



GIE answer to the European Commission's financing questionnaire

GIE would like to thank the European Commission for the opportunity to provide input to its legislative initiative "Creation of a facilitating environment to boost private and public sectors' investment in energy infrastructures". In addition to individual companies' response to the questionnaire, GIE would like to raise two crucial issues related to the financing of energy infrastructures:

- Need for long term commitments
- A sound investment climate and regulatory framework

Long term commitments

Any infrastructure for which there is a need (i.e. when a market party is willing to pay for its usage), can be financed in principle through the normal functioning of the market. The need for such infrastructure is usually expressed by long term contractual commitments from shippers and / or commitments by regulators. Long-term capacity contracts or regulatory commitments are required by financial institutions for granting credit. This link between investment and commitment is currently threatened for regulated and non regulated infrastructure, and may be more affected in the future by regulatory measures and initiatives.

In particular, there is a development towards short term capacity allocation with mandatory reservation of capacity for short term release and low or even zero pricing of short term products (which incentivises users not to book long term). Some national regulators have already introduced far-reaching measures in this respect. GIE believes that the Commission should reconcile the long term need for substantial investments by market parties in energy infrastructure with such initiatives regarding capacity and tariff regulation. The trend towards short-term commitments could also remove valuable investment signals. This may even lead to situations where investment needs are realised too late and security of supply problems arise.

In addition, infrastructure to transport gas used to be generally underwritten by the destination market. Today, with entry-exit systems, infrastructure risks are increasingly transferred to local markets. When flows and infrastructure usage change, be it through price developments in the market, through environmental policies or any other developments, infrastructure operators could end up with stranded assets.

Given their very long depreciation periods, the costs of both, underfunded or stranded infrastructures will have to be borne by the remaining local customers, which seems politically undesirable. Risk-adequate rates of return should therefore be taken into account in order to ensure a better risk sharing between markets. Furthermore, cost-allocation mechanisms could play a role, where lacking user commitment is substituted by cross-border compensation.



Sound investment climate and regulatory framework

A sound investment climate, together with a stable regulatory framework, providing the appropriate incentives for investment, constitutes the prerequisite for the development of new gas infrastructure, whether regulated or not.

The remuneration allowed by regulators and by the market should enable infrastructure operators to make economically sound investments. GIE notes that some national regulatory regimes are however currently mainly focused on cost cutting with the aim of lowering tariffs in the local market without recognizing the benefits to wider market integration. This is harmful for infrastructure development: setting low rates of return may decrease short term costs for the market but creates strong disincentives to invest for the long term. When the rate of return for determining the allowed revenues is such that an undertaking, which allocates capital to investments, deteriorates its profitability by doing so, operators will not realise projects in such market conditions – even if there is a market demand and users are ready to commit.

It is important to recall the conclusions of the European Council of 4 February 2011: “It is vital to promote a regulatory framework attractive to investment. Particular attention should be given to the setting of tariffs in a transparent and non-discriminatory manner at levels consistent with financing needs”. A regulatory framework attractive to investment will require attracting capital to projects, which will only be possible if investors accept the risk/reward ratio given for energy infrastructure; otherwise, investors would move towards other activities. Furthermore, regulatory frameworks should be clearly understandable, stable and predictable in the long run to enable investors to make long-term decisions.

Furthermore, incentives for operators could be performance-related rewards for implementation of network development measures. To be effective, these would have to be independent of, and more importantly, on top of the allowed revenues.

The current legal framework requires NRAs to provide incentives for investment and for fostering market integration and security of supply. The timely implementation of such incentives should take precedence over the deployment and use of innovative financing instruments. New financing instruments should not distort market based decisions on infrastructure projects. There may be instances, however, where innovative financial instruments are still warranted.