CEER Citizens' Q&A

CEER Report on Investment Conditions in European Countries

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1 How is energy regulation and investment linked?

Robust regulatory frameworks are essential for the development of energy markets. They promote confidence in market mechanisms and are central in ensuring a level-playing field with sound investment signals for the sector.

National regulatory authorities (NRAs) play an important role in overseeing the monopoly (electricity and gas) networks and market developments. NRAs scrutinise the network companies' costs and investments and help create a sound and predictable regulatory policy that encourages investment in the public interest. A stable regulatory environment is fundamental for a sound investment climate, which, in itself, is a pre-requisite for an adequate flow of the new investments needed to develop secure, competitive and sustainable energy infrastructure and markets. Predictable independent regulation also helps to reduce regulatory and legal risks for investors, and hence lowers the cost of capital.

The Council of European Energy Regulators (CEER), the EU association representing energy NRAs, promotes an investment friendly, harmonised regulatory environment and the consistent application of EU energy legislation.

2 What are investment conditions?

Investors base their decisions on a wide range of important factors. The investment conditions indicate the return for the employed capital for the investments. Investment conditions include depreciation, interest rates and tax considerations. These three elements are remunerated in all regulatory systems. It is important to know on what basis depreciations are calculated or what the basis of assessment for the return on equity is. Furthermore, it is important to know with which rate capital investments are compensated. In the report, these two elements (the calculation of the rate of return and the regulatory asset base with the depreciation schemes) are described and analysed in detail.

3 What's in this report?

This CEER report analyses the conditions for investments in electricity and gas networks in individual EU Member States and Norway. It provides a general overview of the implemented regulatory regimes, the required efficiency developments and analyses the overall determination of capital costs. The report underlines the importance of recognising the overall investment conditions and that individual parameters presented in this study, such as the weighted average cost of capital (WACC), have to be interpreted in the context of a whole country-specific regulatory regime.

4 Why is this important for energy customers? What is the impact on energy customers?

It is ultimately energy customers who pay for grid investments. In order to have efficient investment, it is only the costs that are needed to maintain the network infrastructure that should be financed by the network charge. Thus, it is important to make clear how capital costs are calculated. This report explains how network operators in each country are remunerated for network infrastructure investments.