



ENERGY AND WATER
REGULATORY COMMISSION



Cross-border Cost Allocation Agreement

between

the Energy and Water Regulatory Commission (EWRC) and

The Regulatory Authority for Energy (RAE)

In line with 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 (Regulation (EU) No 347/2013), the national regulatory authorities (NRAs):

Energy and Water Regulatory Commission of Bulgaria (EWRC), Republic of Bulgaria, 8-10, Kn. Al. Dondukov Blvd, Sofia, tel.: +3592 988 87 30; fax: +3592 988 87 82, e-mail: dker@dker.bg and

Regulatory Authority for Energy (RAE), Republic of Greece, 132, Piraeus Str., 118 54, Athens, tel.: +30 210 372 7400, fax: +30 210 325 5460, e-mail: info@rae.gr,

Considered the Investment request for a project of common interest (PCI) **6.20.2 "Chiren UGS expansion (BG)"**, which is included in the Fourth Union list of projects of common interest, adopted by the European Commission on 31 October 2019 as an annex to Regulation (EU) No 347/2013 amended by Commission Delegated Regulation (EU) 2020/389.

NRAs, having regard to the following:

1. The regulations of the Republic of Bulgaria;
2. The regulations of the Republic of Greece;
3. Regulation (EU) No 347/2013 and in particular Art.12;
4. Recommendation No 05-2015 of the Agency for the Cooperation of Energy Regulators of 18 Dec 2015 on Good Practices for the Treatment of the Investment Requests, including Cross-Border Cost Allocation Requests, for Electricity and Gas Projects of Common Interest (ACER Recommendation);
5. ENTSO-G 2nd Cost-Benefit Analysis (CBA) Methodology for gas infrastructure projects, approved by the European Commission on 23 Oct 2018;

6. Investment request (IR) and its annexes, submitted by Bulgartransgaz EAD – project promoter, to EWRC by reg. No E-15-45-27 of 2 June 2021 and to RAE by reg. No I-304027 of 4 June 2021;

7. Additional clarifications from the project promoter provided to the NRAs following the Investment request submission and

8. Letters to ACER sent by EWRC on 4 June 2021 and by RAE on 3 August 2021.

carried out a joint assessment of the Investment request in accordance with the provisions of ACER Recommendation No 05-2015.

The project promoter intends to apply for financial support by the European Union under Art.14 of the Regulation.

EWRC and RAE jointly assessed the Bulgartransgaz EAD Investment Request, taking into consideration the teleconference meeting on 15 July 2021, initiated and organized by ACER, with EWRC, RAE and ACER representatives. Following consultations with the project promoter Bulgartransgaz EAD, EWRC and RAE have come to the conclusion that the costs of the "Chiren UGS expansion (BG)" Project should be entirely allocated to Bulgaria and the costs must be borne by the Bulgarian gas transmission operator Bulgartransgaz EAD.

The present joint decision is based on the analysis developed below.

1. PROJECT DESCRIPTION

1.1. Technical description

PCI 6.20.2 "Chiren UGS expansion (BG)" envisages capacity increase in stages of the only gas storage on the territory of Bulgaria in order to achieve larger gas volumes stored, including increased gas reservoir pressure, as well as higher daily average withdrawal and injection rates. The project aims to:

- increase the active gas volume of up to 1 bcm (now 550 mcm);
- increase the daily withdrawal capacity of up to 10 mcm/d and injection of up to 8 mcm/d (currently the maximum daily withdrawal capacity is 3.82 mcm/d, and the maximum daily injection is 3.2 mcm).

Achieving these objectives will be possible through the construction of 10 new high flowrate exploitation wells and 3 new observation wells, as well as the construction of the necessary above ground facilities and infrastructure.

Detailed project technical description, including justification for the selected technology, and activities map are included in the Investment Request.

1.2. Investment costs

According to the project promoter, the value of the allowed investment costs for the project implementation is EUR (...). thousand, of which EUR (...) thousand equity and the required co-

financing of EUR (...) thousand to secure the project financial viability, i.e. (...) % of the costs. The investment phase has been set in a period of 4 years between 2021 and 2024. The operational phase is for 25 years – starting from 2025 till 2049 inclusive.

1.3. Project degree of maturity

PCI 6.20.2 “Chiren UGS expansion (BG)” has reached sufficient degree of maturity, which covers the requirements laid down in item 1.2 *Significant maturity* under ACER Recommendation No 05-2015. The following actions have been done:

1. Financial estimates have been calculated in real prices based on 2020, adjusted for the inflation.

2. The main factors affecting the investment costs have been analysed in the submitted sensitivity analysis.

3. The investment costs uncertainty percent is below 10% due to the selected technological solution and the considerable clarity regarding the options of activities implementation and the related environmental activities and measures.

4. Justified estimates of benefits have been done, evaluated in CBA, prepared by ENTSG.

5. All main market and non-market factors impacting the benefits from the investment have been assessed in the CBA.

6. In Nov 2016 Bulgartransgaz EAD, as a project promoter of PCI 6.20.2 “Chiren UGS expansion (BG)”, sent *Notification for forthcoming actions* under Art. 10, item 1 of Regulation (EU) No 347/2013 to the Bulgarian Ministry of Energy in its capacity as a National competent authority (NCA), within the meaning of the Regulation. Attached to the Notification was the project description with its objectives, current status of implementation, financial information, preliminary schedule and location. There was a confirmation by the NCA that they consider PCI 6.20.2 “Chiren UGS expansion (BG)” to have reached sufficient maturity so as to start the process of issuing permits within the meaning of the Regulation.

7. 3D seismic surveys have been completed and all at that moment research activities have been notified to the NCA. Moreover, environmental procedures, above-ground facilities design and procurement for design of the gas pipeline to the UGS were launched in Q1 of 2021. The planned infrastructure is expected to be commissioned in 2024 or within 60 months as of the submission of the investment request.

1.4. TSO consultations and regional cooperation

The project promoter provided information on the consultations with TSOs, namely the following gas transmission operators: DESFA S.A., Greece; Srbijagas, Serbia; Transgaz, Romania and BH-gas, Bosnia and Herzegovina.

1.5. Cost-Benefit Analysis (CBA) proposal and Cross-border Cost Allocation (CBCA)

CBA of the project is based on the ENTSG methodology. The project promoter provided details on the project-specific CBA in a set of documents, namely: business plan; financial analysis; economic analysis; sensitivity and risk analysis and a justified CBCA proposal.

2. INVESTMENT REQUEST ASSESSMENT

2.1. Admissibility of the Investment Request

The NRAs concerned consider all required documents under Art.12 (3) Regulation (EU) No 347/2013, namely CBA and the business plan, to be presented and complete. IR includes a justified CBCA proposal as well.

Art.12 (3) Regulation (EU) No 347/2013 contains two criteria, which the project promoters should meet in order to file a valid investment request and which should be assessed by the NRA:

- preliminary consultation with TSOs from the Member States, to which the project provides a significant net positive impact;
- reached sufficient project maturity.

As stated in Sections 1.4 and 1.5 above, both these criteria have been met. Therefore, the Investment request shall be considered admissible and complete.

2.2. Maturity

The involved NRAs have assessed the project's maturity in line with the ACER recommendation, namely in regards to:

- a) sufficient maturity about the costs assessed by the project-specific CBA;
- b) good knowledge of the factors affecting expected costs and their ranges;
- c) costs uncertainty rate;
- d) reasonable foresight of the benefits assessed by the project-specific CBA;
- e) reasonable knowledge of the factors affecting benefits and their ranges, also with regard to different scenarios and sensitivity analyses;
- f) permits granting procedures, undertaken by all hosting countries;
- g) commissioning within approximately 60 months from the date of submission of the investment request.

The NRAs concerned have found that the IR demonstrates a good knowledge of the factors affecting the expected costs and also indicates the cost uncertainty degree. In addition, both NRAs have found out that the CBA provides a reasonable forecast of the benefits and that it has a reasonable knowledge of the factors affecting these benefits and their ranges, in relation to different scenarios as well.

The NRAs concerned have found that the permits granting procedure has commenced and the expected project commissioning could be feasible.

Therefore, project 6.20.2 is considered as sufficiently matured in order for a CBCA decision to be taken.

2.3. Completeness of the investment request

The involved NRAs have assessed the completeness of the investment request, taking into consideration ACER Recommendation No 05-2015. The Agency recommends the investment request submitted by the project promoters to provide the following information and, where appropriate, supporting evidence:

1. a detailed technical description of the project;
2. a detailed implementation plan of the project;
3. a preliminary investment decision on the investment;
4. a short description of the status of the project permitting process in all hosting countries, including a detailed schedule (in line with annex VI (2) Regulation (EU) No 347/2013) and corresponding evidence;
5. information about the sufficient maturity of the project (as per Section 1.2 of the Recommendation);
6. information on TSO consultations and the results of the consultations;
7. a project-specific CBA;
8. a business plan including a description of the chosen financial solution;
9. a substantiated proposal for cross-border cost allocation.

The relevant NRAs have concluded that the investment request is complete and contains the whole required information above and, where appropriate, all supporting evidence.

In addition, the project promoter provides a comprehensive analysis of the financing plan.

2.4. Cross-border Cost Allocation (CBCA)

The cost-benefit analysis (CBA) of the project is based on the ENTSO-G 2nd Cost-Benefit Analysis (CBA) Methodology. The CBA carried out by the project promoter Bulgartransgaz EAD justifies the conclusion that the project has a positive impact, which reflects in decreasing the costs for gas supply and relates to the security of supply. In the configuration of the reference supply price, this can be estimated at around € 7 million per year (average) at the existing infrastructure level. These benefits include securing natural gas supplies, increasing market integration, stimulating market competition and promoting natural gas trade in the region.

The results from the CBA show that Bulgaria will have significant net impact from the project implementation, which is higher than 10% of the total economic impact of the project, namely 70.00 %. Smaller net positive impact has been calculated for the Romanian transmission operator and/or for Romania at the amount of 17.5 %, 8.2 % for the Greek transmission operator and/or for Greece, 3.9 % for the Serbian transmission operator and/or for Serbia and 0.4 % for the Bosnian and Herzegovina transmission operator and/or for Bosnia and Herzegovina. At the same

time, for the indicated operators and/or countries Project 6.20.2 will not have any negative effect - investment costs and compensations, as the costs for the implementation of the project will be borne entirely by the Bulgarian gas transmission operator – Bulgartransgaz EAD.

The calculated by the project promoter net positive impact realized in Romania amounts to 17.5 %. Given that the Republic of Romania covers its gas consumption needs almost entirely from its own sources and the fact that Romania's underground gas storage projects aim to increase storage capacity by almost 1 bcm/y, such an impact-determining approach may be applicable in cases where neighbouring countries do not have natural gas resources. In 2020, ANRE adopted Decision № 754 of 12.05.2020 on the cross-border cost allocation of PCI 6.20.4 “Depomures underground gas storage, Romania”, as well as Decision № 838 of 22.05.2020 on cross-border cost allocation of PCI 6.20.6 “Sarmasel Underground Gas Storage, Romania”.

The net positive impact for Greece amounts to 8.2%. The Republic of Greece does not have a sufficiently well-developed short-term wholesale gas market and the level of liquidity in the gas market is also low, as well as the lack of its own underground gas storage in the country at present. Although a new UGS is planned in South Kavala, increasing the total regional storage capacity through the expansion of the Chiren UGS is considered to have a positive impact by improving the management of the portfolio of natural gas traders and will also contribute to increasing security of supply in the Greek market. According to the proposal of Bulgartransgaz EAD, the impact for the Republic of Bulgaria is estimated at EUR (...) thousand compared to EUR (...) thousand of costs. The impact for Greece is estimated at EUR (...) thousand, therefore the project implementation costs must be fully allocated to the Republic of Bulgaria. The NRAs of the Republic of Bulgaria and the Republic of Greece agree with the analysis and the proposal of the project promoter.

Based on the above,

The Energy and Water Regulatory Commission (EWRC) and the Regulatory Authority for Energy (RAE) jointly decided to adopt the following in their national decisions:

1. PCI 6.20.2 “Chiren UGS expansion (BG)” has reached sufficient degree of maturity for adoption of NRA decisions under Regulation (EU) No 347/2013 and information analysis provided by the project promoter;

2. The costs on PCI 6.20.2 “Chiren UGS expansion (BG)” have been reasonably allocated for each Member State with net positive impacts from the project. Given that the project net positive impacts for the Republic of Bulgaria are significantly higher than those for the Republic of Greece, no compensation is required and no costs are allocated to the Republic of Greece for this project of common interest. The Republic of Bulgaria will bear all investment and operating costs related to the implementation of the project, and the Republic of Greece will have zero (0) costs.