

CAPEX review – Case Study session

Case study by Energy Regulatory Office of Poland

Emil Bujniak, specialist



General outline of the elements of allowed revenues

- *The allowed revenues:*
 - *own operator's costs:*
 - *gas, energy, materials,*
 - *taxes, levies,*
 - *wages, trainings, social securities, pension schemes,*
 - *contracted services,*
 - *social benefits fund,*
 - *insurance,*
 - *return on RAB (4,67% real pre-tax WACC as for Dec. 2021); agreed CAPEX in a tariff period included in RAB and depreciation,*
 - *depreciation,*
 - *CO₂ emission allowances,*
 - *delta in/out.*

Categories of network investments

- *Main pieces of assets:*
 - *pipelines,*
 - *gas receiving stations,*
 - *compressor stations,*
 - *control stations,*
 - *metering stations*
 - *meter and regulation stations,*
- *Investments grouped into 3 categories:*
 - *resulting in gas consumption increase (Load Related Expenditures - LRE),*
 - *non gas consumption increase (Non Load Related Expenditures – NLRE), eg. reconstruction, modernization,*
 - *investments not included in other categories (Remaining Network Investments - RNI).*

- *Please describe your approach to the review and approval of capital expenditures by regulated entities – cost-based, incentive-based etc.*

ERO is using cost-based evaluation method by studying individual capital expenditures for comparable elements of gas infrastructure and assessing economic effectiveness of undertakings carried by regulated entities;

CAPEX assessment model

- *Please describe the procedure on how you evaluate and review your CAPEX assessment model*

The procedure on evaluation and reviewing our CAPEX assessment model:

- 1) consulting the scope of the plan with the regional authorities and analyzing the comments submitted;
- 2) assessment of the method of financing investments;
- 3) analysis of the plan's compliance with: (i) legal regulations, (ii) the state energy policy and (iii) the policy of infrastructure development and the market of alternative fuels in transport;
- 4) analysis of the comments submitted in the consultation process conducted by the TSO;
- 5) examining of the compliance of the TSO's plan with the UE-wide ten-year network development plan;
- 6) examining the sources of financing the plan in the context of the feasibility of financing the budget of the planned investments and their impact on the tariff;
- 7) assessment of the age structure of assets and its failure rate;
- 8) examination of the implementation of development plans in previous years, assesment of the project development;
- 9) assessment of economic effectiveness (economic account) of key projects;
- 10) study of unit investment outlays for comparable elements of gas infrastructure.

- *The procedure on evaluation and reviewing our CAPEX assessment model:*
- Until the end of April Operator is required to submit a report on implementation of development plan in previous year, which provides additional data for performance evaluation;
- President of ERO does not approve individual projects but is agreeing development plan (expenditures that affects financing and through this provides guidance on the directions of investing)
- Agreeing of development plan is not determinative in case of final investment decision - decision on the implementation of projects belongs to responsibility of the Operator

**THANK YOU FOR YOUR
ATTENTION!**