Agencija za energijo

Energy Agency's Clarification regarding the implementation of point 4 of Article 17 of Regulation (EU) No 869/2022

Regulation (EU) No 869/2022 in the point 4 of Article 17 determines that each national regulatory authority must by 24 January 2023 publish its methodology and the criteria used to evaluate investments in electricity and gas infrastructure projects and the higher risks incurred by them.

The basis to include the investments of electricity and gas transmission system operators in the regulatory framework are set by the Act on the methodology for the preparation and evaluation of an investment plan of the electricity transmission system operator[1] and Act determining the methodology for preparation and evaluation of an investment plan of the gas transmission system operator[2] . These two documents define the methodologies for the preparation of the 3-year investment plans of the electricity and gas TSOs and examination and evaluation of the plans by the Energy Agency. The TSOs in their investment plans in more detail prepare a financial and economic evaluation of the investments from the current 10-year national development plan, as well as of the investments to which the European Commission has granted the status of projects of common interest. Within the process of setting the regulatory framework the Energy Agency assesses the effects of the investment plan on the TSO's costs, and the benefits of investments for the consumers of electricity and gas; this assessment form the basis for determination of eligible costs of the TSOs in the next regulatory period.

The Energy Agency within the process of determining the eligible costs considers the electricity and gas TSOs' investments in accordance with the methodologies for setting the network charge and determining the eligible costs. The methodologies are set in the Act on the methodology determining the regulatory framework for the electricity system operators[3] and Act on the methodology for determining the regulatory framework of the natural gas transmission system operator[4].

In accordance with the above mentioned methodologies for setting the network charges and determining the eligible costs, all eligible costs of planned investments are included in the regulatory asset base, and the TSO recovers the costs through depreciation of assets.

In addition, the TSO is entitled to a regulated return on assets. In calculating the regulated return on assets, the pre-tax Weighted Average Cost of Capital (WACC) is taken into account, which considers the cost of equity (reflecting a risk of provision of a regulated activity and it is determined on the basis of the Capital

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[1] www.pisrs.si/Pis.web/pregledPredpisa?id=AKT_913

[2] www.pisrs.si/Pis.web/pregledPredpisa?id=PRAV12328

[3] www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2022-01-2907?sop=2022-01-2907

[4] www.pisrs.si/Pis.web/pregledPredpisa?id=AKT_1040

Asset Pricing Model), and the cost of debt (determined by taking into account estimated long-term equilibrium interest rate).

Risks in the implementation of projects of common interest that are related to costs and time overruns, stranded assets, identification of efficiency incurred costs, and liquidity of the TSO are effectively reduced by the ex-post determination of the actual eligible costs. The actual depreciation costs and regulated return on assets are determined on the basis of realized depreciation costs and actual average value of regulatory asset base, which is calculated on the basis of the book values of the assets (the TSO's investment are included in the regulatory asset base by the acquisition costs).

Therefore, the Energy Agency considers that setting up the specific methodology to evaluate investments with higher risks, such as projects of common European interest, is not necessary. The current regulation of investment activities is not considered as a big risk for the system operators since risks in the implementation of investments are through the network charge transferred to the end consumers. The Energy Agency also believes that the system operators are with existing regulatory model suitable stimulated to implement investments and that additional incentives may lead to less rationale investing in the energy infrastructure.