26 April 2007
Ref: 07GTE059

GTE Investment Principles

In 2006 GTE conducted a survey of its members which highlighted uncertainty in regulatory regimes as by far the greatest barrier impacting TSO's investment decisions. Following the survey GTE held a workshop on investment to discuss this finding with other industry players and debate what form of principles could practically contribute to addressing this situation.

In order to develop the investment principles GTE conducted a consultation of its members to share and consolidate elements from the various regulatory regimes which were considered to positively impact on investment decisions. Through this, and the feedback received from market players during the investment workshop, the attached list of investment principles was developed. These principles reflect GTE's views of the process required to foster a positive and stable regulatory climate for investment across Europe.

GTE now invites feedback from other parties on the extent to which the proposed principles adequately address the issues required to foster such a positive environment in Europe. It is the intention of GTE to hold a further workshop on investment later this year, depending upon the reaction of market participants to these principles, as well as report on further progress made by the investment working group.

GTE are pleased with the Commission's acknowledgment of investment as a priority, as demonstrated through the reoccurring theme of investment in the Strategic European Energy Review. GTE have long advocated that the investment climate across Europe should be predictable, stable, commensurate and complete. In line with this desire GTE established a working group focussed on investment to contribute towards achieving this goal.

In 2006 GTE conducted a survey of its members with the aim of identifying barriers to investment and determining means by which such barriers could be overcome. Uncertainty in regulatory regimes emerged unequivocally as the biggest barrier impacting on TSOs investment decisions. The issue is particularly acute where cross border investments are concerned as the interaction with more than one regulator, operating different regulatory regimes, is required. Therefore clearly movement towards a stable, predictable and compatible regulatory regime across member states is essential in order to facilitate a positive investment climate into the future.

Following from this survey GTE has undertaken to develop proposals for investment principles which will help foster a suitable environment for investment. The aim of these principles is to identify, share and publish positive elements for investment from our various members' regulatory regimes. In order to develop the principles members of the GTE Investment Working Group shared experiences of their individual regimes highlighting elements which were considered to positively impact investment decisions. These positive elements are encapsulated in the following principles.

1. GTE would like to see a broad consultation with stakeholders during the development of investment plans in order to guarantee that all stakeholders are able to input into the investment required. This consultation should be ongoing, providing indicative results for the system without binding implications for specific projects. The findings from the consultation can then be used by all system users on an equal basis to identify and evaluate opportunities.

2. GTE views the underpinning of investment by long-term binding commitments, from both the market and regulators, as vital to facilitate investment. Such commitments address the long-term risk TSOs are exposed to through investment, by preventing future alterations in investment conditions.

   GTE would like system users to make long-term binding commitments for investment, for example through methods such as Open Season. GTE would like TSOs to be in a position to take account of these binding commitments, as well as the indicative findings from the stakeholder consultation, to build flexibility into the investment proposals.

   The investment proposals should be fully recognised by the regulatory commitment, including any flexibility requirements which cannot be underpinned by the market. The regulators decision on the conditions for investment should be made within a defined period before any commitment to invest is taken by TSOs. It must be based on clear rules for investment conditions, and should include the length of the regulatory period, which should be of a long-term nature to allow stability and predictability.

   Whilst regulators should be responsible for approving investment following the pre-determined rules the ultimate decision on investment should lie with the TSO.

3. Regulators should use international benchmarking to contribute to the formulation of the regulated tariffs where appropriate, for example where a tariff system based on the regulated asset base does not exist, and where there is competing infrastructure.

4. If needed projects of international significance should be able to attain special regulatory conditions in order to encourage the necessary investment to be made. Specifically certain projects with a higher risk profile as a result of competition and lesser predictability of usage should be able to attain a different regulatory and tariff treatment. The granting of special conditions should be considered on an individual case basis, with clear, transparent rules explaining how such special conditions will be granted.

   Examples of such special conditions include:
   - Incentives to invest, such as a higher rate of return for specific projects with greater risks in order to encourage the investment to be undertaken
   - Granting of long-term commitments fixed for an extended period
   - Tariffs based on long-term contracts with tariffs defined in advance and applicable for the duration of the contract, allowing the profiling of tariffs to meet market needs. This decreases the risk for TSOs by ensuring investment costs are covered over the long-

term, as well as decreasing the risk for users because the tariff can be set lower for the initial phase
- Exemptions from article 22 for new projects if required to realise the investment

5. GTE would like to see a clear division and definition of roles and responsibilities between TSOs, policy makers (e.g. parliament, ministry etc) and the regulatory authorities, for example covering investment decisions, operational decisions, setting the regulatory framework and implementing decisions.

6. GTE would like there to be a focussed appeals mechanism in place. This should provide TSOs with the opportunity to challenge individual elements of decisions made by the regulators rather than having to challenge the entire decision.

7. GTE would like improved coordination and cooperation both within and between regulators and TSOs in case of an investment affecting 2 or more TSOs. There must be a strong commitment from TSOs and regulators to foster such cross-border investment. This will only be possible if there is a well functioning national regulatory regime on both sides.

Conclusion

Through this piece of work GTE have considered the positive aspects of the various members regulatory regimes, and from this developed principles that TSOs would like to see across Europe.