



Number: 111-18/2021/12  
Our sign: 02004  
Date: 8. 10. 2021

The Energy Agency hereby issues, pursuant to Article 12(4) of 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 (OJ L, No 115, of 25 April 2013, p. 39) and on the basis of application of the natural gas transmission system operator, the company PLINOVODI. d.o.o., Cesta Ljubljanske brigade 11B, 1000 Ljubljana, represented by the Managing Director Marjan Eberlinc and Deputy Managing Director mag. Sarah Jezernik, the following

### DECISION

1 The investment costs for PCI project No 6.23 Hungary – Slovenia - Italy interconnection (Nagykanizsa (HU) – Tornyiszentmiklós (HU) – Lendava (SI) – Kidričevo (SI) – Ajdovšina (SI) – Šempeter (SI) – Gorizia (IT)) shall be allocated in a way that the company PLINOVODI. d.o.o., Cesta Ljubljanske brigade 11B, 1000 Ljubljana, bears the investments costs on the Slovenian territory.

2 No specific costs related to the issue of this Decision were incurred.

### Reasoning:

On 11 May 2021 the company PLINOVODI. d.o.o., Cesta Ljubljanske brigade 11B, 1000 Ljubljana (hereinafter: applicant), submitted to the Energy Agency an investment request including a request for cross-border costs allocation related to the construction of a gas line between Hungary and Slovenia (hereinafter: investment request), which represents the PCI project 6.23 Hungary – Slovenia Interconnection and the establishment of a gas corridor between Hungary and Italy through the Slovenian natural gas transmission system (hereinafter: project). The investment request, which also contains a substantiated proposal for cross-border cost allocation, was accompanied by a cost-benefit analysis (CBA) and a business plan. In accordance with items 2.2 and 2.3 of Recommendation No. 5/2015 of the Agency for the Cooperation of Energy Regulators (hereinafter: Recommendation), the Energy Agency performed an assessment of the completeness of the investment request. The Energy Agency concluded that the investment request contains all the necessary documents, of which the Energy Agency on 8 June 2021 informed the Agency for the Cooperation

of Energy Regulators (ACER). The Energy Agency also provided a copy of the investment request to ACER.

Pursuant to Article 12(1) of 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 (OJ L, No. 115, of 25 April 2013, p. 39), (hereinafter: Regulation), the efficiently incurred investment costs, which exclude maintenance costs related to a project of common interest falling under the categories set out in Annex II.1(a), (b) and (d) and Annex II.2 shall be borne by the relevant TSOs or the project promoters of the transmission infrastructure of the Member States to which the project provides a net positive impact, and, to the extent not covered by congestion rents or other charges, be paid for by network users through tariffs for network access in that or those Member States. Where a project has several project promoters, the relevant national regulatory authorities shall without delay request all project promoters to submit the investment request jointly in accordance with Article 12(3) of this Regulation.

Further, the national regulatory authorities shall, in accordance with Article 12(4) of the Regulation, within six months of the date on which the last investment request was received by the national regulatory authorities concerned, and after consulting the project promoters concerned, take coordinated decisions on the allocation of investment costs to be borne by each system operator for the project, as well as their inclusion in tariffs. The national regulatory authorities may decide to allocate only part of the costs, or may decide to allocate costs among a package of several projects of common interest. When deciding to allocate costs across borders, the economic, social and environmental costs and benefits of the projects in the Member States concerned and the possible need for financial support shall be considered.

Item 1.4 of Recommendation stipulates that project promoters should address the investment request to the relevant regulatory authorities – the NRAs of the Member State(s) hosting the project and any other Member State(s) having a potentially significant net positive impact of the project. During the procedure, the Energy Agency established that the regulatory authorities of the Republic of Hungary and the Republic of Slovenia are competent to deal with the investment request because:

- the project is located entirely on the territory of the Republic of Hungary and the Republic of Slovenia; in Hungary, the project represents a new compressor station in Nagykanizsa, 199 km of gas pipeline from Kozármisleny to Tornyiszentmiklós and a border measuring station at Tornyiszentmiklós, and in Slovenia the project represents a border measuring station of Pince, 74.5 km of gas pipeline from Pince to Kidričevo, an expanded compressor station in Ajdovščina, and a border measuring station in Vrtojba;
- the project's cost-benefit analysis indicates that the project has a significant net positive impact only on Hungary and Slovenia; it is also evident from the cost-benefit

analysis that the net benefits of each of the remaining countries in the region are less than 10 % of the total benefits of the project.

Pursuant to Article 12(5) of the Regulation the Energy Agency has examined the investment request, which includes a request for cross-border costs allocation. In doing so, the Energy Agency provides the following explanation:

a) Assessment of the effects identified in each Member State concerned, including those relating to network tariffs

According to the applicant, the project is particularly important for Slovenia in terms of security of gas supply, since the benefits of reduction in exposure to curtailed demand (REtCD indicator) are estimated at EUR 284 million, representing 68% of the total benefits on the Slovenian side. The remaining benefits come from CO<sub>2</sub> savings (value of avoided greenhouse gas emissions that would be prevented by project implementation – CO<sub>2</sub>S indicator), estimated at EUR 69 million (17% of total benefits) and benefits from lower supply costs (SCS indicator<sup>1</sup>), estimated at EUR 64 million (15% of total benefits).

The Energy Agency agrees that the benefits of the project for Slovenia are mainly in the area of security of supply, as the infrastructure criterion N-1 in 2021 is only 57.2%<sup>2</sup>. The gas pipeline connection of the Slovenian transmission system with the Hungarian pipeline system would significantly increase the infrastructure criterion N-1, according to the calculations in the above-mentioned document, this could amount to 161.9 % in 2025.

According to the applicant, the project would increase the entry and exit tariffs of the Slovenian transmission system network charge in the period from 2020 to 2040 by an average of 2.5% in the case of no CEF funds, and by an average of 1.0% in the case of receiving CEF funds (estimated 50% co-financing of the initial CAPEX eligible for co-financing). The envisaged 50% co-financing of the initial CAPEX would therefore also imply a need to increase the tariffs for all entry and exit points of the Slovenian transmission system by an average of 1% over a period of 20 years, but according to the calculations of the applicant, such an increase does not reduce the competitiveness of the Slovenian network charges tariffs.

In the decision-making process on the cross-border costs allocation of a given project, the Energy Agency did not decide on the appropriateness of the level of network charge tariffs, as such decision-making is foreseen in the economic test in accordance with Commission Regulation (EU) 2017/459. Nevertheless, the Energy Agency considers that the network charge tariffs of each entry or exit point should reflect the costs of the transmission system, while the competitiveness of each transmission route may also be taken into account in the determination of each network charge tariffs in

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<sup>1</sup> SCS, REtCD and CO<sub>2</sub>S indicators are defined in accordance with the 2nd ENTSOG Methodology for Cost-Benefit Analysis of Gas Infrastructure Projects, February 2019

<sup>2</sup> Source: Ten-year gas transmission network development plan for the period 2021-2030

accordance with Commission Regulation (EU) 2017/460 establishing a network code on harmonised gas tariff structures. In view of the above, that without co-financing, the project would require a high network charge tariff of the Hungarian-Slovenian border interconnection point, which would imply the non-competitiveness of the new transmission route, while at the same time the project would lead to an increase in the network charge tariffs of at other points of the transmission system, co-financing by CEF funds is crucial for the successful implementation of the project.

#### b) Evaluation of the business plan

The business plan is based on the results of the 2019 market demand assessment. The applicant and the Hungarian TSO propose to allocate the costs of the project in such a way that each operator bears the costs of constructing the transmission system on its national territory. According to the territorial principle, ownership of fixed assets, operating and maintenance costs and duties and rights related to operational activities are also shared. According to the applicant's estimates and calculations, the cost of the project (CAPEX) on the Slovenian side is EUR 85 million (29% of the total cost of the project), while the operating and maintenance costs (OPEX) are estimated at EUR 45 million, representing one third of the maintenance costs of the entire project. In the period 2025–2050, the applicant estimates that the project could generate EUR 45 million of revenue (discounted value), which, taking into account the residual value, investment costs and maintenance costs, would mean that the project is not financially viable. According to the applicant's calculations, all three financial indicators are insufficient (FNPV= EUR - 43 million, FIRR = -4.3 %, FBCR = 0,53).

The Energy Agency examined the business plan and concludes that, under existing assessments and assumptions and under the scenarios used, the project generates a negative financial flow and is therefore financially unfeasible without co-financing. Consequently, the Energy Agency supports the applicant in its intention to obtain financial assistance for the project in the form of CEF funds.

#### c) Positive effects at regional or Union level generated by the project

In the request for investment, the applicant cites a number of positive effects of the project at both national and regional level:

- the project will allow the creation of a two-way corridor between the countries of Eastern Europe (e.g. Hungary, Romania, Bulgaria) and the Italian PSV gas hub; as a result, greater convergence of gas prices in the region will be enabled;
- the Slovenian and Hungarian gas markets are heavily dependent on the supply of gas from Russia, which is transported via Ukraine or North Stream; the project will create an efficient link enabling gas trading from Caspian and Black Sea regions and new LNG resources in the Adriatic Sea on the one hand and gas resources present at the Italian hub PSV on the other; as a result, growth will also be stimulated for the local Hungarian gas hub;
- given Slovenia's 100% import dependency of gas supply, the new link with the Hungarian gas market will provide access not only to new sources of gas, but also to

underground storage facilities in Hungary, thereby improving the security of gas supply in Slovenia, while increasing competition between gas suppliers and gas storage providers in Hungary;

– the project will be one of the first in the region to transfer large quantities of hydrogen to help achieve the objectives of the European Green Deal.

The Energy Agency agrees with the applicant's claims regarding the positive effects of the project at regional and EU level and adds that the project is in line with one of the key objectives of European energy policy, namely to increase competition between gas suppliers and increase energy security in the Energy Union.

d) Results of the consultations of the project promoters concerned

According to the investment request, during the development of the project, the applicant worked closely with the Hungarian natural gas TSO, FGSZ Ltd. Both operators jointly developed the project and consulted the Italian TSO Snam Rete Gas S.p.A. As stated by the applicant, the two operators concerned jointly developed the project and consulted each other regularly at two-week intervals since December 2020.

The Energy Agency has been monitoring the development of the pipeline link between Slovenia and Hungary since the preparation of the PCI status on the first PCI list in 2013. Since the project has acquired PCI status on all PCI lists to date, a number of meetings and telephone interviews have been held between the respective national regulatory authorities and the transmission system operators of Slovenia and Hungary over the last decade and a lot of correspondence has been exchanged. Thus, a bilateral meeting took place in December 2015 between the two NRAs concerned, followed by quadrilateral meetings in April 2017 and September 2017 (both national regulatory authorities and both operators — project promoters) and a bilateral meeting of the two NRAs was held again in February 2018. The last quadrilateral meeting took place in September 2020. Throughout this period, the applicant regularly informed the Energy Agency about the development of the project. A number of meetings were also held between the Energy Agency and the applicant, where the applicant informed the Energy Agency in more detail about the progress of the project and, where appropriate, the Energy Agency gave its opinion from a legal-regulatory perspective.

On the basis of all the above activities, the Energy Agency concludes that the applicant of the request has regularly and extensively consulted both the Hungarian TSO and the Energy Agency with a view to the optimal implementation of the project from a technical, financial and economic point of view.

In the process of deciding on an investment request including a cross-border costs allocation request, the relevant national regulatory authorities in September 2021 held a meeting with the two TSO concerned and presented a proposal for a final decision to them. At the same time, both operators were given the opportunity to submit comments, questions and suggestions on the proposed final decision.

On the basis of the findings specified above, the Energy Agency has decided as stated in the item one of the wording of this Decision, to impose the costs of the investment on the Slovenian territory in full on the applicant.

In accordance with the second paragraph of Article 12(5) of the Regulation, the Energy Agency shall notify ACER of its costs allocation decision.

No specific costs having been incurred in the procedure of issuing this decision, the Energy agency has, pursuant to Article 118 of the General Administrative Procedure Act (ZUP), decided as stated in paragraph two of the wording of this Decision.

This Decision is exempt from tax duty in accordance with Article 2(2) of the Administrative Fees Act (Official Gazette of the Republic of Slovenia, Nos. 106/10 — official consolidated text, 14/15 — ZUUJFO, 84/15 — ZZelP-J, 32/16, 30/18 — ZKZaš and 189/20 — ZFRO).

#### **LEGAL INSTRUCTION:**

No appeal is allowed against this Decision under paragraph one of Article 418 of the Energy Act (EZ-1). However, an administrative dispute is allowed and may be initiated by filling an action within 30 days after receipt of this Decision. The action is to be filled in writing directly with the Administrative Court of the Republic of Slovenia, Fajfarjeva 33, 1000 Ljubljana, or with any external department of the Administrative Court with respect to the claimant's registered office or address, or sent to the above-named court by post. The action shall be deemed to have been filed with the court on the day when it was sent by registered mail. The action is to be filed in as many copies as there are parties to the proceedings. The original, transcript or copy of the administrative act being contested is to be enclosed with the action.

Pursuant to the Administrative Fees Act (Official Gazette of RS, nos. 37/08, 97/10, 63/13, 58/14 – CC Dec., 19/15 – CC Dec., 30/16, 10/17 – ZPP-E, 11/18 – ZIZ-L in 35/18 – CC Dec), tax duty is payable upon filling an action in an administrative dispute, which, under tariff no. 6111, amounts to EUR 148.00. Tax duty is to be paid to the court's bank account, no. 01100-8450088976.



Mag. Duška Godina  
Director

#### **To be served – in person:**

- PLINOVODI, d.o.o., Cesta Ljubljanske brigade 11B, 1000 Ljubljana