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GBK-25-01-1#2

Elia Group Statement regarding key elements for the determination of a regulatory framework for electricity transmission system operators

Bruxelles, le 17/04/2025

Dear Ladies and Gentlemen,

we are taking the opportunity to comment on the paper recently published by BNetzA regarding the key elements for the determination of a regulatory framework for electricity transmission system operators GBK-25-01-1#2 (Eckpunktepapier). We are appreciating the early involvement of stakeholders in this process as this gives us as a shareholder of one of the transmission system operators in Germany a transparent opportunity to put our view into perspective. Furthermore, we are anticipating the intention of the regulator while launching the process at an early stage to provide clarity and visibility on the fundamentals of a framework upcoming investment decisions are based on what we are appreciating too. However, crucial elements to evaluate the framework are not known yet.

Elia Group, an energy and electricity transportation group, holds a stake of 80 % on the German Transmission System operator 50Hertz. In a long-term partnership with KfW since 2018 we are supporting grid investments into the German grid. Our mission is to make the energy transition happen for a sustainable world. Independently from the reasoning whether it is fighting climate change or sovereignty of Europe on energy our strong believe is the necessity to transform the energy system by decarbonization through electrification and integration of renewable energy.

This requires significant investments, leading to ~27 % annual RAB growth over 5 years. Elia Group is committed to further support this journey while executing a total capex program of €31.6 billion in the years 2024 to 2028; thereof €22.9 billion in Germany. To underpin this commitment the group has injected €480 million in the German activities in the financial year 2024. Recently Elia Group has raised €2.2 billion of fresh equity of which €1 billion are dedicated to be directed to 50Hertz. In the course of this raise we have been confronted several times with ambiguous signals perceived from the German authorities. In particular the mismatch between ambitions and absorbability of capex requirement has been raised. The strongest aspect was raised in connection with the return on equity which is perceived to be lower than the needed return regarding the costs of capital that the market is signaling. The MOODY's Outlook from April 10, 2025 on the industry states that under the existing regulatory frameworks, key credit metrics will deteriorate in absence of regulatory action which underlines the need of improvements of the regulatory framework. We view this development with great concern, especially against the background of the analyses of the European Court of Auditors ("Making the EU electricity grid fit for net-zero emissions"). The analysis, published in April 2025, shows that, despite the immense investments, the remuneration of investments for German grid operators are among the last places compared to European TSOs. In an international comparison with the USA or Canada, the German regulatory framework falls even further behind. Contrarily to this finding, costs of capital amongst German companies across

sectors increased again like recent studies (KPMG Kapitalkostenstudie – average WACC of 8.3%) has shown.

Taken the European financial markets into account it is from our perspective fair to anticipate a funding gap of several billions in the German utility sector. Referring to several studies and publications there is an investment need in the utility sector of €55-80 billion per year. Taken the constant flow of funding from the total Euro denominated market of €2.9 trillion into the German utility sector into account an annual funding gap of €30 to 50 billion remains. Public support out of climate transformation fonds, tax ruling to support accelerated depreciations or the better sequence of investments providing a constant industrial pipe and avoiding peaks could lower these amounts. But for a substantial remainder either stronger cash flows and or / higher attractiveness are required.

The national grid development plan for TSO is referring to €320 billion investments on- and offshore until 2045. The best way to ensure affordability for consumers is to synchronize consumption with production and grid extension, searching for pragmatic solutions. It must be ensured that the regulation enables an appropriate distribution of costs via the right beneficiaries.

An incentive scheme to accelerate cash ins for investors for example through shorter depreciation periods or accelerated schemes could be linked to timely commission dates as achieving these trigger points are the common goals. Therefore, we appreciate considerations of these thoughts as cash flows stabilize financial ratings and keep financing costs under control to the benefit of the consumers.

In addition, the regulation should facilitate a fast recovery of the investment costs, which should improve the operating cash flow from the larger asset base and, in turn, maintain the leverage and cash flow-based credit metrics.

Regarding the specific elements of the publication, we allow to comment as follow:

The WACC-system is internationally recognized for the remuneration of capital costs. However, as described above, the interest rates applied are decisive for the assessment. It is positive that it is becoming apparent that a uniform RoE for new and existing investments will apply from 2029 onwards. The current system with a RoE for new investments, which is fluctuating strongly, is not only too low by international standards but also leads to a high level of uncertainty for investors.

As mentioned above, the current RoE determinations in Germany are well behind the international average. It is essential that the RoE is internationally competitive as investors will otherwise channel their money into more attractive markets and Germany will become unattractive as an investment location. There is an urgent need for adjustment and the interest rate requirements of the capital market must be considered by BNetzA. This aspect has also been raised by investors within our recent capital increase (see above) and in the initial launch meeting of BNetzA regarding the key elements for transmission system operator.

In addition to the need for equity, debts must be provided on an unprecedented scale. Within a WACC-system a reference series must be defined carefully. Deviations from the average reference interest rate can result from the timing of the placement and are not necessarily an indicator of inefficiencies. However, due to the magnitude of the capital requirement, these deviations can lead to incalculable effects on profitability and the specific risk profile. Therefore, it must always be ensured that market-oriented costs of debt can be fully refinanced via the new annual scheme.

Regarding operational expenses a system with an annual planned cost approach and actual cost remuneration can cover rising operating cost. However, it remains unclear whether the ex-post cost

audits described in the key element paper will result in subsequent cost cuts. BNetzA describes review periods of up to 4 or 5 years until a permit is granted. It must be avoided that costs will be cut retrospectively. Otherwise, this component increases the risk profile of the TSOs, especially since OPEX as well as CAPEX are currently in discussion. This is incomprehensible to us and should be corrected, as the majority of projects are predefined based on national grid development plans and assets are tendered internationally.

The impact on profitability of the planned incentive instruments cannot be derived from the key element paper since details are unclear. However, BNetzA announces a pure bonus system regarding grid extension that allows a substantial bonus. It needs to be stated that additional instruments to improve the financing capability are needed. In this context, we would like to point out that there is already an acceleration incentive for the commissioning of projects as part of the calculation of the interest base in the year of commissioning. This incentive within the current framework still makes a lot of sense and should continue to exist in the next regulatory periods.

We hope these elements gives you are good view on our rationale and looking forward to its consideration in the upcoming process. We are appreciating the dialogue and remain at your disposal to deepen the discussion contributing to a balanced outcome of the process making energy transition happen.

Yours sincerely