

Session 1 – Infrastructure Development

Financing & Cost Allocation

ENTSO-E views

Context

- Europe's energy policy goals - *decarbonizing economies, ensuring security of supply and creating effectively competitive markets* – require a strong and smart European grid infrastructure.
- Timely new investment is critical to achieving each of these goals.
- The volume of investment needed is significant. We're seeing a step change.
- The framework exists: ENTSO-E, ACER, Energy Infrastructure Package.
- TSO's ready to do their job - support from regulators and policy makers needed.

Key question: How to move from plans to implementation?

Characteristics of grid investments

- **Capital intensive.**
- **Long time horizons.**
- **Electricity network is a (European level) system: holistic, co-ordinated planning and investments are needed.**
- **The attractiveness of investment is defined by regulatory regimes**
- **Involve considerable risks associated with permitting and authorization, which cause delays, reputational damage and are hard to hedge.**
- **Investments deliver significant socio-economic benefits (which, unlike costs, are hard to judge).**

Are we confident these investments are attractive to investors?

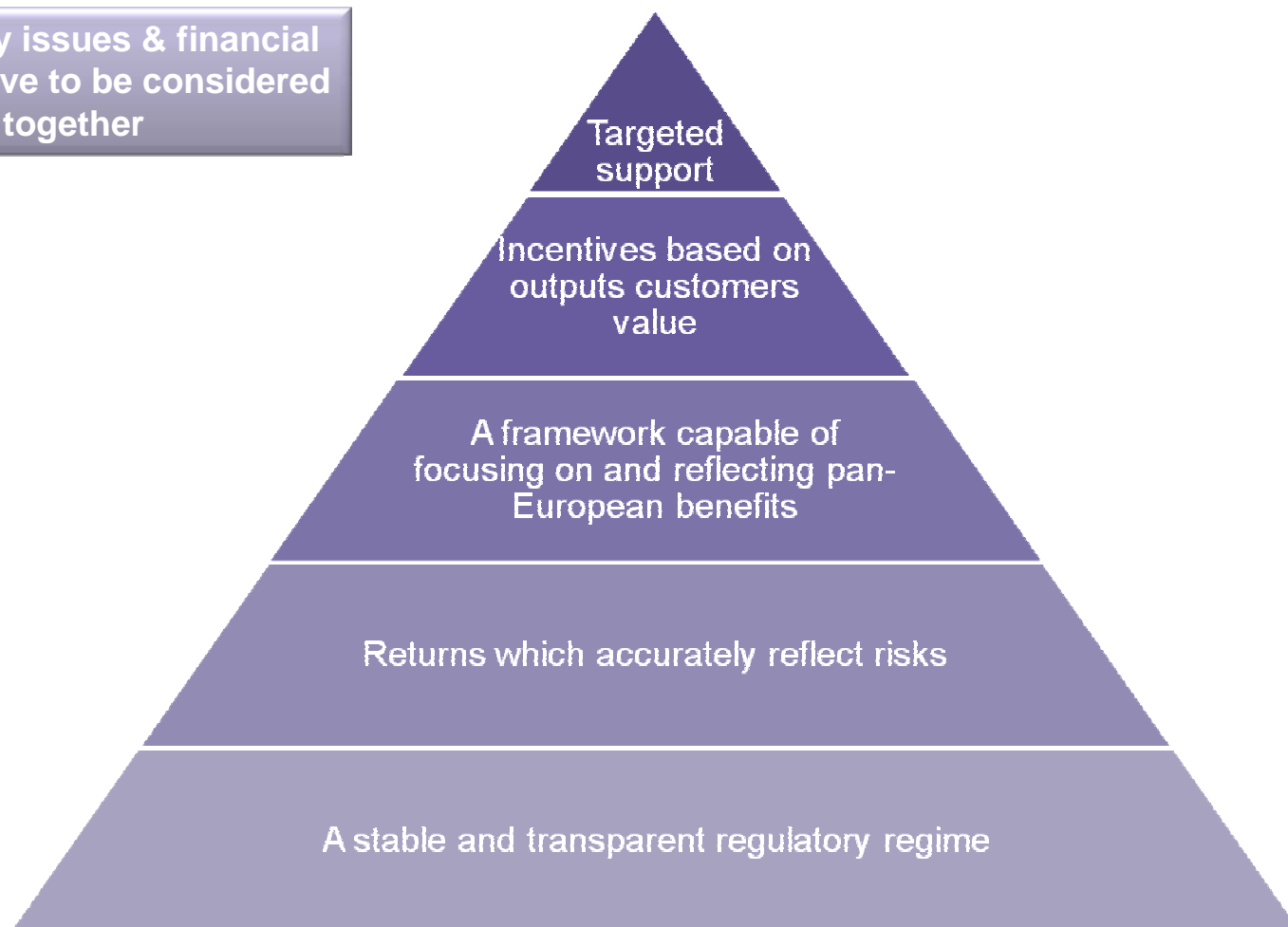
The situation today

- The key driver of the attractiveness of investment is the stability and level of returns available under existing regulatory regimes.
- Regulation differs markedly. There is no “standard European regulatory model”.
- There is almost no use of incentives for anything other than cost reduction. Little attention is paid to research, innovation, timely delivery of investment etc.
- Regimes tend to focus on national priorities and, for Europe, are rigid and inflexible.
- Some countries (notably Britain and Italy) have recently sought to re-evaluate their regulatory regimes. Similar has been done successfully internationally.

Are regulatory frameworks really promoting the outputs that Europe needs and customers value?

Core features of a regime which facilitates investment

Regulatory issues & financial support have to be considered together

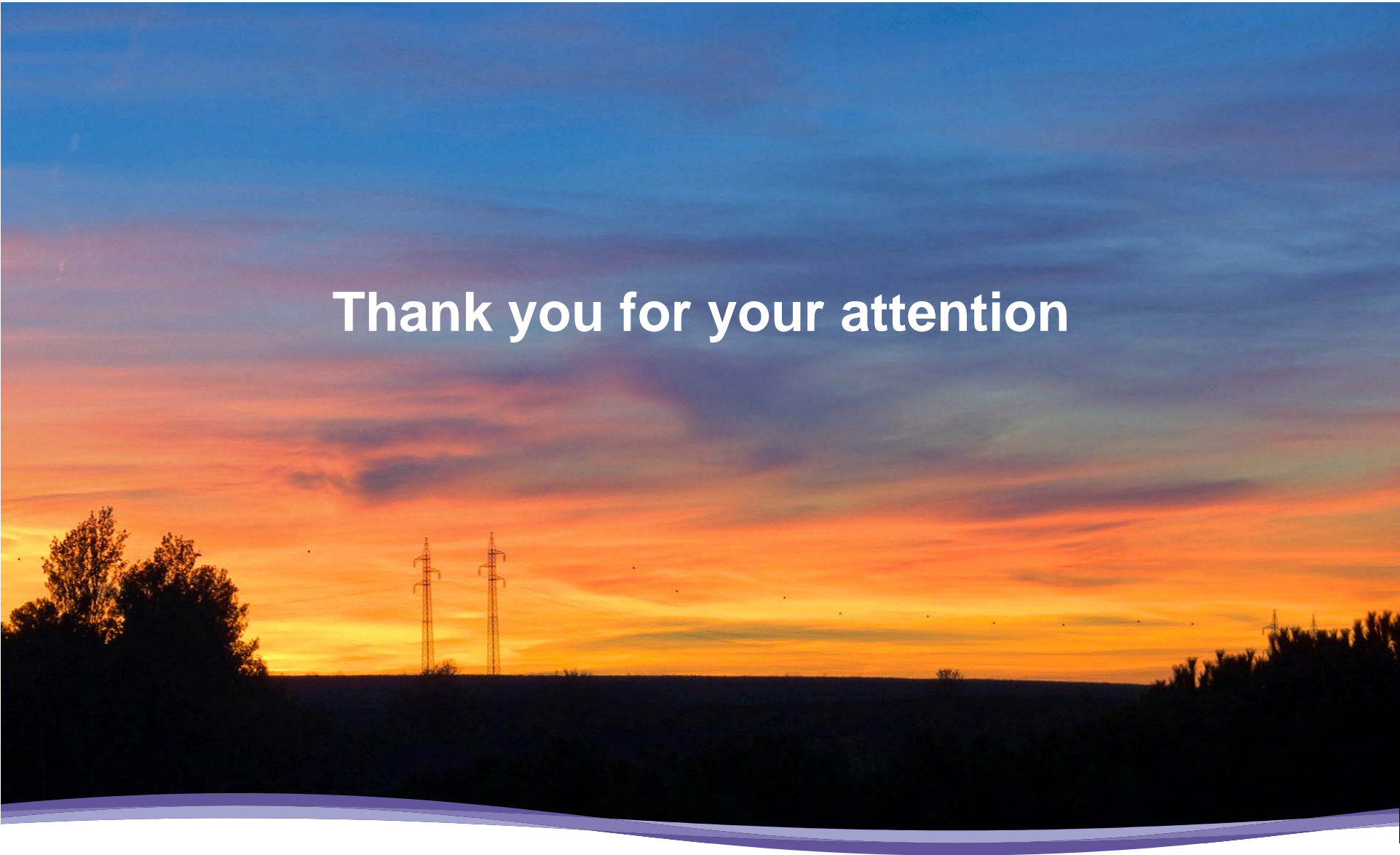


Cost Allocation

- TSOs need stable, long-term guarantees of cost recovery to invest.
- Appropriate cost recovery schemes require:
 1. Flexible negotiations and, where appropriate, support via tools for allocating costs to several parties involved in one investment project (i.e. cost sharing between TSO's or between countries).
 2. Tools for cost allocation to stakeholders (grid users). This is achieved by implementing cost-reflective tariff structures.
- Several projects facilitating the IEM require consideration of the issue under (1).
- ENTSO-E supports the consideration of the issue, but asks for a clarification of the scope.
- Multiple questions remain - What is a major/ complex project, how are private/social/ national/ European costs/benefits determined, how is certainty provided etc.

Is a complex centralised approach required or can regulatory flexibility & bilateral / regional negotiation find the best outcome?

- TSOs operate interconnected networks that need to be managed in an integrated manner
- The investment challenge is significant and risks are rising. This is not business as usual
 - Rewards must be proportionate to risks & costs have to be placed in the context of the benefits they deliver. Regulation needs refocusing.
- Europe's TSOs are confident they can meet the investment challenge, but regulatory and policy frameworks have to be supportive
 - Stability and transparency are easy to talk about and hard to create.
- Domestic & European policy objectives need to be aligned
 - In too many instances there is a disjoint
- Regulation and financing go hand in hand and have to be considered in the round, alongside individual country circumstances.
- These issues are discussed in the ENTSO-E position paper: "Creating conditions to allow TSOs to finance Europe's transmission investment challenge".



Thank you for your attention