



Note | The Danish Utility Regulator The 5. august 2025

5. August 2025

# Methodology Used to Determine the Transmission System Operator's Regulated Revenue

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JELY/MAWE/MADW

The following note contains information that must be published in accordance with annex 1 of regulation (EU) 2024/1789 of the European Parliament and Council on the internal markets for renewable gas, natural gas, and hydrogen (Gas market regulation). This note will outline the points seen in annex 1 in the Gas market regulation, which aims to describe the method used to regulate the national transmission system operator (GAS-TSO). More information can be found in [BEK nr. 1220 af 22/11/2024](#), [LBK nr. 1100 af 16/08/2023](#) and [Afgørelse om indtægtsramme for 2023 for transmissionssystemejer](#).

- 1) The Danish Utility Regulator is the national regulatory entity responsible for calculating, determining, and approving the methodologies different components.
- 2) For more information about the following section defer to [Bekendtgørelse om indtægtsramme og reguleringsregnskab for transmissionssystemejer nr. 1220 af 22/11/2024](#)
  - a) The Danish GAS-TSO is generally regulated with a revenue cap. Transmission activity and system operator activity is divided into two companies. The revenue cap is determined with the aim of covering the costs of efficient operation of the transmission system owner's activity and rate of return of the invested capital. The revenue cap constitutes the greatest amount the transmission system owner can earn in revenue from operating its activity in a given calendar year.
  - b) The transmission system owner's rate of return basis (RAB) during the regulation period is made up of the average of the depreciated year-end book value of the transmission systems owner's asset base in the previous period, where the singular years' values, before averaging, are adjusted for the following:
    - Price index development. Assets that will not be reinvested into are not indexed
    - Adjustments, based on decisions
    - Provisions
  - i) As a rule, all assets are included in the RAB calculations at their acquisition value minus their depreciation. In individual instances the Danish Utility Regulator has used the Discount Cash Flow method to value acquiring assets.

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- ii) The allowed revenue methodology includes no method to reevaluate an assets value.
  - iii) Assets are depreciated and new investments in the asset can be added
  - iv) Scrapped assets are immediately written of and are removed from the depreciation basis.
  - v) Depreciation is made on a straight-line basis and is depreciated over a standard lifespan, which the Daish Utility Regulator sets for different types of assets.
- c) The Danish Utility Regulator sets the rate of return for equity, Cost of Equity (CoE, before tax), which is used to set the revenue cap for GAS-TO and GAS-SO over a two-year period. The Danish Utility Regulator uses CAPM to determine CoE. The rate of return for liabilities is determined based on the actual borrowing costs, this is contingent on if the Danish Utility Regulator deems that the borrowing costs are in line with market conditions. The Danish Utility Regulator determines the regulatory equity share, which is the maximum share of equity, remunerated with CoE.
- d) The total costs (TOTEX), make up the average depreciation and operating costs in the previous two-year period, where the singular year's costs, before the average calculations are adjusted for:
- Fees and deductions, decided by the Daish Utility Regulator.
  - Amended depreciation periods and depreciation principles in the context of reinvestments, only if approved by the Danish Utility Regulator.
- After the adjustments, the average depreciation and operating costs make up the expense frame.
- e) There is not a specific method to decide the effective costs. However, there is the option to introduce an individual efficiency requirement, that can be determined on the basis of benchmarking.
- f) Correction for inflation is made using a weighted index of 50 pct. wage share and 50 pct. material share. The wage index is Statistics Denmark's wage index for the industrial companies and organisations. The material index is Statistics Denmark's price index for domestic goods supply.
- g) Neither GAS-TO or GAS-SO are not subject to any other incentive structures that provide incentives and therefore there is nothing relevant to note under this point.
- h) Uncontrollable costs are not subject to efficiency improvements. Uncontrollable costs are:
- i) Costs for research, development and demonstration projects that are in partially publicly funded.
  - ii) Costs for authority processing
  - iii) Costs caused by a third party, who is not covered by insurance or a third party.

- iv) Costs for force majeure
  - i) GAS-TO and GAS-SO can buy services from other companies in the same concern. However, all transactions of this type must comply with market principles, which the Danish Utility Regulator supervises.
- 3)
- a) The rate of return cap for liabilities is determined based on the actual loan costs, if, the Danish Utility Regulator decides that the loan costs are in compliance with market principles. In 2023 the rate of return cap was 1.34 pct.

CoE is established on a two-year basis where the Danish Utility Regulator uses CAPM. In the table below the estimates and parameter values used to determine the CoE can be seen:

**TABLE 1 | ESTIMATES AND PARAMETER VALUES 2025-2026**

	<b>GAS-SO</b>	<b>GAS-TO</b>
Risk-free rate (pct.)	2.5	2.5
Market risk premium (pct.)	5.0	5.0
Beta asset	0.60	0.35
Beta debt	0	0
Regulatory equity ratio (pct.)	65	50
Marginal tax rate (pct.)	22	22
Baltic Pipe surcharge		0.8
Beta equity	0.92	0.70
CoE after tax up to regulatory equity ratio (pct.)	7.12	6.80
CoE before tax up to regulatory equity ratio (pct.)	<b>9.12</b>	<b>8.72</b>

Source: The Danish Utility Regulator calculates based on updated values pr. November 2024. The comparable values for Energinet's other companies are also updated as of November 2024.

For more information on precise values on capital costs defer to the most current decision on rate of return for system operator and transmission system owner.

- b) Depreciation periods for different types of assets
  - Land: Not depreciated
  - Buildings: 20-100 years
  - Technical plants: 10-60 years (in practice, 2052 is seen as the end of life, which limits all new investments in, among other things, pipes and compressors).
  - Fill gas: Not depreciated
  - Other plants, operating equipment and inventory: 3-10 years

- c) If an asset is immediately written off it is removed from the depreciation basis. Improvement costs are added to the acquisition value of the asset in question. Improvement costs are depreciated on a straight-line basis, over the remaining useful life of the asset after the improvement.
- d) In 2025, the efficiency improvement requirement consists solely of a general efficient improvement requirement of 2.75% for both GAS-TO and GAS-SO.
- e) The regulatory price index for 2020-2025 is seen in table 2:

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TABLE 2 | THE REGULATORY PRICE INDEX FOR 2020-2025

	2020	2021	2022	2023	2024	2025
Wage index	146.10	149.92	153.68	159.53	167.10	168.50
Material index	101.68	108.82	127.14	128.81	128.27	128.27
Regulatory price index	100.00	104.82	115.11	117.93	120.26	120.74

Note: The wage and material index's each weigh 50 percent in the regulatory price index.  
Source: Wage index (ILON12) for industrial employees and material price index (PRIS1115) for domestic supply of goods from Statistics Denmark.

- f) Neither GAS-TO or GAS-SO are not subject to any other incentive structures that provide incentives and therefore there is nothing relevant to note under this point.
- 4)
- a)
    - i) Rate of return basis (RAB) is not immediately calculated in asset types and is presented here in total. The revenue cap for 2023 constitutes the first revenue cap for GAS-TO. As of August 5<sup>th</sup> 2025, it is also the most current. Therefore, the rate of return basis from the revenue cap decision for 2023 is presented here. It should be noted, however, that the decision as of August 5<sup>th</sup> 2025 has been returned to the Danish Utility Regulator and a new decision is expected to be made in September 2025. RAB for 2023 is based on the plants commissioned on December 31<sup>st</sup> 2022 and is adjusted, among other things, for additional investments as stipulated in the revenue cap order. The preliminary RAB for 2023 is therefore DKK 10,313,970,240 (EUR 1,382,139,053).
    - ii) Depreciation included in the 2023 revenue cap decision consists of depreciation from 2022 plus the depreciation on investments that have been approved. Depreciation amounted to DKK 520,428,550 (EUR 69,740,808) in the revenue cap decision 2023.
  - b) Equity only bears interest for the portion corresponding to 50 pct. gearing. Table 3 shows the equity and debt costs for 2023.

TABLE 3 | RATE OF RETURN CAP

	Rate of return (pct.)	Capital (kr.)	Return (kr.)
Equity return (under 50 pct.)	7.49	3,801,362,097	284,722,021
Equity return (over 50 pct.)	0.00	0	0
Cost of debt return	1.34	6,512,608,142	87,418,580
<b>Rate of return cap</b>			<b>372,140,601</b>

Source: revenue cap decision 2023.

Note: The value for the rate of return for debt is rounded in relation to the value used in the calculations.

- c) The revenue cap decision includes an average of operating costs from 2020 and 2021. The historical operating costs are projected to 2023 values and operating costs from approved investments in 2023 are added. In 2023, operating costs were therefore DKK 400.323.327 (EUR 53.644.527).
- g) Neither GAS-TO or GAS-SO are not subject to any other incentive structures that provide incentives and therefore there is nothing relevant to note under this point.
- 5) Note that the key numbers in table 4 are calculated for Energinet Gas transmission A/S, which means that the activity also includes an upstream pipe.

TABLE 4 | GAS-TO KEY NUMBERS 2023

Key numbers	
EBITDA	791,123,960 DKK
EBIT	332,652,733 DKK
ROA (asset 1)	7.67 pct.
ROA (asset 2)	3.23 pct.
ROE	3.74 pct.
RoCE	2.49 pct.
Leverage ratio	
Equity	36.17 pct.
Liabilities	63.83 pct.
Debt-to-capital ratio	63.83 pct.
Debt to EBITDA ratio	10.78 pct.

Source: GAS-TO's Regulatory report 2023

Note: ROA (asset 1) = (EBITDA / RAB), ROA (asset 2) = (EBIT / RAB), ROE = (Net income/equity), RoCE = (EBIT/Invested capital), Debt-to-capital ratio = (net debt / (net debt + equity)), Debt-to-EBITDA = (net debt / EBITDA)

- 6) A simplified tariff model can be found on Energinet's website or through this [link](#).