



Distribution and Transmission Network Tariffs and Incentives

CEER White Paper series (paper # I) on the
European Commission's Clean Energy Proposals
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1. Introduction

This CEER Regulatory White Paper provides the views of National Regulatory Authorities in the Council of European Energy Regulators (CEER) on distribution and transmission network tariffs and incentives. The aim of this White Paper is to deepen understanding and to assist the EU Institutions in assessing the proposals contained in the “Clean Energy for All Europeans” legislative package of 30 November 2016¹.

2. CEER's Key Recommendations

CEER welcomes the proposals in the Clean Energy package requiring network tariffs that are cost reflective and which give appropriate incentives to increase the efficient use of the networks.

However, CEER considers that harmonisation of both transmission and distribution tariffs at European level could be inefficient and not lead to the right outcomes for European consumers. Similarly, providing the appropriate incentives for efficient network use is complex and varies based on the regulatory framework and the characteristics of the industry in each Member State. The diversity in DSOs and their sheer number across the EU mean that National Regulatory Authorities are best placed to consider the best regulatory choices within the European framework. Implementing a “one size fits all” approach risks inefficient incentives for network use on a Member State level, particularly with the emergence of more local energy models.

CEER, therefore, recommends the following 3 legislative changes, as further detailed in the next sections.

- **No need for an EU-wide Tariffs Network Code**
 1. Both the Network Code on transmission and distribution tariffs in Article 55 of the Electricity Regulation, and the ACER recommendation for a progressive convergence of distribution and transmission tariffs methodologies in Article 16 of the Electricity Regulation, should be removed.
- **No mandatory approach for regulatory incentives on DSOs**
 2. The principle of incentives schemes for DSOs is essential. Specific elements such as flexibility in Article 32 of the Electricity Directive, and other innovative solutions as in Article 16 of the Electricity Regulation, could be a means to efficient networks and other

¹ For ease of reading, ‘RES Directive’ refers to the re-cast Directive on promoting the use of renewable energy sources COM/2016/0863 final/2 - 2016/0378 (COD), ‘Electricity Regulation’ refers to the re-cast Electricity Regulation (EC) COM/2016/0861final/2 - 2016/0379 (COD), and ‘Electricity Directive’ refers to the re-cast Electricity Directive COM/2016/0864 final/2 - 2016/0380 (COD). References to specific Articles in the proposed recast legislation relate to the revised texts (corrigenda) published by the [European Commission](#) on 23-02-2017.

performance outcomes, but they may not always benefit consumers. Hence these Articles should allow for energy regulators to decide on the inclusion and design of these elements of flexibility and innovative solutions in incentive schemes, whenever consumers' interests are enhanced such that the benefits are greater than costs.

- **Clear distinction between incentives for DSOs and network users**
 3. There should be a clear distinction in Article 16.2 of the Electricity Regulation between incentives for DSOs through allowed revenues on the one hand, and incentives for network users through distribution network and connection tariffs on the other.

3. No need for an EU-wide Tariffs Network Code

CEER welcomes the proposals in the Clean Energy package requiring distribution network tariffs that are cost reflective and which give appropriate incentives to increase the efficient use of the networks.

However, CEER disagrees with the proposed “one-size-fits-all” prescriptive approach to network tariffs in all EU Member States through a Network Code. This would prove to be highly complex and would remove the ability of energy regulators to design/facilitate network and connection tariffs based on the differing network circumstances and the needs of local consumers. This includes different economic/technical challenges and cost structures for DSOs, and the need to have varied incentives to customers through network tariffs.

Therefore, CEER recommends that both the Network Code on transmission and distribution tariffs in Article 55 of the Electricity Regulation, and the ACER recommendation for a progressive convergence of distribution and transmission tariffs methodologies in Article 16 of the Electricity Regulation, should be removed.

4. No mandatory approach for regulatory incentives on DSOs

CEER recognises the importance of incentives schemes for network monopolies to realise the best outcome in the customers' interest. Competitive pressures through incentives, more than direct subsidies, are effective in leading companies to choose the strategies that ensure the best performances. Energy regulators are best placed to create incentives for the DSOs that are good proxies to competitive pressures. Elements such as innovation and flexibility are a potential way to provide for network efficiency and other performance outcomes. Their benefits should, however, also be balanced with the costs for customers. There is no single regulatory incentive model appropriate for the diverse set of DSOs that exist across the EU. Thus, CEER considers that individual NRAs are best placed to make decisions on incentives schemes, and that there is therefore no need for mandatory harmonisation of incentive setting.

In this context, European Energy Regulators are concerned that specific elements such as flexibility in Article 32 of the Electricity Directive, and other innovative solutions as in Article 16 of the Electricity Regulation, could be a means to efficient networks and other performance outcomes but they may not always benefit consumers. Hence these Articles should allow for energy regulators to decide on the inclusion and design of these elements in incentive schemes, whenever consumers' interests are enhanced, i.e. the benefits are greater than costs.

5. Clear distinction between incentives for DSOs and network users

European Energy Regulators consider it important to clearly distinguish between incentives for DSOs through allowed revenues, and incentives for network users through network and connection tariffs. The different kinds of signals trigger different behaviour by different energy sector participants. The allowed revenues to be recovered by DSOs through tariffs should not require specific harmonisation (as already indicated). For instance, there is no reason to make the recovery of all research costs through tariffs mandatory, regardless of outcomes for consumers. Network and connection tariffs on the other hand provide incentives for consumers to change their behaviour which can for example improve efficient network use.

Hence, European Energy Regulators recommend that there should be a clear distinction in Article 16.2 of the Electricity Regulation between incentives for DSOs through allowed revenues on the one hand, and incentives for network users through distribution network and connection tariffs on the other.

Annex 1: Relevant CEER/ACER Papers

The White Paper builds on the [“European Energy Regulators’ Overview Paper - Initial Reactions to the European Commission’s Proposals on Clean Energy”](#), published by CEER and ACER on 23 January. It is part of a series of CEER Regulatory White Papers on key topics related to the Clean Energy package.

European Energy Regulators’ Overview Paper, “Initial Reactions to the European Commission’s proposals on Clean Energy” , 23 January 2017
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Electricity Distribution Network Tariffs, CEER Guidelines of Good Practice , 23 January 2017
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CEER consultation document on Incentives Schemes for regulating DSOs, including Innovation , 24 January 2017
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