The Grids Package: Unwrapping the TEN-E Regulation

Executive Summary

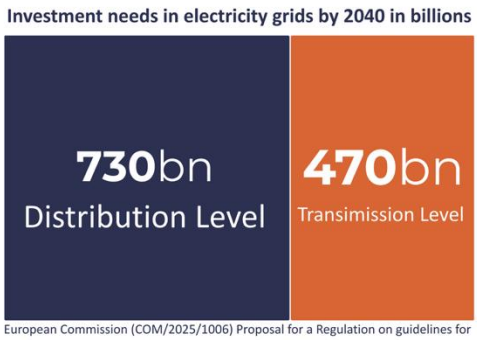
DSO Entity welcomes the revision of the TEN-E Regulation and the proposed five-fold increase of the CEF-E budget in the next Multiannual Financial Framework (MFF) cycle (2028-34). However, despite acknowledging the growing decentralisation of the energy system, rising resilience and security challenges and the significant investment needs of distribution networks, the revised TEN-E framework does not introduce meaningful improvements for DSOs in terms of project eligibility, and maintains a prioritization of interconnection and transmission projects. Further, the introduction of an overly centralised, top-down approach on scenarios might overlook local network realities

An ambitious proposal that still falls short of addressing distribution funding challenges

The revision of the TEN-E Regulation rightly acknowledges that Europe's electricity system is becoming increasingly electrified and decentralised and is facing new challenges related to (cyber)security, resilience, and digitalisation. **It is stated that by 2040, electricity grids will require investments of €1.2 trillion among which DSO investment needs alone amount to €730 billion.**

It therefore remains unclear why the proposal for the revision of the TEN-E Regulation falls short of providing adequate (funding) opportunities to DSOs and insufficiently addresses the decentralised dimension which is so central for achieving the EU's energy objectives of a sustainable, affordable and resilient system.

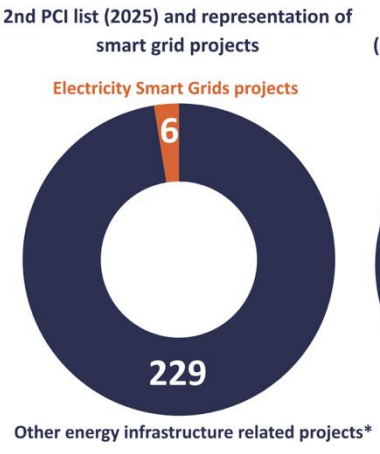
The DSO funding gap: a persistent structural challenge requiring attention



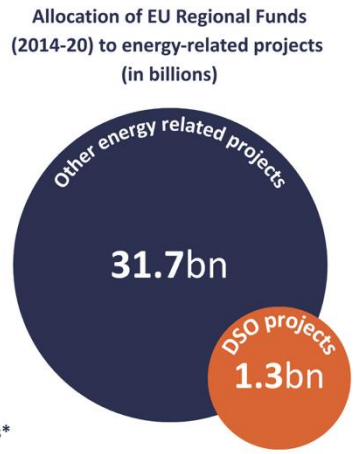
European Commission (COM/2025/1006) Proposal for a Regulation on guidelines for trans-European energy infrastructure, p.1.

Despite the critical need for investments in distribution grids, only **€237 million out of the €5.324 billion** allocated to CEF-funded energy infrastructure projects was directed to smart grid projects for DSOs (bottom left figure). Likewise, the second PCI/PMI list (2025) features just **6 smart grid projects** out of **235 in total** (center figure). Moreover, of the **€33 billion** allocated to all energy-related projects under the EU's regional funds for 2014–2020, only **€1.3 billion** was invested in distribution and smart grid projects (bottom right figure).

Investors Dialogue WG2 (2022) Meeting report: Availability of financial instruments for Transmission & Distribution, p.20.



European Commission C(2025)8144 Delegated Regulation as regards the Union list of projects of common interest and projects of mutual interest, p.6.



DG ENER (2024), presentation at the 19th meeting of the Energy and Managing Authorities Network (EMA) on 13 June 2024, Brussels.

* Including all PCI/PMI project categories (electricity, offshore grids, hydrogen and electrolysers, smart gas grids, cross-border carbon dioxide networks projects) with the exception of smart grid projects.

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Key recommendations on the TEN-E Revision proposal

1 Improve the eligibility of DSO-projects as PCI/PMIs under TEN-E (Art. 2(6); Annex II, IV):

The explicit exclusion of smart grid projects from Projects of Mutual Interest (PMIs) (Art. 2(6)), the lack of clarity regarding the eligibility of DSOs under resilience-related criteria (Annex II(1)(e) and (f)), and the inclusion of additional categories of potential beneficiaries without a corresponding increase in dedicated support for distribution networks to be included raise concerns. Also, changes in the Smart Grids Category (Annex II (1(g)) are needed which is currently limiting projects at 'transmission and medium and high voltage distribution level, engaging entities present in at least two different countries' leaving out projects connecting renewable energy sources, storage facilities, and digital upgrades, with clear impacts on cross-border flows. **Lower voltage levels should also be eligible to reflect the needs of DSOs.**

2 Recognise existing practices of DSOs' usage of non-wired solutions as a complement to grid reinforcement (Art. 40a(3), EMD):

TEN-E includes an addition to the Electricity Market Directive (EU) 2019/944) regarding the active integration of non-wired solutions. The new obligation requires TSOs to specifically explain how non-wired solutions, non-fossil flexibility resources or other alternatives to system expansion were considered. Physical grid reinforcement remains indispensable to ensure system reliability, resilience and the integration of renewables in a decentralised energy system. **DSOs already systematically assess non-wired solutions, non-fossil flexibility resources and other alternatives as part of established grid planning processes, meaning that no further changes are required in this respect**.

3 Consider local and regional needs assessments into grid planning and scenarios (Art. 11):

The inclusion of DSO forecasts and assumptions in TSO development plans is essential to avoid bottlenecks at distribution level where new loads and generation are connected. It is welcome that the package highlights the need for the integration of DSO inputs into TSO planning. However, the shift towards a centralized and more top-down approach to scenario-based grid planning is seen critically (Art. 11), since it brings the risk that **an overly centralized scenario does not consider the specific network development and capacity needs in specific countries or regions at the distribution level.**

4 Ensure fairness and subsidiarity when developing new cost-sharing mechanisms (Art.19):

The proposed rules on the use of congestion income for financing cross-border electricity infrastructure as an incentive to cost-sharing in the form of earmarking 25% of the unused congestion income for PCI/PMIs is seen critically. **This could lead TSOs to pass costs on to DSOs and ultimately customers, undermining subsidiarity and fairness, particularly when congestion costs originate at national or local level.**

5 Provide complementary funding opportunities for DSOs:

Beyond TEN-E it will be equally important to ensure that the Multiannual Financial Framework (MFF)[5] provides adequate, targeted, and accessible funding for DSOs via the National Regional Partnership Plans (NRPPs). The EC's proposal acknowledged the 'development of smart energy systems and domestic transmission and distribution grids' but **did not include ring-fencing for grids leaving the access to these funds to depend on national priorities**. This leads to fractured national funding schemes, as for instance under the 'Recovery and Resilience Facility' (RRF), only 11 out of 27 Member States directed funding towards DSO projects.