

# Selection procedures of PCIs at regional and European level

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European Parliament workshop, Brussels, 21 March 2012



## Outline

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# Introduction

Starting point of analysis:

- Maximise social welfare
- Distributional effects are not taken into account
  - Trade-off between efficiency/social welfare and equity is left to politicians (EU and national)

## Project selection in draft regulation – Multi-criteria analysis better than cost- benefit analysis?

Multi criteria analysis	Cost benefit analysis
Alternatives are scored on different criteria	All effects are monetised, effects which cannot be monetised: pro memorie
Scores are aggregated using some (subjective) weighing procedure, result without dimension	Result is net social welfare effect and understanding of most important driving forces
Double counting less easy to be avoided	No double counting; identification of efficiency gains vs. redistribution effects

→ Many stakeholders prefer CBA for transparency reasons, if CBA is not possible then MCA

## Project selection in draft regulation – optimal criteria?

- Proposed criteria in the draft regulation do not necessarily yield a welfare optimal outcome
  - Large number of criteria
    - Time-consuming and costly
  - Inclusion of criteria with only limited effects on social welfare
    - E.g. voltage quality performance (Annex IV, 4d)
  - Criteria which discourage innovative projects
    - Reformulation of EU goal of 20% energy from RES in capacity terms (MW) discourages innovative network projects integrating more energy (MWh) with existing network capacity (Annex IV, 2b)
  - Weighting factors for criteria not specified

→ Welfare optimal project selection with current procedure is difficult

## Selection procedure of PCIs at regional level

- Requirements for regional project selection by RGs - Article 3 (3)
  - Contribute to implementing infrastructure priority corridors
  - Fulfil criteria for PCIs (article 4)
  - Obtain approval of each member state (MS)
- Approval of each MS may block realisation of projects that are highly desirable for a region or the EU as a whole
- Clear criteria for selection of PCIs may facilitate decision making process

Risk of EU-wide approach not coming off the ground!

## Selection procedure of PCIs at EU level

Procedure foreseen:

- Article 3(4): Each RG has to submit its proposed list of PCIs to ACER (electricity and gas) or directly to the EC (oil and CO<sub>2</sub>)
- Article 3(5): ACER has to provide the Commission with an opinion on the proposed list of PCIs based upon consistent application of project selection criteria of Article 4, as well as results of the analysis of the 10 year network development plans (10YNDPs) of ENTSOs
- Article 3(5) illustrates unnecessary piling of legislation; it suggests for both 10YNDP and PCI selection separate CBAs, while all PCIs must already be part of 10YNDPs of ENTSOs
- ACER to provide opinion to EC within two months → too short time period

## Governance of regional groups (RGs)

- New in the proposal is the involvement of European institutions in regional groups
- Main focus on realization of internal market by 2014, not much attention for regional processes
- Annex III (1,2): each RG shall organise its workload in line with regional cooperation efforts in existing third package legislation and other existing regional cooperation structures
  - Article 6(2) of Directive 2009/72/EC and 2009/73/EC: for compatibility of regulatory frameworks between regions, ACER is allowed to issue binding rules for cooperation between ACER, NRAs and TSOs
  - Regional initiatives: following EC consultation about the future role of regional initiatives “the Commission will favour a **flexible approach where each region will define itself its own governance’s scheme under ACER’s coordination**”, Florence Forum May 2011.
- It remains unclear how regional governance is organised (e.g. whether decisions should be taken with majority or unanimously)

## Conclusions

- Regulation is valuable next step in EU policy if flaws in requirements for EU wide multi-criteria analysis (MCA) of PCIs are corrected
- Clear criteria for selection of PCIs advantageous for regional selection procedure
- Preferably one CBA procedure must be used for both 10YNDP and PCI selection procedures
- It remains to be seen whether discretion for each RG concerning working methods and decision making procedures is a problem