A general challenge of the regulator is to develop and to provide a regulation model that serves as well the customers as the owners of the DSOs. The regulation model should guarantee reasonable prices and good power quality for the customers. From the DSOs’ point of view the model should allow a reasonable profit and it should be predictable enough.

The well known challenge in developing the regulation model is the phenomenon called asymmetry of information. This means that the regulator tends to be less informed about the DSOs’ real cost level and the efficiency of the operations than the DSOs themselves. Unfortunately, it is for the DSOs’ best interest not to reveal their information to the regulator about the costs and efficiency of operations. A one possible way to fight against the asymmetry of information is to introduce incentives into the regulation.

The Finnish regulation model has an incentive to minimise total costs which consist of capital costs, operational costs and outage costs. If managing to put the total costs down at sufficient amount the DSO will get rewarded.

As the incentive is to minimize the total costs the DSO can not concentrate only in one component of the total costs and try to minimise that one. For example Finnish model includes an incentive for network investments. If the investments are made in such a way that they also will decrease operative costs and the outage costs in the future then the benefit for the DSO is even better. On the other hand, the model does not courage the DSO only to decrease operative costs without estimating what effects it might have to outage costs.

To conclude, the Finnish regulation model gives DSOs incentives to take a broad perspective into the network planning and network operations. To be successful in the regulation game the DSOs have to take into consideration all three incentives; network investments, efficiency of operations and the power quality.