



Making a positive difference
for energy consumers

Aiden O'Sullivan
Gaslink Independent System Operator Ltd
Project Promoter
Gas Works Road
Cork
Ireland

Direct Dial: 020 7901 7159
Email: andrew.burgess@ofgem.gov.uk

Padraic O'Connell
BGE (UK)
Project Sponsor
Gas Works Road
Cork
Ireland

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Dear Sirs

Cross-Border Cost Allocation application submitted by Gaslink Independent System Operator Ltd: Final decision

I am writing with details of the final decision of the Gas and Electricity Markets Authority¹, the National Regulatory Authority for Great Britain, on a cross-border cost allocation application (the "CBCA application") made by Gaslink Independent System Operator Ltd ("Gaslink Ltd"). The letter provides the context and our analysis of the CBCA application as well as the reasons for our decision.

We are entering into a coordinated decision (the "Coordinated CBCA decision") on the CBCA application. The other parties to the Coordinated CBCA decision are the Commission for Energy Regulation (CER) and the Utility Regulator of Northern Ireland (URNI). The Coordinated CBCA decision is Annex 1 to this letter. We, CER and URNI are collectively referred to in this letter as "NRAs".

Our decision is that we have agreed to allocate all costs to Ireland.

Background

On 7 November 2013, Gaslink Ltd submitted its CBCA application to the NRAs under Regulation (EU) No 347/2013 (the "Regulation").²

The Regulation lays down the rules for the timely development and interoperability of trans-European energy networks. This is to achieve the energy policy objectives of the Treaty on the Functioning of the European Union. In particular this is to ensure the functioning of the internal energy market and security of supply in the European Union, to promote energy efficiency and energy saving and the development of new and renewable forms of energy, and to promote the interconnection of networks. The Regulation describes the framework for identifying and prioritising projects necessary to implement the energy

¹ The Authority is supported by the Office of Gas and Electricity Markets (Ofgem). The terms "we", "Ofgem" and "Authority" are used interchangeably in this letter.

² Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009.

infrastructure priority corridors across Europe. These Projects are defined under the Regulation as "projects of common interest" ("PCIs"). The entities developing PCIs are defined under the Regulation, as "project promoters". The first list of PCIs determined under the Regulation was adopted by the European Commission on 14 October 2013 (the "first Union list").³

For the purposes of the Regulation and the submitted CBCA application, you act as the project promoter in relation to your proposed PCI, i.e. the South West Scotland Onshore System Twinning Project (the "SWSOS Twinning Project"), which has been included in the first Union list.

Your CBCA application is an investment request, pursuant to Article 12 of the Regulation, for allocation of investment costs associated with the SWSOS Twinning Project to the countries you consider to be beneficiaries of your PCI, i.e. Republic of Ireland (RoI) and the United Kingdom, including Great Britain (GB) and Northern Ireland (NI). The CBCA application proposes an allocation of costs on the basis of 88% to RoI, 12% to NI and 0% to GB.

You also stated in your CBCA application that you intended to seek EU financial assistance for the SWSOS Twinning Project under the Connecting Europe Facility (the CEF).⁴ To be eligible for this EU financial assistance, you need to fulfil the requirements of Article 14 of the Regulation, including submitting your CBCA application to, and obtaining a coordinated decision from, the relevant NRAs on this CBCA application.

The Agency for the Cooperation of Energy Regulators (ACER) has published a recommendation on CBCA (the "ACER Recommendation").⁵ This ACER Recommendation sets out in more detail the process for CBCA, including the required content of a CBCA request and how they are to be evaluated by relevant National Regulatory Authorities. Of particular relevance is the ACER interpretation of when investment costs should be allocated between relevant countries in respect of individual CBCA requests. The ACER Recommendation (paragraph 2.2) states:

"Therefore the Agency recommends that, unless the NRAs agree otherwise, compensations are provided only if at least one country hosting the project is deemed to have a negative net benefit. In such cases, the aim should be to compensate as much as possible the negative net benefit in the relevant countries."

The cost benefit analysis is undertaken to determine the net benefit, including externalities⁶, in each country.⁷ A "negative net benefit" arises when the costs outweigh the benefits. Similarly, a "positive net benefit" is where benefits outweigh costs.

³ Commission Delegated Regulation (EU) No 1391/2013 of 14 October 2013 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest

⁴ The Connecting Europe Facility is a funding instrument for the trans-European networks in the transport, energy and telecommunications sectors. It has been established under Regulation (EU) 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) 913/2010 and repealing Regulations (EC) 680/2007 and (EC) 67/2010

⁵ Recommendation of the Agency for the Cooperation of Energy Regulators No 07/2013 of 25 September 2013 regarding the cross-border cost allocation requests submitted in the framework of the first Union list of electricity and gas projects of common interest

⁶ Externalities include (but are not limited to) the costs and benefits associated with: the environment, society, competition, security of supply, sustainability, disaster resilience, and impact on congestion.

⁷ The evaluation of costs and benefits is undertaken through a Net Present Value cost-benefit analysis (CBA) that includes short and long term costs and benefits where such costs and benefits are monetised as far as possible. Some benefits, however, cannot be monetised and although excluded from the analysis they are still reported qualitatively in the CBA.

The SWSOS Twinning Project proposal

You have proposed the twinning of the existing onshore pipeline between Cluden and Brighthouse Bay in Scotland that serves the gas interconnectors between GB and the Irish gas market. You submitted a CBCA application for the SWSOS Twinning Project.

Article 12(3) of EU Regulation 347/2013 requires a CBCA application to include: a) a project-specific cost-benefit analysis, b) a business plan, and c) (optional) a substantiated proposal for a CBCA. A cost-benefit analysis (the "CBA") in relation to RoI, NI and GB was included within the CBCA application. The CBA suggested that the costs and benefits of the SWSOS Twinning Project could lead to an overall net benefit (dependent on other assumptions about sources of gas supply in NI and RoI.

The CBA also indicates several non-monetised benefits. These are:

- improved security of supply for the Isle of Man;
- increased perception of reliability for the energy sector in RoI, NI and Isle of Man.
- increased flexibility of the gas system; and
- avoided costs of possible project to allow reverse flow at Moffat.

In the CBCA application, you have estimated that 88% of the gross benefits are realised by RoI and 12% by NI. Your proposed CBCA is based upon this apportionment of benefits. There is no proposed allocation to Great Britain. The financial analysis in the CBA identifies a financial deficit and states that this would be the scale of EU financial assistance under the CEF that you would need in order to proceed with the SWSOS Twinning Project.

The process to date comprised -

7 Nov 2013	Submission of CBCA application by Gaslink Ltd to NRAs
19 Dec 2013	NRAs' further information request to Gaslink Ltd
10 Jan 2014	Further information received by NRAs from Gaslink Ltd
10 Feb 2014	Workshop delivered by Gaslink Ltd and attended by Ofgem, URNI and CER
10 Mar 2014	Further information request to Gaslink Ltd following the workshop
1 Apr 2014	Further information received by NRAs from Gaslink Ltd
May 2014	Our consultation with Gaslink Ltd on the decision it is minded to take on the CBCA application
16 June 2014	Our final decision on CBCA application and NRAs' final Coordinated CBCA decision.

Throughout this period the NRAs have communicated with each other on a regular basis.

Our analysis of the CBCA application

In undertaking our analysis we have given due regard to our principal objective to protect the interests of existing and future consumers in Great Britain and our general duties including our functions as the UK National Regulatory Authority under the EU Third Energy Package.⁸ Particularly, we have wanted to ensure that consumers in GB do not contribute

⁸ The term "EU Third Energy Package" refers to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (Electricity Directive); Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 (Electricity Regulation); Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (Gas Directive); Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (Gas Regulation); and Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

financially to projects, which do not provide sufficient benefits to justify financial contribution.

Analysis

The CBA within the CBCA application is detailed and comprehensive. The CBA states that the SWSOS Twinning Project provides an overall positive net benefit. The CBA also states that none of countries involved, i.e. RoI and the UK (including GB and NI), experience a net negative benefit. The ACER Recommendation specifies the need for a negative net benefit in at least one member state. While exceptions are allowed where the NRAs agree, we think that it is important to comply with this condition. This is in part because in the context of this first Union list of PCIs, it is appropriate to recognise the ongoing developments of the CBA methodology at the EU level. This helps to ensure that consumers in Great Britain contribute to PCIs only where necessary and where wider benefits are achievable.

Conclusions

The submission suggests that the SWSOS Twinning Project delivers an overall net benefit. However, none of the countries involved, i.e. RoI and the UK (including GB and NI), experiences a net negative benefit. Beyond this, we agree with you that it is not appropriate in any case to allocate costs to GB.

Final decision

Following our detailed examination and discussion with the other NRAs, we have reached this decision that the amended cost allocation proposed by the NRAs of 100% to RoI and 0% to both Great Britain and NI is appropriate.

Our decision is consistent with the view of the Project Promoter that no costs should be allocated to Great Britain.

Reasons for the decision

None of the relevant countries experience a net negative benefit as a result of the SWSOS Twinning Project being developed. This is sufficient on its own to support no allocation of the investment costs to GB. We agree with you that while there may be some benefits that have wider impact on the UK (including GB and NI), we do not think these are sufficient to merit any allocation, particularly having regard to the significance threshold identified in the ACER Recommendation.

If you have any queries on this letter please contact Iain Morgan at iain.morgan@ofgem.gov.uk.

Yours faithfully



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Coordinated decision under Article 12 of Regulation 347/2013 on the cross-border cost allocation request submitted by Gaslink (PCI 5.2)

On November 7th, 2013, Gaslink (the “Project Promoter”) applied for a cross-border cost allocation (CBCA) in accordance with Article 12(3) of Regulation (EU) 347/2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 (the “Regulation”). This CBCA application, along with all further information received from the Project Promoter by the NRAs, was transmitted for information without delay to the Agency for the Cooperation of Energy Regulators (the “Agency”), as per Article 12(3) of the Regulation.

The Commission for Energy Regulation, the Northern Ireland Authority for Utility Regulation and the Gas and Electricity Markets Authority (hereon the “NRAs”), having:

- evaluated the contents of the cross-border cost allocation proposal;
- reviewed the contents of the application in light of the Regulation and the Agency’s Recommendation No 07/2013;
- considered the meeting held with the Project Promoter on February 21st, 2014;
- appraised all additional information provided in response to information requests forwarded to the Project Promoter on December 19th, 2013 and March 10th, 2014, and responded to on January 10th, 2014 and April 1st, 2014 respectively,

have concluded their consideration of the CBCA application and have agreed to allocate all costs to Ireland.

According to Article 12(4) and considering Article 12(1) of the Regulation, the NRAs have reached a coordinated decision that there will be no allocation of costs in this instance to other relevant jurisdictions, i.e. Northern Ireland and Great Britain. This decision will have no tariff impact on either Northern Ireland or Great Britain. The Commission for Energy Regulation has set out in its individual decision letter possible impacts on tariffs in Ireland. Attached to this decision are letters setting out the detailed reasons and basis for the NRAs’ individual decisions in respect of this CBCA application, as required by Article 12(5) of the Regulation.

This decision is agreed on:

By: