IWEA response to the CEER consultation on Regulatory Aspects of the Integration of Wind Generation in European Electricity Markets
18th February, 2010

Introduction

IWEA welcomes the publication of the consultation on regulatory aspects of the integration of wind generation in European electricity markets.

The creation of a more integrated European energy market is of utmost importance for the wind energy sector. In order to take full advantage of the wind energy resources in Europe it is essential that there is robust interconnection between the different member states. Such interconnection would enable the trading of renewable electricity between member states, while at the same time providing the ability to balance out the variable nature of wind energy. In order for efficient interconnection to take place it is important that the interconnector access rules should be harmonised across Europe and the market systems developed to allow for efficient trading. It is also important that vital EU infrastructural development is carried out in a strategic manner, and that the funding, ownership and management of this infrastructure is transparent and fair, with charging for use of the infrastructure in line with common EU charging principles in order to avoid distortions in trade between Member States. The development of such infrastructure is a key enabler for the achievement of broader European targets and objectives.

General Comments

Within day trading by market participants and effective short term balancing actions by system operators is vital to ensuring that the benefits of interconnection are realised. As markets become more dynamic and as the share of renewable generation increases there will be significant value to be obtained through short term trades. Most international electricity markets allow trading to occur close to real time, but not all. It is important that interconnector users are not provided with unduly preferential access to the market after gate closure. This is best enabled by allowing all users access to intra-day trading arrangements.

The use of interconnector capacity for operating reserve should be co-optimised with energy trades and should be charged for capacity use on the same basis. The co-optimisation should be performed as close to real time as possible for maximum efficiency.

The TSOs should be mandated to engage in real time balancing trades to maximise the efficiency of market operation. They should be incentivised to engage in opportunistic trades where possible. The TSOs should not commence these trades until the window for participant intra-day trading has closed. However, the TSO should not have a direct financial interest in the actual trades.

It is essential that any market harmonisation process takes existing market mechanisms into account, and that there should be a roadmap of future changes in place that sends clear signals to investors of how the market is going to operate, so that investor confidence can be maintained. This process should involve clear consultations and timelines at an EU and national level as appropriate.

The existence of a single energy price will promote liquidity and trade and provide a transparent economic signal to all providers. Similarly the existence of a capacity payment mechanism will be of increasing importance as the market evolves to a more capital investment and lower operating cost base with the growth of renewables.

As the level of renewables increase it is essential that the there are incentives in place in the market to encourage the development of flexible dispatchable plant.

IWEA believes that infrastructure development needs to be carried out in a planned and strategic manner, with the integration of renewables as one of the main objectives to be considered. In terms of locational charges, it no longer makes sense to incentivise development of renewable generation in windless population centres instead of in locations with rich wind resources. IWEA believes that these charges, which can vary unpredictable over time, are actively discouraging to developers and that there is no need for locational transmission connection incentives in the context of trans-Europe strategic grid development.

There is significant potential for offshore wind development in the Irish Sea. Exploitation of this resource will create significant export opportunities for Ireland and these should be considered in both the design of offshore infrastructure and in the relevant trading arrangements. A strategic approach to the development of offshore grid is essential to ensuring that investments deliver the best returns available. There is a strong case to be made that the development of such infrastructure is a key enabler for the achievement of broader European targets and objectives. The “North Seas Countries’ Offshore Grid Initiative” is an example of Member States working together to develop resources. It is essential that there is a structured approach to development and management of such a grid and that charging, funding, ownership and management is carried out in a clear and transparent manner.

Questions from the Consultation

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

The key challenges associated with the expected growth in wind generation are the need for a stable commercial framework and regulatory certainty. These are essential for the growth of renewable energy development, as stability and certainty provide clearer investment signals and reduce the cost of risk mitigation.

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?

Changes which would better facilitate the integration of wind include:

- Significant increase in the capacity of interconnection between SEM and BETTA
- Incentives for more flexible conventional plant
- Better market integration between member states
- Promotion of demand side management
- A higher level of guaranteed payments to compensate for reduced market energy prices
- Removal of locational and punitive network capacity charges
- Ability to incentivize EU achievement of targets through an effective framework for trade in renewable energy and support
- Changes to planning rules
- Grid development

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?

Moving the market's gate closure closer to real time would better facilitate the deployment of wind generation, for example in the SEM by facilitating trade with BETTA. The BETTA market operates with half-hourly gate closure, which significantly reduces the market risk exposure for renewable generators to only 90 minutes. Operation of the SEM should be brought into line by facilitating shorter term trades between markets.

In addition, markets should aim to utilize more current information which would reduce constraint charges / imbalance costs, ultimately reducing energy costs for consumers.

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?

Gate closure should facilitate trade and price coupling. Ideally, a regional market should rely on merit-order dispatch, with wind being given priority dispatch. This eliminates the need for separate within-day capacity allocation mechanisms.

Question 5: Should wind generation be subject to the same balancing obligations and the same types of charges as other types of generation?

No. Wind generation should not be subject to balancing obligations as these can damage liquidity and trade. This is particularly important if market arrangements prevent effective risk management by such generators.

There should be appropriate incentives on all parties to be flexible and to manage their units and facilitate management of the network.There should also be strong action to introduce technological improvements, shorter gate-closure, and measures to integrate renewable generation. Such requirements would mean significant changes to market rules, but in the long term, this would ensure that the European market was designed for full integration of renewable technologies.

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?

Yes. It is important that the TSOs engage in R&D so that security of supply can be maintained while at the same time large amounts of wind generation can be facilitated and European targets and objectives can be achieved.

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?

In relation to wind generation, it does not make sense to incentivise development in windless population centres instead of in locations with rich wind resources. Strategic grid development is required to ensure that the infrastructure is built in such a way that caters for wind generation in the locations where it can best be harnessed, and not penalise wind development that makes the best use of the natural resources.

Connection charging policy should recognise the strategic value of the security of supply provided by renewable generation. By providing strategic infrastructure the EU will enable efficient delivery of its strategic energy and trade policy goals.

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?

In the absence of strategic grid development, the costs borne by wind generators connecting to the grid can be very high. Only by having strategic grid development designed to cater for wind generation in remote areas can these costs be reduced providing a more equitable platform for development to take place.

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?

The "supergrid" is an essential development to allow for greater wind development and IWEA believes that this should be implemented as soon as possible. By promotion of a single market, harmonisation of trade and market systems, and development of EU infrastructure, some of the issues relating to this European grid can be addressed.

The interactions between regulatory decisions, which are often based on legislation or statutory duties, need to be taken into account. Regulators must work with their governments to ensure political support, particularly in the areas of common rules and licence conditions.

Question 10: Is the current ownership structure of the offshore lines or their regulatory framework a potential issue for the integration of offshore network? Are there other considerations affecting this ownership structure?

IWEA believes that the offshore network should be developed as EU infrastructure, since the overall objective is for Europe to reach its targets for 2020. This would also facilitate more strategic development and promote transparency in the funding, ownership and management of the grid. This may require licencing and legislative changes that will require regulatory and government support.

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?

IWEA believes that the overall objective should be to promote a single market for trade, and that the Regional Initiatives are a step towards this objective. The Regional Initiatives should be developed with a future single European market in mind to avoid divergence in different regions. ACER must ensure that regional developments do not result in the development of barriers to further integration.

Question 12: What other issues should European regulators consider in relation to the integration of wind generation?

European regulators should also consider the following points in relation to the integration of wind generation:

- Recognition of the strategic value of displacing fossil fuels sourced from unstable regions (in addition to CO2 benefits).

- Establishment of a common policy to develop strategic infrastructure in view of the wider economic benefits that go well beyond issues of electricity prices.
- Development of market rules that facilitate large scale renewable penetration consistent with EU and national targets.