>
<td>0</td>
<td>31.6</td>
<td>0</td>
<td>54.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>359.1</td>
<td>253.5</td>
<td>34.3%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>29.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>118.5</td>
<td>12.9</td>
<td>1.7%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>GIPL Project Total</strong></td>
<td><strong>1055.8</strong></td>
<td><strong>739.0</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>172.5</strong></td>
<td><strong>85.8</strong></td>
<td><strong>85.8</strong></td>
<td><strong>85.8</strong></td>
</tr>
</tbody>
</table>

a) Discounted by the Financial Discount Rate (FDR, 8%).

Values in € million, year 2018, rounded to the nearest 1/10 million.