

European Energy Regulators' White Paper #1
Renewables in the Wholesale Market
Relevant to European Commission's Clean Energy Proposals
11 May 2017

1. Introduction

This Regulatory White Paper provides the views of the Agency for the Cooperation of Energy Regulators (the Agency) and National Regulatory Authorities in the Council of European Energy Regulators (CEER) on the integration of renewable energy sources (RES) into the wholesale electricity market. 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. Regulators' Key Recommendations

European Energy Regulators welcome the Clean Energy package's proposals on the integration of electricity from renewable energy sources (RES) in the wholesale market. In this context, we recommend the following three legislative changes, as further detailed in the next sections.

- ***Remove priority dispatch for existing RES***

European Energy Regulators recommend changes to Article 11 of the Electricity Regulation to apply the prohibition of priority dispatch to existing (as well as new) RES plants, so that all technologies complete fairly in the market to deliver the lowest possible cost to consumers.

- ***Avoid non-market approach to redispatch and RES curtailment***

European Energy Regulators recommend changes to Article 12 of the Electricity Regulation, particularly removing the 90% compensation for RES curtailment, to make the redispatch and curtailment approach less prescriptive. European Energy Regulators support redispatching markets – where feasible and efficient – being the mechanism for Transmission System Operators (TSOs) to perform market-based (rather than technology-based) curtailments.

- ***Avoid net metering and ensure fair cost allocation***

European Energy Regulators recommend changes to Article 15 of the Electricity Directive and to Article 21 of the RES Directive to emphasise that self-generators pay their fair share of network and system costs and that, for similar reasons, net metering is avoided.

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.

3. Remove priority dispatch for existing RES

European Energy Regulators welcome the proposals in the Clean Energy package to remove priority dispatch² (i.e. priority running) of new renewable generators. This is because the cheapest plants to meet customer demand should be run irrespective of the plant type, minimising consumer electricity bills. In addition, we welcome the proposed restriction on network operators using priority dispatch for RES as a reason to reduce network capacity for cross-border electricity flows, again allowing the cheapest generation to meet demand.

European Energy Regulators recommend that the removal of priority dispatch should be extended to include existing (as well as new) RES plants, because:

- Removing priority dispatch treats all plants on an equal basis. Keeping priority dispatch for existing plants could result in the perverse outcome that existing RES generators refrain from updating outdated components, adding to system costs.
- The priority dispatch granted to old generators should not be understood as a right with indefinite duration, but as an interim measure to promote non-mature RES technologies.

Hence, European Energy Regulators recommend the removal of priority dispatch in Article 11 of the Electricity Regulation to be extended to existing RES plants.

4. Avoid non-market approach to redispatch and RES curtailment

European Energy Regulators welcome the Clean Energy package's proposals to pursue a transparent and non-discriminatory market for redispatching plants based on economic merit-order in which RES competes with other sources. We agree that in such cases market based prices should form the basis of compensation paid to RES plants that are curtailed³. European Energy Regulators also support the proposals to help distribution system operators reduce the need for RES curtailment.

However, a market for redispatching plants may not always be feasible⁴ (as Article 12 of the Electricity Regulation rightly notes) and market prices for RES curtailment may not always send efficient signals. In this context, European Energy Regulators are especially concerned by the proposed provision setting a floor on the compensation for curtailed RES plants at 90% of the Day-Ahead price, which does not appear to be supported by any economic consideration and thus might be considered arbitrarily set. Hence, European Energy Regulators recommend changes to Article 12 of the Electricity Regulation to remove the 90% compensation floor for RES curtailment.

5. Avoid net metering and ensure fair cost allocation

European Energy Regulators support the Clean Energy package's proposals to enable active consumers who are entitled to generate, store, consume and sell self-generated electricity to participate in organised markets.

² Dispatch rules determine which power generation facilities shall generate power at which time of the day. In principle, this is based on the so-called merit order, which means that those power plants which for a given time period require the lowest payment to generate electricity are called upon to generate electricity. This is determined by the day-ahead and intraday markets.

³ Article 12 of the recast Electricity Regulation grants extensive protection from curtailment/downward redispatch for RES and CHP in case of congestion on the electricity network. Curtailment (also known as access) rules do not relate to the initial network connection, but to the allocation of capacity in situations where the network is unable to fully accommodate the market result.

⁴ Constraints could be localised and there could be a limited number of players with market power – resulting in non-competitive prices.

However, it is important to ensure that consumers who engage in self-generation, also referred to as “prosumers”, pay their fair share of network and other system costs/charges. Otherwise, these costs would be borne by other, potentially more vulnerable/poorer, consumers. This type of unfair cross-subsidisation of costs must be avoided.

Therefore, “net metering⁵” should be avoided because it may involve participants not paying for their fair share. With increased active participation in the energy markets from prosumers and distributed generation alike, it is important that the signals of the time value of energy and network capacity are available to all. Net metering reduces consumers’ sensitivity to this system, which undermines efforts to enhance flexibility in the market. It can result in parties not paying their fair share of network or system costs and can dull the rewards of those capable of providing flexible response to the system.

Therefore, European Energy Regulators recommend that, in Article 15 of the Electricity Directive, the reference to “cost reflective, transparent and non-discriminatory network charges, accounting separately for the electricity fed into the grid and the electricity consumed from the grid” for prosumers be further developed to exclude the possibility of net metering.

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 regulatory White Papers covering key topics related to the Clean Energy package. For further background reading and positions please see below the list of relevant publications of the European Energy Regulators.

1	European Energy Regulators’ Overview Paper. “Initial Reactions to the European Commission’s proposals on Clean Energy” , 23 January 2017
2	CEER Position Paper on Renewable Self-Generation , 16 September 2016
3	CEER response to the European Commission’s consultation on a new Renewable Energy Directive , 02 February 2016
4	CEER Key support elements of RES in Europe: moving towards market integration , 26 January 2016

⁵ Net metering is a regulatory framework under which the excess electricity injected into the grid can be used at a later time to offset consumption during times when their on-site renewable generation is absent or not sufficient.