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## CEER Citizens' Q&A

### Incentives Schemes for DSOs, including Innovation CEER Guidelines of Good Practice

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#### **1 What do we mean by “Incentive schemes for DSOs – CEER guidelines of good practice”?**

The ACER “Bridge to 2025” paper described how structural and market developments have altered the characteristics of electricity and natural gas distribution activities. European energy regulators have committed themselves to develop guidelines of good practice for incentive schemes used as tools to regulate distribution network companies in this new context, as new challenges may trigger the need for changes to regulatory tools (i.e. incentives) and/or regulatory aims.

Incentive regulation is intended to trigger actions by DSOs that they might not undertake otherwise. The main goal is to let DSOs fulfil their legal obligations for network design, development and operation, including providing a non-discriminatory access to the grid, in such a manner that allows DSOs to achieve an optimal outcome on several fronts simultaneously, for example providing an optimal level of quality and security of supply, as well as achieving efficient costs. By incentivising DSOs to operate as efficiently as possible, regulators are thus benefiting energy consumers through, for instance, lower network charges. Thus, designing the most effective incentive schemes that lead DSOs to reach the most efficient (i.e. less costly) outcome when operating and developing energy networks will likely lead to lower costs to consumers.

#### **2 What does the report propose for guidelines of good practice for v incentive schemes for DSO’s?**

The report discusses European regulators’ initial thinking on this important issue, providing a background for the public consultation questions. It presents several commonly accepted principles and goals for regulation of distribution network companies along with the relevant regulatory tools (which incentives to apply to reach certain aims), as well as recent trends in energy markets across Europe.

However, in order to be able to define proper Guidelines of Good Practice (GGP) CEER first needs to collect feedback from stakeholders through this consultation paper. Such feedback, including real world examples of effective incentives, will support NRAs in identifying regulatory models with incentive schemes that best fit the challenges of the new context in the European energy sector, taking into account also specificities of the concrete situation each NRA is facing in its own country.

The process of defining guidelines of good practice on incentive schemes for DSOs started with a previous internal reflection. The present document represents the public consultation stage, which will be followed by the analysis of stakeholders' answers. Finally, a subsequent conclusions paper will present CEER's effective guidelines of good practice for incentives schemes for DSOs.

### **3 Why is this important for energy customers? What is the impact on energy customers?**

The electricity sector can no longer be considered as being vertically-oriented, with financial and physical flows coming downstream from production to consumers through the transmission and distribution grids. Recent structural changes, such as distributed generation and the emergence of new roles for consumers (who should no longer be regarded by distributors as passive energy 'takers'), have contributed to make distribution activities even more relevant for the proper functioning of the electricity sector. However, these structural changes and new challenges are taking place in parallel with increased concerns with the affordability of the energy sector for European economies and with demands that economic efficiency must not be compromised, since most energy consumers pay for costs related with the distribution system networks through tariffs or network charges.

Therefore, throughout this paper it is discussed how consumers can maximize the value for the money they pay through distribution system networks tariffs.