An Coimisiún um Rialáil Fóntas
Commission for Regulation of Utilities

COMMISSION DE RÉGULATION DE L'ÉNERGIE

Coordinated decision on the cross-border cost allocation request submitted by the Celtic Interconnector project

This document sets out the coordinated cross-border cost allocation (CBCA) decision between the national regulatory authorities (NRAs) of Ireland and France, the Commission for Regulation of Utilities (CRU) and the Commission de Régulation de l'Energie (CRE) in relation to the Celtic Interconnector project.

In September 2018, the transmission system operators (TSOs) of Ireland and France, EirGrid and Réseau de Transport d'Électricité (RTE), submitted an investment request to the NRAs for the development of the Celtic Interconnector. As part of their submission, the TSOs requested the NRAs to decide on cross-border allocation of Celtic's investment costs between Ireland and France and their inclusion in each country's tariffs under Article 12 of Regulation (EU) No 347/2013.[1]

The initial submission had information omitted, which was subsequently received. The NRAs deemed the investment request complete in November 2018, and transmitted it for information to the Agency for the Cooperation of Energy Regulators (the Agency). In particular, the NRAs concluded that the project has reached sufficient maturity to request a CBCA decision and commenced their respective assessments of the submitted files.

Between 20 December 2018 and 15 February 2019, the NRAs held public consultations on the Celtic investment request and their assessments. Consultation documents are available on the NRAs' websites.[2]

The NRAs, having:

- analysed the contents of the investment request in light of the Regulation, the Agency's Recommendation No 05/2015, as well as a broader EU and national energy policy context;

- consulted on the investment request in Ireland and in France, and considered stakeholders' feedback to their respective consultations;

- considered the expected benefits from the Celtic project for Ireland and France, and the European Union as a whole;

- considered the investment cost to be shared between Ireland and France, including potential for costs above the current estimated investment costs; and

- taken into account the intention of the project promoters to apply for the European Union's financial assistance,

[1] Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure [2013] OJ L 115/39.
[2] CRU consultation documents are published at https://www.cru.ie/document_group/celtic-electricity-interconnector/;
CRE consultation documents are published at https://www.cre.fr/en/Documents/Public-consultations/Investment-request-relating-to-the-CELTIC-Project-including-a-cross-border-cost-allocation.

1. have concluded that the Celtic Interconnector would drive benefits for stakeholders both in Ireland and France, and would be beneficial (in terms of overall cost-benefit analysis) at the European[3] level. However, potential impact of the project on socio-economic welfare varies considerably across future forecast scenarios: it could be either positive or negative at the national perimeters (Ireland and France) depending on the scenarios considered.

2. have concluded that depending on the considered scenario, 50% to 80% of the gross benefits are located in Ireland, and 20% to 50% in France.

3. have agreed that 65% of the project's estimated investment costs[4] will be allocated to Ireland, and 35% to France[5].

In reaching this agreement, the NRAs considered the net positive benefits of the project for Europe as a whole, as well as the need to strengthen the European energy market integration, foster renewable integration and reinforce solidarity between the EU Member States. In that regard, the relative electrical isolation of the Irish market and the expected exit of the United Kingdom from the European Union are of particular importance.

In that respect, the NRAs agree that linking the electricity markets of Ireland and France will be beneficial for both countries, and Europe as a whole. In particular, the NRAs recognise that there are significant positive externalities associated with Celtic, which are difficult to quantify and therefore cannot be fully captured in the cost-benefit assessment of the project. Indeed, Celtic generates externalities in terms of solidarity, security of supply, and contributes to reaching the European Union energy and climate objectives, such as market integration and sustainability.

Nonetheless, the NRAs also have to give due regard to their objective to protect the interests of existing and future consumers in Ireland and France. As such, they should make sure that the project has a net positive impact, not only in Europe considered as a whole but in France and in Ireland respectively. In addition, while there are prospects for significant benefits coming from the project, these are caveated with risks related to investment and operating costs as well as uncertainties due to potential changes in the energy landscape. These are linked to the expected exit of the United Kingdom from the European Union, the evolution of commodity prices, including the impact of reforms of the European Union Emission Trading Scheme, and national energy policies such as renewable energy targets or further interconnection.

Moreover, the inclusion of Celtic's costs in national tariffs would increase network tariffs in both countries, and in particular in Ireland given the size of the market, its consumer base and its peripheral location.

The significant benefits and the non-monetised positive externalities that the project brings to the European Union beyond France and Ireland as well as the extensive contribution of the Celtic project to the objectives of the European Union energy infrastructure policy justify a substantial EU funding from the Connecting Europe Facility (CEF). This funding would also help mitigate the risks borne by Irish and French consumers. According to Article 10(3) of Regulation (EU) No 1316/2013, the amount of Union financial assistance can cover up to 75% of project costs, in particular if the project provides a high degree of regional or Union-wide security of supply, or strengthens the solidarity of the European Union. The NRAs thus consider that the

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[3] I.e. the perimeter including the countries whose TSOs are members of the European Network of Transmission System Operators for Electricity (ENTSO-E).
[4] Investment costs are based on real 2018 values and include all past and expected future costs for all phases (preliminary studies, development, construction, etc.).
[5] Further details on the cost split and rationale can be found in the NRAs' accompanying documents published separately to this decision.

project should benefit from substantial EU financial assistance covering at least 60% of the project's estimated investment costs, noting previous support granted to the project from the CEF. This support should be shared between EirGrid and RTE to match the cost-allocation agreement (i.e. 65% for EirGrid, 35% for RTE).

This level of EU grant would ensure that the project does not have a net negative impact for France or for Ireland including in scenarios where some of the identified risks occur. In turn, it would also ensure that the project, once included in national tariffs does not represent a disproportionate burden for consumers in Ireland and France.

Should the EU financial assistance not reach 60% of project's estimated investment costs, and a minimum of 195M€ for France, the NRAs shall mutually agree on a review of the cost allocation decision.

The NRAs consider that the project promotors should apply for this EU financial assistance at the earliest opportunity given the scale of the investment and the need for clarity.

Given the above and provided that the EU financial assistance reaches at least 60% of project's estimated investment costs, the NRAs have agreed as follows:

- Up to the project's estimated investment costs (930 M€), 65% of investment costs will be allocated to Ireland, and 35% to France.
- Any amount of the EU financial support above the minimum amount required (60% of project's estimated investment costs) shall be ring-fenced to cover any costs above the project's estimated investment costs, and otherwise, the remaining costs above the project's estimated investment costs should be shared 50/50 between EirGrid and RTE.

This cross-border allocation is based on a 50/50 sharing of the project's operational and maintenance costs, and of the project's revenues from congestion rents between Eirgrid and RTE.

As part of national regulatory frameworks, the NRAs will develop appropriate incentives for the TSOs to minimise the risk of cost overruns.

The TSOs shall submit periodic cost estimate reviews to their respective NRAs (not less than every 6 months or as requested by the NRAs) and in addition, report to both NRAs on any material changes in cost estimate without delay. Excluding project development activities, the TSOs shall not commit any significant expenses until procurement of the infrastructure is complete and the overall cost of the main supply contracts (including cables) is known. Moreover, should the cost of these contracts materially exceed the estimated costs (i.e. by 20%) or should the total costs of the project be reviewed significantly upwards (i.e. by 20%), the CRU and the CRE agree to consult with the project parties and to review this decision in order to reconsider the opportunity to invest in the project and/or the cross-border cost allocation decision regarding cost overruns.