



ETSO Position Paper on Proposal for a directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources – COM (2008) 19

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1. General comments

ETSO welcomes the opportunity to comment on the draft RES directive from the Commission.

Climate change and security of energy supply are high priority issues for ETSO and we support the Commission in its efforts to introduce new and improved incentives for the European electricity market that will direct the market into a low carbon future.

ETSO is highly aware of the role Transmission System Operators (TSOs) play in facilitating the integration of RES-E into the electricity grid and balance the objectives of market development, environmental aspects and security of energy supply.

In this regard the provisions in the directive on access to the grid are of course of high interest to ETSO and will therefore be our main area of focus. Access to the grid and operation of the system can also be influenced by the design of support mechanisms as well as the design of issuing Guarantees of Origin (GoO). ETSO will accordingly address these issues.

ETSO acknowledges that energy based on renewable energy sources will be an even more important energy source in the future in order for Europe to contribute to combating climate change and to ensure security of energy supply. The increased focus on these issues within Europe means that RES-E technologies will in larger parts of Europe go from being a marginal energy source to supplying a substantial part of the energy demand. Accordingly the regulation in regard to grid access, priority dispatch and system development must be flexible enough to maintain and uphold the necessary degree of dispatchability in the system and thereby allow system operators to continue to manage the system in a secure way. ETSO asks the Commission to see the comments and arguments below in this context.

To integrate the future increase in RES-E in Europe into the power system there will be a need for grid development. To be able to keep up with this expansion improved authorisation procedures are required not only for the RES-E plants but also for grid development. ETSO therefore strongly encourages the Commission to include this topic in the directive.

ETSO acknowledges that support for several RES-E technologies will be needed in order to reach the ambitious targets set in the directive. In order to create transparency ETSO finds it important that member states make all support public - direct and indirect - given to RES-E and if possible provide all support in a transparent way through the direct subsidy schemes (feed-in tariff, investment aid or premiums etc.).

2. Access to the electricity grid, system development and operation of the power system

The development of RES-E will increase the need for stronger grids and interconnectors. For TSOs to be able to meet this demand it is important that the authorities speed up the authorisation process, coordinate grid and RES-E plant authorisation procedures, and if possible work towards harmonised procedures in Europe. Furthermore, ETSO finds it important that grid reinforcements are based on cost-effective assessment, and if possible, socio-economic calculations at European and/or regional level instead of focusing only on narrow national conditions.

Another important aspect concerning the development of RES-E is that in particular intermittent energy sources like wind or solar would increase the need for having generation capacity capable for quick regulation to counteract the intermittency of wind and solar power for the security of the electric power system.

The draft directive requires TSOs to guarantee the transmission of RES-E and to dispatch this generation with priority. In most situations it is the market that dispatches the power production and market-based congestion management procedures ensure an optimal dispatch. In situations with serious power overload ETSO finds it necessary to stress that an unlimited priority dispatch for RES-E can cause problematic and even dangerous situations in the operation of the power system. Therefore the draft's statement that the transmission of RES-E has to be without prejudice to the reliability and safety of the grid is indispensable for ensuring safe grid operations.

Unlimited priority dispatch for RES-E together with unlimited connection possibilities for RES-E generation could lead to ineffective grid developments. These requirements may in addition be contrary to the IEM directive, which requires non-discriminatory procedures among the market players.

ETSO finds that a combination of priority dispatch and market-based congestion management may be possible to manage in a secure way. It can, however, require significant amendments to existing IT systems and TSO processes and the directive should call for a detailed evaluation of the national system in order to clarify potential risks.

ETSO finds that the same rules should be applied when connecting renewable installations as well as conventional power installations to the grid. If priority was to be given to renewable installations it should be combined with market-based congestion management.

It should be noted that the development of RES-E may have serious impacts on isolated systems regarding operational and grid access issues. Securing stability of the grid in isolated systems in situations with large penetration of RES-E should allow system operators the necessary flexibility to manage the system in a secure way.

The ambitious target foreseen at national and European levels will increase the share of RES-E generation and consequently lower the share of conventional generation. In some member states a large share of the increase will be based on fluctuating energy (e.g. wind power). Due to these facts, it is important to focus on the need for new requirements for future RES-generators in order to allow the RES technologies to contribute to the global needs of the system. Furthermore the increase in fluctuating energy will impact the systems dispatch ability and thereby call for Member States to ensure the necessary regulation to allow for a secure operation of the system.

TSOs are in Articles 14.5 and 14.6 required to provide new producers applying to be connected to the grid with a cost estimate which takes into account the possible benefits, which TSOs and other producers might derive from the connection. ETSO is convinced that such calculation of the benefits will never provide an unambiguous result and would like to point out that if benefits are taken into account then any additional costs which might occur in other parts of the grid should equally be taken into account. A possible consequence of this kind of calculation might be distortion among applicants and the calculations might become a source of litigations.

The draft directive states in Article 12.2 that Member States must define any technical specifications, which renewable energy equipment and systems must meet to benefit from support schemes. ETSO understands this to include renewable installations and as such finds it necessary to stress that the installations also have to comply with the TSO grid codes (e.g. covering the technical aspects relating to connection) before being connected to the grid in order for TSOs to guarantee the security and the adequacy of the power systems.

There should be a clear distinction between the physical trade of electricity and the green value of the electricity. Because of this distinction ETSO finds it very important to treat producers of RES-E on equal terms with other producers regarding the costs of the system.

It is important that coverage of balancing costs and grid costs are in line with the principles of an open electricity market, meaning that RES-E producers as all other producers have to cover their own balancing cost. RES-E plants have to have complete balance responsibility.

ETSO acknowledges the need to support RES-E technologies not yet mature to enter the market on normal market terms. However, positive discrimination in favour of RES-E producers can be viewed as indirect support and as such this is not transparent. The lack of

transparency will increase the social cost of integrating RES into the European energy network. One important area in this regard is costs related to the connection to the grid.

The draft directive requires that charging of transmission fees does not discriminate against RES-E. ETSO finds that treating all producers equal complies with this requirement.

3. Guarantees of Origin

The design of Guarantees of Origin and the possible usages of the GoOs may have a very direct influence on the functionality of the electricity market and thereby on the operation of the grid. ETSO provides examples on this in the following.

The draft directive defines three possible types of trading of GoOs: to comply with target, to receive support or to disclose the trading of green electricity. Generally ETSO believes that all three types of trading should be based on one instrument - GoO as this would create transparency for all market players.

The use of the GoOs for disclosure has historically had an important impact on the grid.

Trading of green electricity/disclosure

The IEM directive requires electricity suppliers to disclose their energy mix to their customers. Suppliers that promote a special energy mix i.e. a green product can buy Guarantees of Origin to comply with this requirement, which is the case today.

The requirements of the draft directive limit this kind of trade and as such directly influence the present disclosure market¹. Because the directive does not exclude other types of certificates there is a risk for several new disclosure markets to come into existence. More than one instrument will create uncertainty in the market and could end in double issuing and double selling, which must be avoided.

The main concern for ETSO is that by limiting the disclosure market it is likely that physical trade of green electricity will take place instead. It is important for TSOs to be able to facilitate the trading of renewable electricity but without it being physical because the physical trade might create unnecessary congestions in the grid and distort the electricity market.

This exact distortion occurred in 2002-2003 where green electricity was sold from the Nordic countries to the Netherlands. The electricity was transported through Western Denmark and at the Danish-German border the electricity flow went from a high electricity price area to a low electricity price area - It did not react to market signals because the electricity had physically been sold to the Netherlands. The electricity flow went towards the high subsidy area instead of the high electricity price area.

¹ According to statistics delivered by the Association of Issuing Bodies 80 million GoOs were redeemed in 2007. They have mainly been used for disclosure or similar purposes.

ETSO would prefer an instrument that does not entail increased physical trading of green electricity and thereby avoid that the electricity flows in the wrong direction (with regard to the electricity price) resulting in distortion of the electricity market. GoOs could be that instrument meaning that they would be used to put a value on the green part of the electricity. This solution would create a financial market instead of a physical market.

Target trading

The draft directive is clear when defining rules for target trading. A Member State has the possibility to trade GoOs, if the Member State has equalled or exceeded the indicative trajectory (national target).

The Member State can, however, only trade with other Member States. This trade will possibly be quite limited and the market untransparent. The trade between Member States could possibly influence the market and thereby the market price, which is not a desirable development.

Support

Seen from an ETSO point of view it is important to create a framework for supporting RES-E technologies that gives incentives to investors to invest in areas where there is a need for new production capacity. This will ensure that the grid will be used more efficiently and also increase the value of the RES-E production in regard to security of energy supply.

It is important for ETSO to emphasise that we acknowledge that the development of some RES-E technologies is dependent on support. However, the design of the support schemes will as indicated above influence the operation of the grid and the induced grid investments.

In that regard ETSO finds efficient market-based support systems to be better in ensuring a balance between promoting RES-E and the development of the electricity market. Hereby, meaning a support scheme that creates a minimum of distortion to the electricity market.

With feed-in tariffs without balance responsibility it is likely that RES-E will be produced independent of demand and fed into the system, provided the tariff is high enough. In practice feed-in tariffs take capacity out of the market in the long run and in that way disturb the security of supply and the functionality of the open competitive electricity market. In a market-based system power plants only produce when the price is at their marginal cost or higher.

In a system of feed-in tariffs the RES-E plants will likely be placed where the plant owner will be able to receive the highest support and not where the need for capacity is. This is not a desirable solution when ensuring security of supply. Long-term security of supply is dependent on new capacity being placed where it is needed.

A preferable solution would be producers taking account of the market price when deciding on where to place their installations. If support is needed it should then be given on top of the market price.

ETSO would like to state that it is important that the chosen support scheme creates as little distortions as possible in the electricity market. A requirement would be that a harmonised approach was adopted across Europe but this is not reached with the requirements in this draft directive. ETSO understands that it will not be possible to obtain a harmonised approach to support in Europe at this point in time but ETSO encourages the Commission to work towards that goal in the future.