



# **The Clean Energy Investment Strategy – Implementation considerations & gaps for DSOs funding**

Drafted by DSO Entity's Task Force Finance

June 2026

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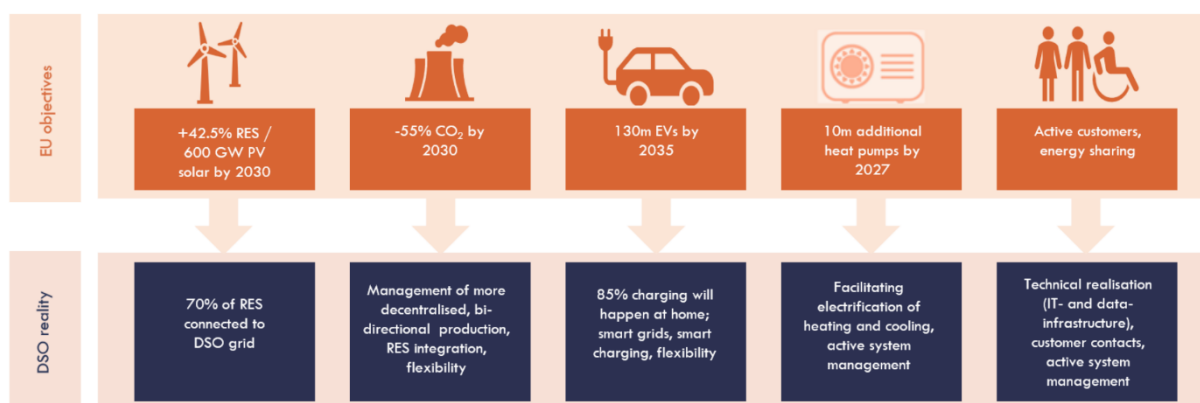
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## 1. Introduction

The next few years will be crucial to ensure that the EU countries will be able to reach the ambitious net-zero goals set out by the European institutions. Recent events have underscored the urgent need of accelerating the energy transition, for reaching carbon neutrality and ensuring strategic independence for the continent. To achieve this objective, concrete targets have been introduced:



**Figure 1:** How DSOs will contribute to the EU energy transition targets.

By 2030, with a 42.5% increase in Renewable Energy Resources (RES) and 70% of total RES connected to Distribution System Operator grids, DSOs face a transformative challenge. This “generation”-borne challenge is further amplified by a surge in demand for electricity coming, among other sources from the electrification of transport (with an political target of 130 million electric vehicles, with 85% of charging occurring at home and an uptake on electric busses and trucks) and of heating (with additional 10 million heat pumps by 2027) and large industrial process including data centres and increasingly battery storage<sup>1</sup>, all presenting an invigorating challenge for DSO to deliver the necessary capacities but also an opportunity for DSOs to innovate and adapt.

To deliver the energy transition, the European Commission estimates overall investment needs of EUR 660 billion annually between 2026 and 2030, rising to EUR 696 billion annually from 2031 to 2040. Given its pivotal role, the 15% (EUR 100 billion annually of which two-thirds are directed to DSOs) of these investments directed to grids would be crucial to ensure the other investments are meaningful. This volume of investment is well above the sector's historic levels. This is reflected in the 46.7% growth from 2021 levels identified by ACER (2026)<sup>2</sup>. With that growth, larger DSOs would be investing 46.7 bn, which is getting close to the estimates in the literature.

To deliver the necessary network infrastructure on time and in an efficient volume, DSOs need to access the funds to pay for these inputs. As part of the work in its Task Force on investment funding and finance, DSO Entity has been working to facilitate the implementation of the different sources of funds.

<sup>1</sup> Data centers represented between 1.8% and 2.6% of the total EU electricity use in 2022. Estimate providing in, Kamiya, G. and Bertoldi, P., Energy Consumption in Data Centers and Broadband Communication Networks in the EU, Publications Office of the European Union, Luxembourg, 2024, doi:10.2760/706491, JRC135926

<sup>2</sup> ACER (2026) “Managing the ramp-up of electricity distribution investment to better serve grid users: ACER report on distribution system operator (DSO) revenue setting practices”. Available [online](#).

This paper builds on previously published DSO Entity papers on anticipatory investments, regulation for innovation and funding (public and private) by considering the current proposals by the European Commission with the objective to support in their implementation.

The European Commission is working to ensure that public funding is available in the delivery of these investments. However, public funds in the form of grants would not be able to deliver that investment volume. As a result, such public funds should be used to crowd in (even larger sums) of private investments, but such private funds need to be available in the first place. Therefore, a broader framework aimed at facilitating DSOs to have access to the necessary funding efficiently should also be in place.

For a start, regulators need to develop regulatory frameworks that attract investment. In addition, public policies and funds could also be used to facilitate DSOs obtaining the necessary funds efficiently. As part of the development of these policies, the European Commission published, on the 10<sup>th</sup> March, its Clean Energy Investment Strategy (CEIS). The CEIS proposes measures such that DSOs can access private funds more broadly and more efficiently. As part of this strategy, the European Investment Bank (EIB) will deliver more than EUR 75 billion of financing over a 3-year time span.

The objective of this work is to identify whether the potential barriers that are analysed in our paper on DSOs' access to finance<sup>3</sup> would be fully addressed with these policies. To achieve this, this paper starts by identifying some of the European policies that could be used to address these potential barriers. In addition, this paper will also consider the potential implementation of the actions in the CEIS and the effect that these relevant actions could. This information is then used to assess whether any of the relevant barriers to accessing financing are still in place.

## **2. European policies aimed at facilitating efficient financing of grid investments**

European institutions are developing and implementing different policies that could influence the DSOs' capacity to finance their investment. For the purpose of this paper, financing of investments is understood mostly as the ability to acquire additional amounts of debt or equity from the capital markets (i.e., by bank loans, commercial paper issuance, hybrid bonds, equity raises etc.).<sup>4</sup> Identifying a list with all these policies would be an almost impossible endeavour. Therefore, this paper will focus on those that have been identified as having a more direct effect on that capacity.

The following sections will discuss each one of those policy areas in detail to explain the main actions and how this could affect the DSOs capacity to access finances.

### **2.1 Regulatory framework – tariffs and anticipatory investments**

Regulatory frameworks play a crucial role in DSOs' investment and finance decisions. They set the balance between the risk companies and their investments face and the returns they can expect for those investments. Therefore, it is crucial that frameworks are predictable, supportive and provide

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<sup>3</sup> The paper titled DSOs' access to finance is available [online](#).

<sup>4</sup> Additionally, and importantly DSO do generate relevant parts of the capital they need from their regulated revenues. Therefore, a regulatory regime that is economically attractive has a positive effect on the DSOs' internal funding capacity but also on its attractiveness from the capital markets point of view.

stability of long-term investments with a clear definition of the balance risk and reward set at the outset.

The development of regulatory frameworks is undertaken at a national level by independent regulators but always following the principles in Article 18 of the Regulation (EU) 2019/943. As a result, regulatory regimes should reflect all DSOs costs (including anticipatory investments) while providing incentives over both the short and long run, to increase efficiencies, foster market integration and security of supply, to support efficient investment to support related research activities, and to facilitate innovation in interest of consumer in areas such as digitalisation, flexibility services and interconnection.

Regulatory frameworks should also be consistent with the pace of change, and the variability of the investment needs of the sector since that fast change and higher variability would bring additional uncertainties that would need to be allocated between consumers and investors. Therefore, as both those dimensions have been growing with the energy transition, most traditional regulatory frameworks are being pushed to cope with this growth while still providing investors with the certainty necessary to access the necessary finance. At the same time these higher investment needs are likely to put pressure on customer bills.

Following the principle of subsidiarity, the European Commission has traditionally not legislated on these topics. However, with the objective of facilitating the design of cost-reflective network charges, it has published guidelines for Member States that would advise on policies that could affect DSOs' network tariff frameworks. More recently, the Commission has indicated an intention to complement these guidelines with a legislative proposal on network charges and energy taxation, expected in Q2 2026.

Two significant examples of these Guidelines are those published on anticipatory investment<sup>5</sup> and on tariffs<sup>6</sup>. These documents are not mandatory for the Member States, but they identify good practices to ensure companies can efficiently deliver the energy transition. For example, the Guidelines on tariffs proposes that Member States should introduce incentive based regulation for grid operators which, together with the requirements in Article 18, have been identified as having a positive effect on the DSOs' capacity to invest in innovative solutions.

Going forward, it is important that the European Commission, together with ACER, keeps monitoring the different regulatory frameworks to identify potential barriers that can affect Member States' capacity to deliver the energy transition.

DSO Entity and its members support the European Commission engagement in the delivery of predictable, stable and supportive regulatory framework for the delivery of the energy transition. This could facilitate the development of robust regulatory frameworks based on good international practices.

## 2.2 Savings and investment initiative

The European Commission has identified a lack of integration of the financial markets among the Member State as one important obstacle to the completion of the Common European market. To address this issue and ensure an efficient allocation of savings, the European Commission launched in

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<sup>5</sup> The EC's guidelines on anticipatory investments available [online](#).

<sup>6</sup> The EC's guidelines on future proof network charges available [online](#).

March 2025 the Savings and Investments Union (SIU)<sup>7</sup> which aims to deepen and integrate EU financial markets by connecting the vast pool of European household savings with productive investments across the continent.

The objective of this initiative would be to integrate the European financial markets to facilitate that households can invest more freely across Member States while companies can also have access to a broad range of financial instruments and institutions.

For DSOs, this initiative could prove particularly significant. As regulated natural monopolies with stable, predictable cash flows and large asset bases, DSOs represent exactly the type of long-term infrastructure investment that the SIU seeks to mobilise private capital towards. By reducing cross-border barriers and expanding the range of available financial instruments (including simplified securitisation frameworks and long-term investment funds) the SIU would facilitate DSOs access to a much broader and more diverse investor base than they can currently reach.

This wider market access could meaningfully reduce DSOs' cost of borrowing. Today, many DSOs remain heavily dependent on local or national bank financing, which comes with inherent limitations: constrained lending capacity, higher risk premiums, and limited appetite for the scale of investment that the energy transition demands. A more integrated European capital market would allow DSOs to tap institutional investors, issue cross-border bonds, and benefit from greater competition among lenders, all of which put downward pressure on financing costs.

DSO Entity and its members support the European Commission's proposal to create a more integrated European capital market. The creation of a more integrated European financial market could facilitate that DSOs access a broader and more liquid financial market which could improve efficiency when acquiring the necessary funds.

### 2.3 Multiannual Financial Framework

The European Commission's proposal for the next Multiannual Financial Framework (2028–2034) includes three main instruments relevant to Distribution System Operators: the Connecting Europe Facility for Energy (CEF-E), the National and Regional Partnership Plans (NRPPs), and the European Competitiveness Fund (ECF). While the proposal acknowledges that distribution grids represent the largest share of the c€600 billion in energy infrastructure needs over the 7 years covered by the MFF, DSOs remain structurally underserved across all three instruments.

The CEF-E sees its budget increase fivefold, from €5 to €30 billion, a move DSO Entity welcomes, but the regulation does not explicitly mention smart grid projects, and the historic orientation toward transmission cross-border projects risks persisting. The NRPPs, with €865 billion in scope, could offer significant opportunities for grid modernisation, but the absence of any earmarking for distribution infrastructure means access will depend entirely on national priorities, creating an uneven playing field across member states, as already observed under the Recovery and Resilience Facility. The ECF, the EU's flagship €450 billion industrial instrument, mentions distribution grids among eligible activities but equally lacks a dedicated earmark, raising concerns that grid projects will lose out to more politically visible priorities.

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<sup>7</sup> See [here](#).

Across all three instruments, the common thread is the same: DSOs are acknowledged but not secured. Without explicit earmarking, stronger guidance, and regulatory alignment, including on the ECF's "EU preference" sourcing condition, there is a significant risk that the MFF falls short of its own ambitions on competitiveness and clean transition.

DSO Entity and its members are concerned about the current evolution of the MFF proposal. While the proposal appropriately acknowledges the funding challenges within the energy sector, including those at the distribution level, this ambition must be translated into concrete, sector-specific recommendations, particularly with dedicated support for DSOs. Without targeted funding, there is a significant risk that DSOs will be overlooked, undermining the building of comprehensive synergies between the priorities addressed by the proposal, and the EU's competitiveness and transitional targets.

## 2.4 European Investment Bank's products

The European Investment Bank has significantly scaled up its support for electricity grid infrastructure, doubling its annual lending average from €2.8 billion in 2019-2021 to €6 billion in 2022-2024, and mobilising 40% of total EU grid investments in 2024.<sup>8</sup> This growing engagement reflects the scale of the investment challenge facing DSOs: an estimated €55-67 billion per year is needed until 2050 to modernise ageing infrastructure (40% of assets are over 40 years old) and accommodate rapidly growing electricity demand from e-mobility, heat pumps, and data centres. And indeed, the latest numbers from ACER show that DSO investment continues to grow on a year-to-year basis and will probably reach 47 bn. € in 2027.<sup>9</sup>

In terms of financing products, the EIB currently offers DSOs three main instruments:

- **Corporate loans** – the EIB lends to the company as a whole, and repayment depends on the overall financial health of that entity rather than on the revenues of any specific project. This makes them well-suited for large, investment-grade DSOs with a solid regulatory asset base;
- **Project finance loans** – this tool is structured around a specific, ring-fenced project or asset pool, with debt service tied to the revenues that the project generates. This is typically relevant for discrete infrastructure investments with identifiable and predictable cash flows. From the borrower's perspective, the key difference is where the debt sits: in corporate lending, the company carries it on its overall balance sheet, while in project finance the liabilities are kept within a dedicated project vehicle and do not weigh on the company's wider finances, and
- **Multi-Beneficiary Intermediated Loans (MBILs)** – this tool does not extend loans directly to the end investor. Instead, the EIB lends through a commercial bank or national promotional institution, which then passes the funds on to the final beneficiaries. This structure is particularly useful for smaller operators who would not meet the EIB's minimum loan size or credit requirements on their own. For the borrower, the practical implication is that the contractual relationship is with the intermediary bank rather than with the EIB itself.

Green and hybrid bonds are also under development. On the lending side, the EIB acknowledges both challenges and opportunities in the sector: counterparty alignment, the sheer volume of investment required, and the fragmented landscape of smaller operators complicate engagement, while the

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<sup>8</sup> The EIB financed projects worth 28 bn in total (including EIB and private funding) out of the EU investment of 70 bn of investment in the sector.

<sup>9</sup> ACER (2026): [Managing the ramp-up of electricity distribution investments to better serve grid users](#)

transition also opens opportunities around active distribution grids, storage, distributed generation integration, and prosumer flexibility.

The EIB's broader strategic direction, set out in the Climate Bank Roadmap Phase 2 (2026-2030) and the new Energy Sector Orientation, frames grid financing within three pillars: competitiveness and affordability, climate and sustainability, and security and reliability. These topics are expected to be integrated with the provisions of the Clean Energy Investment Strategy, which should provide an overarching framework for how EIB support aligns with EU energy and climate objectives.

DSO Entity and its members support the work the EIB is undertaking to facilitate efficient access to finance by DSOs and its future proposals. DSO Entity will continue to engage with EIB to support in the tailoring of its products to the needs of all DSOs, independently of their size.

## 2.5 Conclusions

The European Commission and European institutions are taking an active role in facilitating access to the necessary funding for the delivery of the energy transition. This has resulted in a number of initiatives that if properly implemented could have an important effect on European competitiveness.

These measures should facilitate that DSOs can have access to a broader range of financial sources that would improve their financial capabilities while still delivering for European consumers.

## 3. CEIS: Implementation will be key

DSO Entity welcomes the proposed actions included in the CEIS, if properly implemented, they could increase the DSOs' capacities to access the funding they require for the delivery of the energy transition. Their effect, however, will strongly depend on the practical implementation of the different actions.

In the CEIS, the European Commission proposes four actions. The proposals in actions 1 and 2 will be discussed in more detail below as they are the most relevant for DSOs. Action 3 focuses on de-risking innovative clean technologies for generation and long-duration storage. Even if grids could also benefit from de-risking innovative clean technologies, they are not considered in this action, which constitutes a missed opportunity. Finally, action 4 describes the establishment of an energy transition investment council. DSO Entity welcomes the creation of this council. Even if not explicitly discussed in the CEIS, DSO Entity stands ready to support the new council as an observer to identify practical challenges during these discussions, as well as to provide potential solutions, giving voice to all relevant companies (e.g. companies owned by local authorities or small private investors).

In actions 1 and 2, it is important to implement them carefully to ensure they are efficient and effective in the delivery of the energy transition. Therefore, in the next section, the different proposals will be considered and, based on previous experience by DSOs, some lessons learnt will be provided for the implementation of these measures in practice.

## 4. Action 1: Strengthening Grid Operator Balance Sheets

This action is particularly significant for DSOs since it aims to facilitate that DSOs (and TSOs) can finance massive infrastructure upgrades while maintaining high credit ratings.

To achieve this, the CEIS proposes the three actions:

- The funding of a strategic infrastructure investment fund (SII Fund),
- The creation of an operator security facility and
- The acquisition of hybrid bonds (by the EIB).

In this section, the objective is to identify lessons learned from DSOs that used similar tools in the past and identify areas that should be considered when implementing these propositions.

#### 4.1 Strategic infrastructure investment fund

With this proposal, the European Commission, together with the EIB, would create an equity platform facilitating targeted co-investment alongside infrastructure funds. EIB will commit EUR 500 million to provide anchor capital to invest in specific energy infrastructure projects.

The risk perceived by investors inter alia depends on the debt-to-equity ratio that is being used to finance a company. Therefore, a DSO aiming to fund its investment only with loans could face a barrier as it would increase its leverage to levels that lenders could consider too high/risky. To mitigate this effect, the SII fund would combine the loans with additional equity to provide reassurance to lenders and facilitate efficient access to funding. Such equity injections would also serve as a signal to other market participants, as the EU's SII.

When implementing this proposal, topics to be considered should include:

- **Dilution effect:** current owners could prefer not/be unable to dilute the control they have over the company by accepting external equity. Therefore, these DSOs would not be able to gain access to the SII funds. To mitigate this effect, however, the equity provided by the SII Fund could, for example, renounce to its voting rights (i.e. the EIB becomes a passive shareholder). This would reduce the dilution effect as the control would remain with the original shareholders. To make it more effective, it could be necessary that the restrictions on those DSOs that are not allowed to go under a certain threshold of private equity are relaxed.
- **Project finance:** DSOs' projects are normally financed using corporate finance instead of project finance. Therefore, for DSOs to be able to use this fund, it should blend funds aimed at the whole company instead of a set project. At this point these funds would operate as a guarantee to the debt of the company while still improving the financial ratios of the company.
- **Portfolio effect:** In some cases DSOs are integrated/co-owned by other DSOs or by a conglomerate of companies (e.g. multi-utility companies). These companies will be, often, financed at a group level. Therefore, if these loans are only available at the individual DSO level, companies could fail to qualify for them as they do corporate finances. As a result, the SII Fund would need to consider mechanisms to finance the overall group of companies, under a compromise that these funds are dedicated to the financing of the DSO.
- **Bureaucratic requirements:** A common challenge when accessing funds EIB's funds is the volume of red-tape associated with these funds which could result in DSOs being unable/unwilling to apply for these funds. To mitigate this risk, it is important the EIB's requirements are aligned with those that lenders would be putting forward and kept to a minimum.

One important point to remark is that when considering access to debt, the debt-to-equity ratio is not the only KPI being considered. Lenders will also consider whether companies have the funds to return

loan, i.e. whether its EBIDTA<sup>10</sup> allows for the companies to return this additional interest. Therefore, in addition to the points above, it is important that the regulatory framework provides for the necessary EBIDTA.

A SII Fund that accounts for the factors above could attract investors and at the same time providing DSOs with the incentives to use these tools. The level of complexity, however, would mean that this approach could be limited to large and medium size DSOs. Smaller DSOs are likely to find this mechanism too complex and burdensome for their financial requirements.

### 4.2 The operator securitisation facility

The CEIS also includes the proposal the EC and EIB will collaborate on an Operator Securitisation Facility which would evaluate off-balance sheet financing structures that could convert future regulated revenues streams into immediate liquidity.

This mechanism enables DSOs to recover their revenues. To understand the effect of this proposal, it is necessary to understand how a securitisation operates. This is explained in the box below taken from the European Central Bank’s website.

**How does a securitisation normally work?<sup>11</sup>**

In a traditional securitisation, a pool of assets (usually sharing similar features) is transferred to an entity known as a financial vehicle corporation. The financial vehicle corporation is independent from the original holder of the assets, also referred to as the originator.

The financial vehicle corporation issues securities, usually bonds, which are placed with investors to fund the purchase of the assets. Thus, non-marketable assets are converted into marketable ones.

The return on the bonds is linked to the return on the portfolio transferred and is isolated from the credit risk of the originator. Different classes of securities can be issued for a given portfolio. Each class has a different level of credit risk, and the returns vary accordingly.

Examples of assets that can be securitised include loans granted by a bank or a specialised lending institution.

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graph LR; OH[Original holder  
(Example: Bank)] -- Assets --> FVC[Financial vehicle corporation]; FVC -- Payments --> OH; FVC -- Securities --> I[Investors]; I -- Payments --> FVC;
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**Figure 2: Illustration of how securitisation works.**

<sup>10</sup> Earnings Before Interest, Taxes, Depreciation, and Amortization

<sup>11</sup> As seen in [European Central Bank’s Methodology](#) (31 March 2026).

When considering securitisations, it is also important to consider the accounting treatment of this financial tool. In short, an operation can be removed from the DSO's balance sheet when the debt of the financial assets meets strict criteria under accounting standards IFRS9. These criteria mainly revolve around the surrender of control and transfer of substantially all risks and rewards.

However, because future revenues depend on ongoing performance and risk-bearing by the operator, they are not treated as separable assets. The company continues to operate the asset, bears downside and upside risk, and controls customer relationships. Therefore, these revenues are likely to remain in the DSO's balance sheet and be treated as a loan secured on revenues where the company receives upfront cash and records a new financial liability.

As a result, securitisation would result in no changes in EBITDA and productive performance, but it would reallocate cash over time rather than creating new economic value.

In addition, there is also a waterfall effect, i.e. the contractual order that dictates how every euro of revenue must be used. Given contractual obligations, revenues must first cover essential operating costs. Second, they must service senior debt. Third, cash may be trapped in reserve accounts to protect lenders. Fourth, junior obligations are paid. Only residual cash is freely usable by the company. As a result, any revenue coming from the securitisation is likely to be captured into this obligation as the additional revenue is not the result of additional economic value.

It is for all of this that revenue securitisation in infrastructure reallocates claims on future cash flows rather than increasing economic value. Its usefulness depends on whether liquidity timing, rather than underlying performance, is the binding constraint.

To understand the effect of securitisation, it would be necessary to consider, at least:

- **Regulated revenues as “legal assets”:** Normal securitisation requires a (physical or financial) asset that the original holder can securitise. Therefore, to be securitised, regulated revenues should be **considered as a legal right** that DSOs own. This would require a careful legal assessment to identify the requirements this would impose on the regulators (e.g. a reduction in regulated revenues could be seen as a modification of legal rights). Without such recognition, securitisation may only support short-term financing (potentially only one regulatory period)
- **Period of regulated revenues that are guaranteed:** Regulators normally evaluate proposed costs regularly (i.e. every number of years). After that evaluation, the regulator would determine the regulated revenues DSOs are allowed to recover from consumers. Therefore, with the questions above, it is only then that those revenues can be considered as a “legal asset”. Therefore, a DSO would only be able to securitise those revenues already allowed by the regulator (normally 2 to 5 years). This would strongly limit the amount that can be securitised, and even more if we consider that this is a complex process that could only be triggered after the determination of the regulator. To mitigate this limit, regulators would need to guarantee that DSOs would be able to recover the securitised revenues during a longer period of time (e.g. a regulator would need to guarantee a DSO will be recovering, at least, 20% of its revenues during the following 10 years).
- **Types of regulated revenues that are guaranteed:** To facilitate innovation, the regulatory framework must provide the same treatment for all types of costs. This equal treatment should also include the potential for securitisation (e.g. if anticipatory investments can be securitised but other projects cannot, DSOs could prefer to incur additional anticipatory investments). To avoid this risk, securitisation could be allowed for a percentage of the total regulated revenues.

- **Accounting treatment of securitised revenues:** From an accounting perspective, DSOs would only be able to remove securitisation from their balance sheets if they can relinquish all risk and rewards to the Financial Vehicle Corporation. Taking into account that the revenues normally are affected by the DSO performance (i.e. regulatory incentives), it would be difficult to justify this disconnection. If that is the case, the securitisation would appear as debt in the DSO's balance sheet. This increase in debt could limit/affect the access to other debt tools due to the debt-to-equity ratios. Furthermore, this could also affect the regulatory settlement. In some jurisdictions, DSOs could be penalised for departing from a pre-set debt-to-equity ratio. Therefore, to provide incentives for DSOs to engage with these tools, there could be necessary to modify the regulatory framework
- **Complexity and size of the ticket:** Securitisation is a complex financial product that DSOs would need to understand. Furthermore, it is currently foreseen only to be used to raise a large amount of funds. Therefore, this option would be mainly targeted towards large DSOs. Medium and small size DSOs could require support for them to put together the relevant documentation. In addition, it would be important to ensure the alignment between the supporting documentation for different types of support. In addition, the needs of different DSOs could need to be combined to achieve the minimum ticket size. This, in parallel would increase the complexity of the securitisation product (e.g. investors would need to consider the financial situation of all underpinning companies) making it riskier.

It is for all this that the European Commission should work very closely with regulators and regulated companies to ensure the proposed structure can be implemented in practice. Furthermore, to support securitisations, public funds could be used to guarantee these financial assets. This would reduce the risk perceived by investors and, as a result, the returns they request from their funds.

### 4.3 Hybrid bonds

The last proposal to strengthen the balance sheet involves the EIB taking a more active role in acquiring hybrid bonds. As discussed in our paper "DSOs' access to finance", hybrid bonds are bonds that remunerate investors only when certain conditions are met. As a result, they can be set in the balance sheet as quasi-equity, which would help to reduce the limitations in the DSOs access to equity.

- **Complexity and size of the ticket:** The emission of hybrid bonds is a complex process and it requires a large ticket volume. Therefore, as with securitisation, this is an option that large companies can do by themselves (and they currently do) while medium or small companies could require support, both technical and of coordination, to reach the minimum size.
- **Higher costs than ordinary bonds:** Hybrid bond holders are less likely to receive returns than standard bond holders. Therefore, they will require an additional return to mitigate this risk, i.e. they will partially operate as shareholders. To mitigate this risk, potential guarantees could be required to mitigate this additional risk.

To avoid these issues and to open the development of hybrid bonds to smaller DSOs, one could propose to pool the needs of the DSOs. However, this option could not work with hybrid bonds once the ultimate "sanction" of a hybrid bond is that the lender will receive equity when interest payments that were agreed beforehand or some other financial KPIs are not met. To mitigate this risk of "free riding", public funds could be used to support these coordinated bonds.

As a result, this option seems to be suitable for large and medium-sized DSOs that can have access to the necessary finances.

## 5. Action 2: Supporting access to finance for operators via loan securitisation and intermediated lending for small operators.

In this action, the Commission indicates that it will explore, together with the EIB, potential measures to free banks' lending capacity while crowding in private institutions capital. More concretely, the CEIS indicates two main actions:

- **Securitisation for the banking sector:** one potential barrier for DSOs to have access to additional loans is that local banks already have a significant exposure to the sector. Therefore, to mitigate this effect, the EIB could acquire loans from the regional banks with the objective of securitising them. This would remove the exposure of those banks to the sector and, as a result, would facilitate DSO obtaining further loans (e.g. the EIB and Commerzbank joined forces for €1.2 billion energy investment to power the green transition as part of the G4E Growth 4 Energy. With this agreement, the EIB guarantees 50% of the risk faced by Commerzbank when providing loans related to the energy transition<sup>12</sup>. This, however, could be limited by the EIB's capacity to engage with the sector. To mitigate this, potential limitations on the EIB's exposure to the sector could need to be reconsidered.
- **Using local banks networks as intermediaries for EIB products:** many DSOs, especially the small ones, have strong relationships with local banks as both organisations have spent the resources to understand each other needs. Therefore, small DSOs could have difficulties accessing other banks due to their switching and transaction costs. To mitigate this, the EIB could use the local banks to lend to small DSOs (e.g. in Germany, KfW supports private individuals, businesses and public organisations with promotional loans and grants with a focus on sustainability)<sup>13</sup>. When developing this mechanism, however, it is crucial to consider the red tape associated with these loans. To ensure that local banks as well as small DSOs engage with these new products, it would be necessary that the required documentation does not introduce a significant burden (e.g. the EIB should use the same documentation as a normal local bank).

These measures should facilitate the operations of the banking sector as an intermediary to deliver the energy transition. To facilitate the implementation of these mechanisms, it would be important that both banks and DSOs have relevant information about these possibilities. Therefore, as part of the design of the implementation, EIB should engage with relevant DSOs associations to ensure the information reaches the potential users.

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<sup>12</sup> For further information, see [here](#)

<sup>13</sup> For further information, see [here](#)

## 6. Mapping of policies and relevant barriers

To evaluate the CEIS, this section will compare these measures against the potential objectives that were identified in our paper on finance. This comparison is presented in the table below.

Potential policy objective	Policies for addressing the barrier	Potential gaps
Improve the debt-to-equity of the DSOs to facilitate access to the lending market.	<p>The SII Fund in the CEIS aims for the EIB to provide necessary equity with the objective to attract additional borrowing capacity.</p> <p>The acquisition of hybrid bonds (considered as quasi-equity) by the EIB would facilitate to manage the equity-to-debt ratio.</p>	<p>The SII Fund and hybrid bonds can, depending on implementation, achieve this objective.</p> <p>Not all companies will be able to access these solutions as a result of their legal characteristics and the complexity of these solutions.</p> <p>If this limitation arises only the option of use hybrid bonds could support the company finances.</p>
Improve the DSOs' capacity to use internal finances.	<p>The operator securitisation facility could provide additional liquidity to companies. As a result, they could improve their short-term cashflows.</p> <p>However, this effect would depend on the regulatory treatment of securitisation. Companies can be penalised if departing from an equity to debt ratio assumed by the regulator. Securitisation could have this effect which would reduce incentives to engage in them.</p>	<p>Facilitating DSOs' use of internal finances would require policies ensuring competitive returns. NRAs should note that while lower returns protect consumers in the short term, they ultimately hinder efficient investment and worsen long-term outcomes.</p>
Reduce the cost and complexity to accessing to debt and bond markets – this cost is even higher for hybrid bonds.	<p>None of the measures would directly support companies to participate in the bond market.</p> <p>The proposal that the EIB acquires hybrid bonds could have a positive effect since this would reduce the costs of collocating these bonds and/or give a signal to other investors about the quality of the investment.</p> <p>Also, the creation of a common financial market would increase</p>	<p>Measures aimed at reducing the cost of complexity of accessing the debt and bond market could improve the DSOs' capacity to access to debt. This could include solutions such as:</p> <ul style="list-style-type: none"> <li>• Technical support;</li> <li>• Grants for covering auditing and rating costs;</li> <li>• Mechanisms to group DSOs financial needs</li> </ul>

	the liquidity in the market that could reduce the entry costs by companies.	<p>(mainly for medium and small companies),</p> <ul style="list-style-type: none"> <li>• etc.</li> </ul> <p>A measure that deserves special support would be the provision of public guarantees for the bonds aimed at financing the energy transition.</p>
Ensure that investors (share- and bondholders) receive returns in line with the market and ensure the financial assumptions in the regulatory framework are consistent with the DSOs financial realities.	<p>None of the proposed measures would aim to achieve this objective.</p> <p>The savings and investment initiative could facilitate this as it would provide a common base for companies accessing the financial market which could make easier to compare the returns DSOs are being allowed.</p>	The European Commission could develop guidelines on the potential methodologies for the calculation of the returns of the companies. These guidelines should consider the evidence available for the estimation of the different parameters as well as the reasons that could justify differences between member states.
Ensure that regulatory frameworks address uncertainty about the recovery of investments.	The guidelines on anticipatory investments put forward by the European Commission indicate potential mechanisms to address this objective. However, it does not consider all potential sources of uncertainty being faced by companies.	The European Commission could develop further guidance on the management of uncertainty in planning and regulation.
Increase the size of the banking sector to ensure DSOs can have access to the necessary debt.	<p>The securitisation of the banking sector would facilitate that the current banking systems can lend more (i.e. increasing the size inside the country).</p> <p>The saving and investment initiative would facilitate that DSOs can borrow in the whole Union (i.e. increase the size of the overall market)</p>	Current policies whether there are barriers that limit institutional investors' capacity / willingness to (further) engage with the energy sector. This should be considered as part of the integration of the financial markets.
Improve DSOs credit rating to facilitate efficient access to finance.	None of the measures would directly affect the credit rating of the companies.	Further analysis of the rationale behind DSOs' low credit ratings is required before any measures to improve them can be considered.

## 7. Conclusions

The European Commission is undertaking a significant effort to facilitate the financing of the energy transition. This is not only the result of direct financial support via MFF but also more broadly through the creation of a framework that would facilitate access to finances.

After considering these activities, this paper has identified several recommendations that should be considered when implementing the relevant policies as well as some potential gaps that are still in place. These findings are summarised in the following points:

- **Regulatory frameworks should ensure that stakeholders obtain market-competitive returns:** Regulatory frameworks should be predictable, supportive, and provide stability for long-term investments. To achieve this, it is important to consider that to deliver those investments, DSOs need to be able to access the input markets (including the financial markets). Therefore, it is crucial must consider whether the return on capital they are introducing in their regulatory framework is consistent with the reality of the sector, e.g., setting a beta considering a European market could be unrealistic when the companies can only have access to national markets.
- **Accessing these initiatives should be simpler, and technical support should be available if required by companies:** One of the largest challenges when applying for European funds (including EIB products) is that they require a significant volume of information and some supporting documents (not necessarily aligned with standard industry documentation). Therefore, to facilitate that all DSOs, independently of their size, can have access to these funds, the EU institutions should provide technical support.
- **When designing initiatives, it is important to consider that many DSOs are part of a group of companies and this affects how they access financial products:** When DSOs are part of a portfolio of companies, it is frequent that the group of companies centralises their access to finance to benefit from portfolio effects. As a result, when designing initiatives, it is important that these groups of companies can have access (with potential measures to ensure the funds are mainly directed to the DSOs).
- **Securitization of future regulatory revenues could have a positive effect when the issue is with cash flows, but it would be complex to implement and limited to large DSOs:** The cash that companies can obtain from securitisation would be allocated to specific expenditures, and it would not create new value. Therefore, even if it could facilitate present cash flows, it would create limited additional investment opportunities.

- **The regulatory treatment of securitisations should be carefully considered before these options are implemented.** In some member states, regulators penalise those DSOs with an equity to debt ratio that differs from that assumed by the regulator. As a result, by increasing the amount of debt, securitization could result on penalties for the DSO which would reduce / eliminate the incentives to use this tool.
- **Mechanisms to group the needs of small and medium DSOs accessing more complex financial markets are still missing:** Even if the EIB were to develop mechanisms for medium and small DSOs to access efficient finances via their local banks, these DSOs would still lack access to other finance sources such as bonds or securitisation. Therefore, the European Commission should still consider these mechanisms. These mechanisms do not necessarily need to group the needs of the different DSOs but they could also support them by removing the high access costs to these markets (e.g. support in obtaining and improving credit ratings and provision of technical support).
- **Public guarantees would be useful tools to the access of finances by mitigating the risks of the tools:** The provision of public guarantees for securitisations and/or bonds (especially those combining the needs of different companies) could be a low-cost way to reduce the risk perceived by some of the investors. This could be necessary to facilitate the necessary demand for these products.