

Research Update:

Germany-Based Vier Gas Transport GmbH Outlook Revised To Negative On Low Remuneration Proposal; 'BBB+' Rating Affirmed

October 8, 2026

Rating Action Overview

- S&P Global Ratings views the August 2026 draft regulatory proposal by German regulatory body, Bundesnetzagentur (BnetzA) as moderately credit negative for Vier Gas Transport GmbH (VGT). Specifically, the proposed pretax nominal WACC of 3.76% for existing assets under the fifth regulatory period (2028-2032) is one of the lowest in Western Europe and does not fully reflect the current interest rate environment and our anticipated refinancing cost.
- VGT is the parent company of the Germany-based gas transmission system operator (TSO) Open Grid Europe GmbH (OGE), is accelerating its investments into the hydrogen core network in Germany. In our view, the established cost-plus remuneration for hydrogen network assets in Germany is positive. However, we view investments into hydrogen networks as riskier than those in natural gas grids under a less supportive regulatory framework with significant residual risk for investments.
- Therefore, we are increasing the downside rating threshold of adjusted funds from operations (FFO) to debt to at least 12% on a regulatory accounting basis from 10% previously for 'BBB+' ratings. We expect VGT to achieve the updated threshold halfway through the next 2028-2032 regulatory period.
- Therefore, we affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on Vier Gas Transport GmbH and our 'BBB+' issue rating on VGT's senior unsecured debt.
- The negative outlook reflects the risk that VGT's adjusted FFO to debt could fall short of 12% before 2030, if the final regulation includes no improvement on its proposed remuneration. The ratings could also come under pressure if VGT were to further increase its investments in hydrogen grids without enhancement in associated regulations.

Primary Contact

Elizaveta Filatova

Frankfurt
49-6933999131
elizaveta.filatova
@spglobal.com

Secondary Contacts

Massimo Schiavo

Paris
33-14-420-6718
Massimo.Schiavo
@spglobal.com

Wen Li

Frankfurt
49-69-33999-101
wen.li
@spglobal.com

Rating Action Rationale

We view the consultation draft proposed for gas network operators in Germany by BnetzA as moderately credit negative for VGT. On Aug. 14, 2026, BNetzA published a draft consultation on the allowed return framework for gas distribution operators and TSOs for the fifth regulatory period (RP5; 2028-2032), proposing a standardized weighted average cost of capital (WACC) methodology based on a notional capital structure of 40% equity and 60% debt. Proposed 3.76% pretax nominal WACC for existing assets and 5.76% pretax nominal return on equity (ROE) imply lower returns on investments into German gas infrastructure than those guaranteed by the other regulatory regimes in Western Europe, as shown in chart 1.

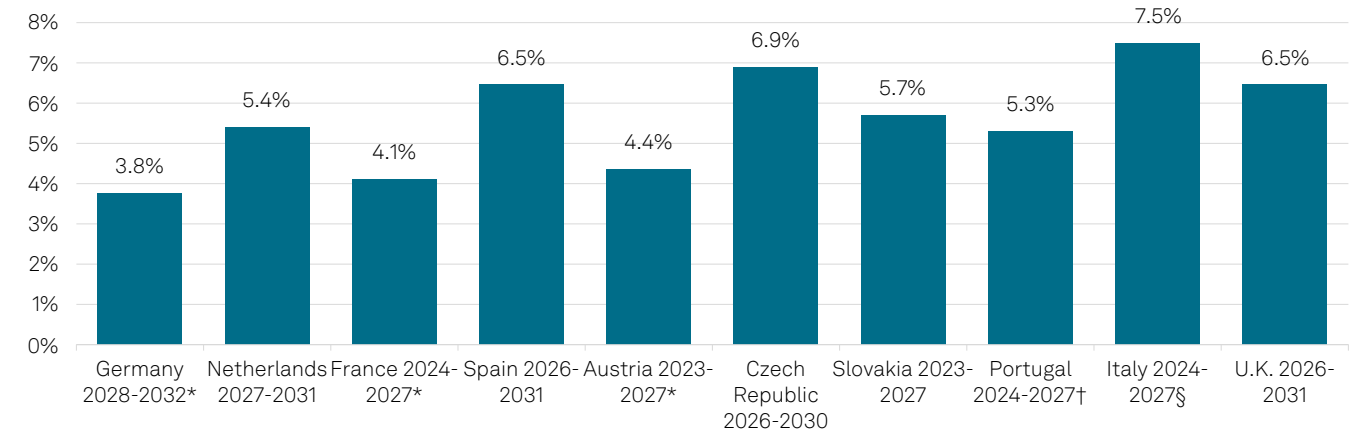
In particular, the regulatory proposal includes a 2.43% cost of debt for existing assets, which will be fixed throughout RP5. This cost of debt is based on reference data of seven years, from 2019 through 2025, which will not be rolled over during RP5. We see this as a material disadvantage for German gas TSOs, because the proposed cost of debt does not reflect the current capital market conditions and is significantly below the actual and anticipated refinancing costs incurred by network operators. The proposed 2.43% regulatory cost of debt allowance would result in a structural under-recovery of financing costs. As a reference, the yield on the 10-year Germany Bund in October 2026 is about 3.5%.

Positively, the capital expenditure (capex) markup for investments after 2025 (new assets) will remain in place. This would imply higher cost of debt remuneration for new investments conducted after the base year (a photo year) of 2025, while the ROE will remain fixed during RP5. In comparison, the ROE currently applied under the capital cost surcharge mechanism for investments made between 2024 and 2026 amounts to 6.9%-7.0% pretax. This translates into a pretax nominal WACC of 5.0%-5.1% for 2024-2026.

Therefore, we think that the proposed return on capital does not adequately reflect both the actual conditions for raising capital and the additional risks associated with the energy transition. We might reassess the regulatory advantage assessment for gas TSOs and in Germany, when the regulatory terms are finalized. We expect the final determination at the end of 2026.

Chart 1

Nominal pretax WACC proposed for existing assets in Germany lowest in Western Europe



*Applied on existing RAB. §Estimated nominal WACC. †5.3% is the mid-point of the range applied to different gas DSOs and TSOs. WACC--Weighted average cost of capital. RAB--Regulated asset base. TSO--Transmission service operator. DSO--Distribution service operator. Source: S&P Global Ratings.
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The negative outlook on VGT reflects the risk of weaker remuneration of gas regulated networks in Germany from 2028 combined with increasing investments into hydrogen assets.

VGT is accelerating investments into the hydrogen core network in Germany, whereby it committed about €2 billion to hydrogen projects mainly through 2030. As prescribed in the German Energy Act, more than 9,000 kilometers (km) of hydrogen pipelines until 2032 with 101 gigawatt (GW) entry and 87 GW exit capacity and a total investment of about €19 billion should be constructed, of which OGE has already committed about €2 billion and will potentially shoulder about 25% of the total hydrogen core grid investment. As the largest German gas TSO, OGE is involved in developing the most relevant import corridors. In 2025, OGE invested about €125 million, or 18%, of its €696 million total reported capex in the hydrogen system. We anticipate that the share of hydrogen investment in VGT's annual capex will increase in the next two to three years. As a result, we expect the share of regulated assets related to the hydrogen core network to increase materially by 2030 compared to year-end 2026 (up to 15%-20%).

While we think that the advancement of the hydrogen regulation in Germany is positive, we note that the absence of a track record, and the significant residual risk for invested capital are relative weaknesses for the hydrogen regulation compared with gas transmission. We note that in case of stranded investments caused by slower or even a failure of hydrogen ramp-up, network operators will have to cover 24% of the negative balance of the amortization accounts at the end of 2055. Therefore, we view returns on hydrogen investments as riskier than those on regulated natural gas grids. For more details on German regulation of hydrogen networks, see "[Germany's Hydrogen Infrastructure Regulation Makes Visible Ongoing Risk](#)," Oct. 23, 2025.

We revised up our downside threshold for our 'BBB+' rating on VGT by 200 basis points, to reflect gradually the shifting asset mix and the moderately negative effect of the proposed gas network remuneration. We reflected the lower-than-expected remuneration for methane assets in RP5 and the expected acceleration in investments in less credit-supportive hydrogen investments in Germany by increasing the downside rating threshold to at least 12% on a regulatory accounting basis from 10% previously. We expect VGT to achieve the 12% downside threshold by mid PR5, in 2030. We forecast adjusted FFO to debt of about 11.5%-12.0% in 2026-2027, supported by the current regulatory regime, before declining to about 11% in 2028. These forecasts factor in the regulatory accounting effects, with lower-than-expected remuneration having a negative effect on EBITDA. Lower remuneration for existing methane assets will materialize amid the high investment pace into hydrogen assets. We anticipate that VGT's S&P Global Ratings-adjusted capex will peak at about €900 million in 2027, before declining to €500 million-€700 million. In case the final determination for the RP5 does not materially deviate from the consultation draft, we may benchmark VGT's credit metrics against a medial volatility table.

New investments dedicated to the expansion of the methane grid network will somewhat support returns on investments, as the share of new gas assets in the regulatory asset base will gradually increase throughout the RP5. This is because qualifying new investments (after 2025) will continue to benefit from the capex markup mechanism on the cost of debt. In 2025, 55% of the €696 million reported capex was dedicated to methane grid development, and 18% to hydrogen projects. We understand that network expansion obligations are fundamentally driven by the network development plan approved by BNetzA. We note that methane grid development relates to growth investments needed for the enlargement of the gas network to connect LNG volumes, particularly the continued construction of a new gas supply pipeline between Etzel and Wardenburg and another section between Wardenburg and Drohne. This remains a supportive factor of earnings growth for VGT.

VGT's financial policy remains a key factor for our 'BBB+' rating. VGT has previously shown a willingness to reduce shareholder remuneration to protect its credit metrics. We see this as an indication of the company's commitment to retaining its credit quality. We expect the company's dividend policy and financial risk management framework to adapt accordingly.

Outlook

The negative outlook reflects the risk that VGT's adjusted FFO to debt could fall short of 12% on a regulatory accounting basis in the first half of the next regulatory period before 2030, in particular, if the final regulation does not include improvements to the proposed remuneration. The ratings could also come under pressure if VGT increases its investments in hydrogen grids without an enhancement in associated regulations.

Downside scenario

We could downgrade VGT if the company's FFO to debt on a regulatory accounting basis does not recover to above 12% halfway through next regulatory period, in 2030. Additional investment in the riskier hydrogen grids, without a shift to a more favorable regulatory regime, could result in rising business risk and further step up in ratings thresholds.

Upside scenario

We could revise the outlook to stable if we thought that VGT's FFO to debt will reach at least 12% by 2030. This would most likely stem from lower investments or dividends paid than we forecast in our base case, or additional remedial measures to support the balance sheet. Improvement in the credit metrics could also result from a more favorable regulatory environment set by BnetzA for gas operators in the fifth regulatory period (2028-2032) or more favorable regulations for the hydrogen grid (next update expected in 2027).

Company Description

VGT is the parent company of OGE, the largest of Germany's 15 gas TSOs. Through OGE, VGT designs, constructs, operates, and markets gas transmission networks. On average, over 85% of VGT's revenue came from its gas transportation business, with services to pipeline companies and third parties accounting for less than 15%. In fiscal 2025 (year ended Dec. 31), VGT reported revenue of €1,427 million and EBITDA of €535 million.

OGE transmits gas through its 12,000-kilometer network, making it the largest supra-regional pipeline network in Germany. Its pipeline systems connect the border-crossing points to cities, municipalities, and industrial users in Germany and to pipeline systems of neighboring countries, such as the Netherlands, Belgium, France, Switzerland, Austria, and the Czech Republic.

The Vier Gas Transport Group comprises VGT (the parent), its subsidiary OGE, and its equity investments, which include several gas transmission assets with different levels of ownership. VGT largely performs a holding company function for OGE. It is a long-term investment consortium that includes British Columbia Investment Management Corp. (32.15%), Abu Dhabi Investment Authority (24.99%), Fluxys Belgium S.A. (24.13%), and Munich Reinsurance Co. (18.73%).

Our Base-Case Scenario

Assumptions

- Pretax ROE of 5.07% on new gas assets and of 3.51% on old assets over the 2026-2027, in line with the current regulatory period. We assume a general productivity factor of 0.87% and factor in an individual efficiency score of 100%. We assume a pretax nominal WACC of 3.76% as proposed by BnetzA for 2028. We will update our forecast once the regulatory parameters will be finalized.
- Pretax ROE of 6.69% for hydrogen assets.
- Annual capital cost allocation adjustment, allowing VGT to get remuneration on work-in-progress assets in the year when those are deployed, with a higher ROE of around 7% for investments until 2027 and an annually updated cost of debt remuneration.
- Reported EBITDA margin declining to about 30% in 2026, before improving to 37%-39% in 2027-2028, mostly due to regulatory accounting effects.
- Capex increasing to €770 million in 2026 and further to above €900 million in 2027, before declining to about €700 million in 2028, leading to negative free operating cash flow over 2026-2028.
- Net dividend distribution (after shareholder contribution) of about €100 million annually over 2026-2028.

Key metrics

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. EUR)	2024a	2025a	2026e	2027f	2028f
Revenue	1,133	1,428	1,330-1,370	1,570-1,620	1,480-1,530
EBITDA§	434	549	600-650	710-760	650-700
Funds from operations (FFO) §	266	386	470-500	540-570	510-540
Interest expense	86	100	120-125	150-155	150-155
Cash flow from operations (CFO)	281	443	300-330	550-580	550-580
Capital expenditure (capex)	413	588	750-770	900-920	690-710
Free operating cash flow (FOCF)	(131)	(145)	(470)-(430)	(370)-(330)	(160)-(120)
Discretionary cash flow (DCF)	(480)	(395)	(620)-(580)	(520)-(480)	(410)-(370)
Debt	3,390	3,695	4,200-4,300	4,600-4,700	4,700-4,800
Equity	1,668	1,897	1,850-1,950	1,900-2,000	2,000-2,100
Adjusted ratios					
Debt/EBITDA (x) §	7.8	6.7	6.5-7.0	6.0-6.5	7.0-7.5
FFO/debt (%)§	7.8	10.5	11.0-11.5	11.5-12.0	10.7-11.2
FOCF/debt (%)§	(3.9)	(3.9)	(10.7)-(10.2)	(7.7)-(7.2)	(2.3)-(1.8)
DCF/debt (%)§	(14.2)	(10.7)	(14.3)-(13.8)	(10.9)-(10.4)	(8.5)-(8.0)
EBITDA margin (%)	38.3	38.4	46-48	45-47	43-45
Return on capital (%)	4.7	6.3	6.4-6.8	7.0-7.4	5.8-6.3
Debt/debt and equity (%)	67.0	66.1	68-70	69-71	69-71

All figures are adjusted by S&P Global Ratings, unless stated as reported. §The figures for 2026-2028 are presented excluding the regulatory accounting effects, meaning without the temporary effect on earnings stemming from volume, price, or changes in operating costs that lead to over-

or under-shooting under IFRS accounting. 2024 and 2025 numbers are presented in line with IFRS, with S&P Global Ratings' adjustments. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Liquidity

We assess VGT's liquidity as adequate, because we forecast liquidity sources will cover uses by more than 1.1x over the 12 months started July 1, 2026. VGT has demonstrated proven access to debt capital markets and sound relationships with banks, reflected in the company's diverse funding sources. In April 2026, VGT issued a €500 million four-year bond. The next bond maturity is in September 2027. VGT's syndicated revolving credit facility (RCF) of €600 million remains undrawn, which the company extended to 2030. In addition, the company has a €500 million commercial paper program in place.

Principal liquidity sources	Principal liquidity uses
• Unrestricted cash and cash equivalents of about €744 million as of end-June 2026; • Availability under committed RCF and credit lines totaling about €705 million; and • Cash FFO of about €460 million.	• No debt maturities until June 2027; • Capex of €650 million-€900 million; • Net cash dividend payments of about €100 million; and • Minor working capital outflow.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2025, VGT's capital structure mainly consists of:

- €3.5 billion in bonds issued at the VGT level; and
- €437 million of bank loans and other financial liabilities at the pipeline company level, which is reported at pro rata share (51%).

Analytical conclusions

We rate VGT's debt at 'BBB+', in line with the issuer credit rating, as we think that the debt sitting at pipeline companies does not represent a material disadvantage to VGT bondholders from a structural subordination perspective.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/Negative/A-2
Local currency issuer credit rating	BBB+/Negative/A-2
Business risk	Excellent
Country risk	Very low risk
Industry risk	Very low risk
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant (low volatility table)
Anchor	a-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bbb+

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Related Research

- [Germany's Hydrogen Infrastructure Regulation Makes Visible Ongoing Risk,](#)" Oct. 23, 2025.
- [German Electricity And Gas Preliminary Regulatory Advantage Assessment: Strong,](#) May 19, 2025

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	From
Vier Gas Transport GmbH		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Ratings Affirmed		
Vier Gas Transport GmbH		
Senior Unsecured	BBB+	

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