netbeheer nederland

Association of Energy Network Operators in the Netherlands

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Subject: CEER public consultation C09-SDE-14-02a: “Regulatory aspects of the integration of wind generation in European electricity markets”

Introduction Netbeheer Nederland

Netbeheer Nederland is the association in the energy sector that represents the interests of national (TSO) and regional electricity and gas network operators (DSOs) in the Netherlands. Netbeheer Nederland represents a total of 11 network operators; their grid supplies energy to approximately 17 million costumers.

In the Netherlands, there is a strictly ownership unbundling between network operators and other parties in the energy market (trade, generators and retailers).
Network operators in the Netherlands have two main tasks: they facilitate the smooth functioning of the market and they manage the physical infrastructure of the transport network. Netbeheer Nederland promotes a dialogue with governmental bodies and market participants about the contribution network operators can make towards realizing a successful transition to achieving a sustainable energy supply.

The DSOs united within Netbeheer Nederland have read the CEER public consultation paper with great interest. We welcome the work done by CEER, and would like to take the opportunity to contribute to the process with this set of comments on the public consultation.

Before answering the various questions in the consultation paper, we would like to make some general remarks:

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1. Netbeheer Nederland supports the existence of a competitive internal energy market. We believe that a mature market, with healthy regulation, can address all the challenges regarding security of supply, reasonable pricing and renewable energy sources.
2. A broader perspective on distributed generation regulation is necessary (the DSOs consider wind, solar and CHPs equal), regulation by exception – as the consultation suggests - should be avoided.
3. Any financial stimulus to introduce sustainable power should be outside the normal revenues of the DSOs in order to balance the financials regarding the lifetime of the grid, the rate of return and the uncertainty on the lifetime of wind farms.
4. In addition to our third point, we feel there is a need for grid charges for all types of power generation, instead of only charging those customers who withdraw power from the grid.
5. We believe in non-discriminatory markets with a cost-causality principle for both customers and producers independent of whether they use or generate sustainable power.
6. Wind (or any other distributed generation) should be balanced in real-time; rapid growth of distributed generation needs a fast introduction of smart grids.

In response to the specific questions mentioned in the consultation document:

Question 1: *How will the expected growth in wind generation affect the markets in which you operate? What are the key challenges you foresee?*

Wind generation needs specific technical measures to ensure stability of the grid. However, such measures are often comparable with the adjustments needed for other types of distributed generation. Therefore, we foresee four key challenges.

1) To our view there is a need for rules for all types of distributed generation (wind, solar, CHPs) connected to distribution networks. As DSOs, our task involves making connections and facilitating the market. If the market is based on exceptions (different rules for wind, water, and conventional) it will ultimately lead to sub-optimization with inefficiencies.
2) A key challenge will be the technical facilitation of heavily fluctuating energy flows (balancing) in the network.
3) Another key challenge is balancing the financial position of DSOs regarding anticipatory investments. These are based on stable markets with a long grid life expectancy and rates of return of over 40 years. A fast-growing industry like wind generation, which is heavily dependent on subsidies, could have a shorter lifetime than the grid that is used, designed and built especially for wind generators. This is an issue that needs to be resolved on short notice,
4) The last key challenge we foresee relates to our third point. In light of the rapid growth of wind (and distributed generation in general) the issue of grid charges for all types of power generation – not just charges for those customers who withdraw power from the grid – should be on the political agenda.

Question 2: *What are the implications for market rules? Can you identify changes which would better facilitate integration of wind generation, including management of intermittency?*

As stated in our answer to question 1, there is a need for rules on distributing generation in general. We would also like to point out that the growth of intermittent energy sources (wind and solar) also requires a growth in non- intermittent, fast-acting power sources (CHPs).

Question 3: *Would moving the market's gate-closure closer to real-time facilitate the deployment of wind generation? Would this have any adverse consequences on the functioning of the electricity power system?*
This does not generally apply to DSOs. However, an increasing amount of intermittent power has consequences for the amount of information necessary to balance the system. A well-coordinated market mechanism to align different market parties is needed. In addition, with the increase in wind power, there is a greater need for smart grids to balance the system.

Question 4: *Are emerging cross-border congestion management models compatible with wind generation? Should further attention or priority be given to intraday capacity allocation mechanisms and markets, in light of the issues associated with forecasting wind generation?*
This does not generally apply to DSOs.

Question 5: *Should wind generation be subject to the same balancing obligations and the same types of charges as other types of generation?*
At the moment, this does not apply to DSOs as distributed generation was widespread and had only a minor impact on the balancing of the network. However, a rising amount of intermittent power, combined with concentration in allocated areas, will lead to a greater need for regional balancing obligations. This, too, applies to wind generation.

Question 6: *Should TSOs engage in research and development (R&D) to address issues associated with a large share of wind generation included in the network? If so, how should the regulatory framework require or support this?*
Large-scale wind generation is, in a sense, very similar to upscaled distributed generation and therefore in our view not limited to the TSO domain. The issue of R&D should be handled by the industry as a whole and not by individual TSO/DSO companies. The regulatory framework needs to support industry-wide R&D projects, including the coordination of these projects. This would help underpin the easy and rapid introduction of wind generation.

Question 7: *Should wind generators face the same types of network charges as other new generators, calculated using the same methodology? What is needed to provide a sufficient incentive for generation in choosing where to locate? What is needed to provide an appropriate balance of risk among market players? When should this not be the case?*
Charges based solely on the type of generation that are not related to the costs should be regarded as subsidies; that is a political issue, not an issue for grid companies. Charges by grid companies should be based solely on the capacity use and/or load curve. In the Netherlands, we don't see a need for a location incentive. We believe that there can only be one system for network charges, with no

exceptions for the different types of generators (sustainable of otherwise). This system must be based on cost-causality any stimulation should be done outside the normal revenues of DSOs.

Question 8: *Broadly, what is the appropriate allocation of responsibilities, risk and cost among market players in developing new network infrastructure (e.g. ahead of or in response to new generation connections)? Should this be different for wind generation? Where is harmonization required?*
The market consists of a chain of market parties (both in wholesale/retail as well as in TSO/DSO). A mature market is characterized by healthy competition that requires parties to be involved in order to make a reasonable profit. Roles and responsibilities should be divided on the basis of market facilitation, without any differentiation in sustainable or otherwise.

Question 9: *Do you agree that the "supergrid" issues for regulators identified in 5.1 are relevant? Is there anything else European regulators should be considering?*
This does not generally apply to DSOs. However, there may be a need for an overarching "body" whose role is more that of a facilitator for achieving the European goals on sustainability. This body should act on a supra-national or even supra-European level.

Question 10: *Is the current ownership structure of the offshore lines or their regulatory framework a potential issue for the integration of an offshore network? Are there other considerations affecting this ownership structure?*
This does not generally apply to DSOs or TSOs, as offshore power lines are usually owned by the generator and are part of the installation. However, identical rules for TSOs / DSOs and among member states would generally underpin the development of a healthy internal energy market. The benefits of applying the same regulations to onshore and offshore power lines are unclear. Another consideration we would like to point out is the issue of the technical reliability of offshore power lines (n-1/n-2 criteria) in relation to the rapidly increasing percentage of wind-generated power.

Question 11: *Do you agree that the Regional Initiatives should be used to address the issues associated with the development of the regional projects? What challenges does this present?*
The regional approach is a bottom-up approach. It is quicker and would solve particular problems, including disagreements between parties, and could remove concrete obstacles. In our view, this approach is a stepping stone on the way to pan-regional projects. However, it would require the harmonization of rules and pan-regional coordination.

Question 12: *What other issues should European regulators consider in relation to the integration of wind generation?*
In our view, it is important that there be no regulation by exemption – i.e. specific regulation for wind in this case. We also believe the role of the DSOs must be strengthened to cope with the increase in distributed generation. The harmonization of regulation, financial stimulation and tariff models could be seen as a next step.

We hope that you find this response helpful. Please do not hesitate to contact us if you would like to discuss any of the issues raised in more detail.

With kind regards,

Joost Gottmer