

Feed-in grid charges - policy assessment

Policy note | Prepared for Energie Nederland



Executive Summary

Aurora Energy Research is a leading global provider of power market forecasting and analytics for critical investment and financing decisions. Our mission is to facilitate the global energy transition through widely trusted quantitative analysis and high-quality decision support.

This report contains our assessment of several potential designs of feed-in grid charges for producers, based on our target-driven Net Zero scenario. This scenario represents a world where the net-zero target is reached by 2050 and a carbon-neutral power sector is realised in 2035, in line with governmental ambitions.

This report is commissioned by Energie Nederland.

- 1 Currently, proposals for feed-in network charges are being explored by the regulator (ACM), aiming to achieve **higher system cost-reflectivity**.
- 2 Our study indicates that these charges have **the opposite effect, including significantly increasing costs for end consumers**, impacting renewable investment, and security of supply.
- 3 In the short term, feed-in network charges negatively **affect already commissioned renewable projects**, especially if all else is held equal.
- 4 In the long term, feed-in charges **slow down renewable buildout** and put government decarbonisation ambitions at risk.
- 5 Lower renewable generation leads to higher utilisation of EU thermal assets, **pushing up electricity prices and the costs for end-consumers**.
- 6 Even **after correcting for second order effects** (i.e. rising electricity prices), **already commissioned assets are still negatively impacted**.
- 7 While higher prices allow for some additional hydrogen power plant buildout, it is not sufficient to cover demand, **increasing import dependency**.
- 8 **Security of supply is further at risk**, as higher costs from feed-in charges may lead to early natural gas power plant closures.
- 9 Higher electricity prices outweigh the reduced grid fees for offtakers on the medium to long term, **increasing total end-consumer bills**.

Currently, proposals for feed-in network charges are being explored by the regulator, aiming to achieve higher system cost-reflectivity

Proposals being explored by the regulator

- 1 Standard tariff – fixed component based on capacity
- 2 Peak-use tariff – fixed component based on capacity adjusted for peak hour injection into grid
- 3 Volume based tariff – variable component based on production
- 4 Locational tariff – fixed component based on capacity and location in feed-in, offtake or mixed area
- 5 Deep connection costs – one-off CAPEX increase based on grid connection size

i To make the results from our study more comparable, we used the level of charges of the CE Delft study when creating our feed-in network charge scenarios.

- Currently, the regulator is exploring the implementation of feed-in network charges, which would distribute grid costs between consumers and producers.
- The goal of this is to establish better cost-reflectivity, distributing costs to the parties that are responsible for incurring these costs.
- To assess potential effects, CE Delft is conducting a study on design options for feed-in network charges.
- Informed by the study by CE Delft, we create scenarios on five proposed feed-in network charge design options. This yields a second view on the effects that feed-in network charges could have.

Our study indicates that these charges have the opposite effect, significantly increasing costs for end consumers, and impacting renewable investment

We assessed the feed-in network charges using criteria of impact on renewable investment, security of supply (SoS), and end consumer bills, as well as regarding complexity of implementation, cost reflectivity and investment security. The assessment criteria are further elaborated on in the [appendix](#).

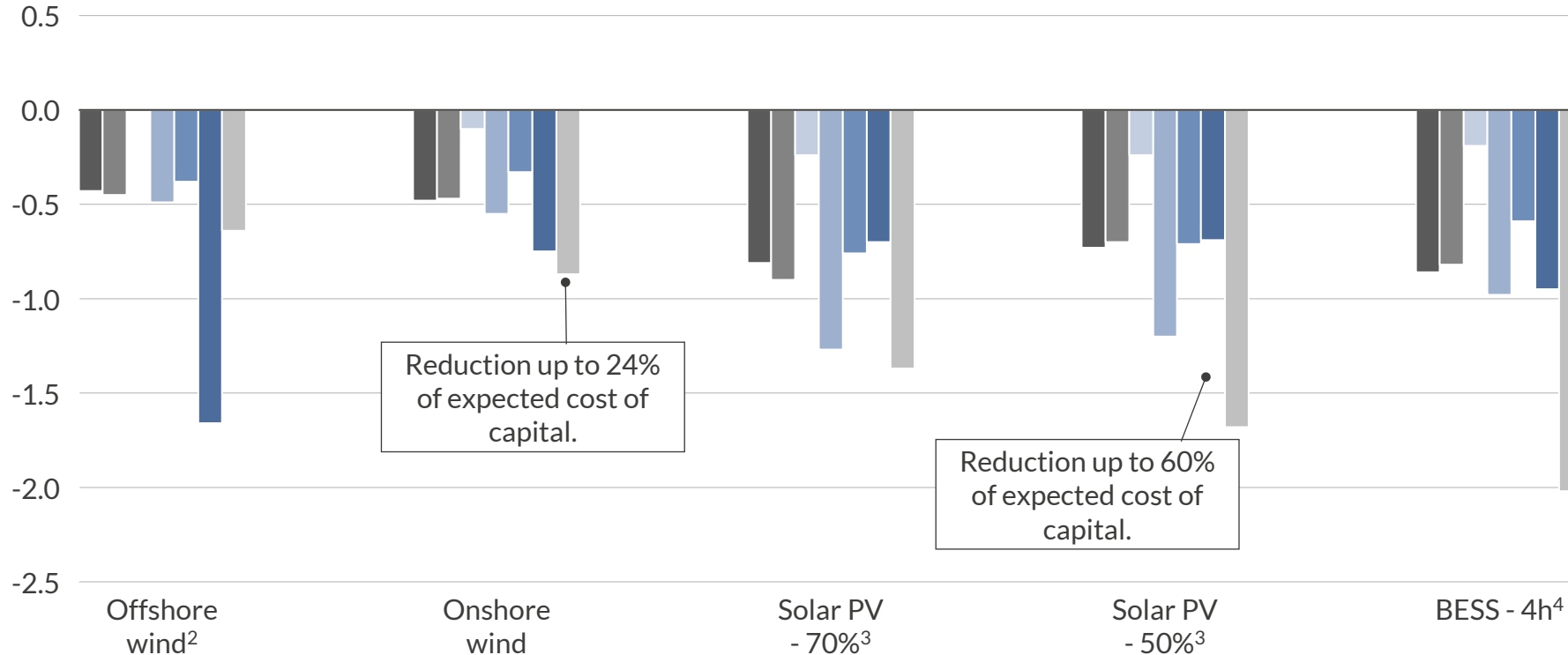
		Design options					
		No fee ¹	Flat-fixed fee scenario	Peak-use fixed fee scenario	Flat variable fee scenario	Locational difference scenario	CAPEX scenario ²
<u>Assessment</u>							
1	Renewable investment	+	-	-	-	-	- -
2	Security of supply	+	-	-	- -	-	- -
3	End consumer electricity bill	+	-	-	- -	-	- -
	Complexity of implementation	+ +	-	- -	+	- -	+
	Cost reflectivity	-	●	+	●	+	●
	Investment security	+ +	- -	- -	●	- -	+

+ Positive
 ● Neutral
 - Negative
 ● Deep-dive
 ● Qualitative assessment

1) Based on Aurora Net Zero, Aurora's best view on a system in which government decarbonisation targets are achieved; 2) One-off CAPEX assumptions, from CE Delft, are high compared to connection costs in other countries. With lower CAPEX assumptions the effects will be less negative.

In the short term, feed-in network charges negatively affect already commissioned renewable projects, especially if all else is held equal

IRR delta to Aurora Net Zero, reference asset with construction starting in 2024 – excluding second order effects¹
 %, pre-tax real 2023



Expected WACC under SDE++ 2024 round⁵
 %, real 2023

3.7%

2.8%

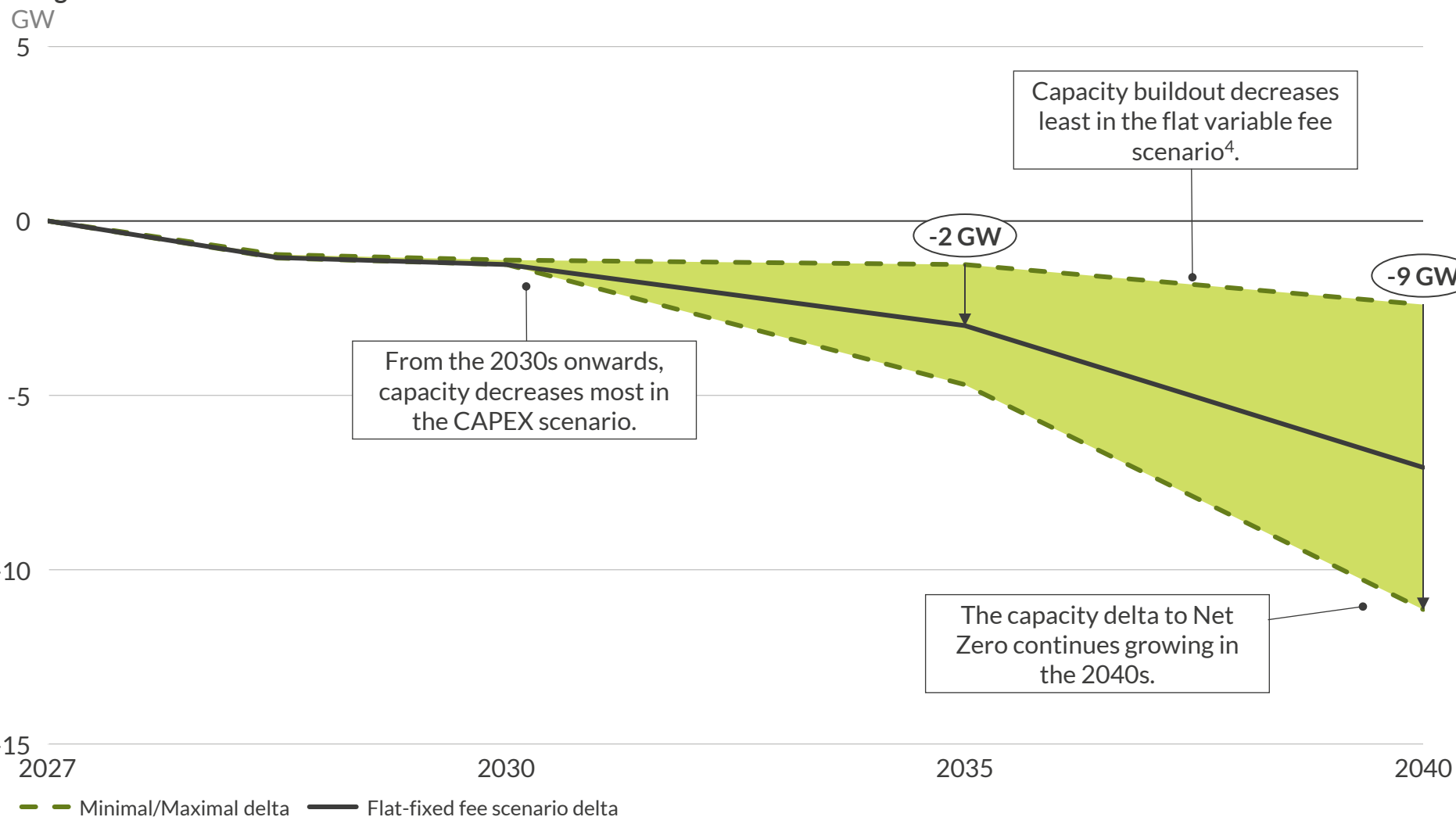
Flat fixed Peak-use Locational - offtake Locational - feedin Locational - combi Flat variable CAPEX

1) Excluding cost increase due to the feed-in network charge but excluding the second order effects, negative effect on renewable buildout and increasing power prices; 2) No offshore wind assumed in offtake areas; 3) Inverter & grid connection size share of peak capacity; 4) No change in battery behaviour compared to Aurora Net Zero is assumed; 5) Post-tax

- These deltas, as in the study by CE Delft, do not yet reflect second order effects of the introduction of a feed-in network charge on renewable buildout, power prices, and system composition.
- The implementation of a feed-in network charge would negatively affect already commissioned renewable assets, reducing their returns.
 - Based on a reference asset starting construction in 2024.
- Compared to Aurora Net Zero, IRRs for renewables would drop by as much as 1.7 percentage points, and by up to 2 percentage points for batteries.
- However, it can be expected that investment decisions would change in response to the introduction of feed-in network charges; therefore, we also assessed second order effects.

In the long term, feed-in charges slow down renewable buildout and put government decarbonisation ambitions at risk

Range of renewable buildout deltas to Aurora Net Zero across all scenarios^{1,2}



- Accounting for 2nd order effects, increased costs from feed-in network charges lead to reduced renewable capacity buildout in all scenarios³.
- The lower build out of renewables will make it harder to reach decarbonisation targets.
 - In the CAPEX scenario, the target of 70% renewable generation might be missed.
 - Electrification in industry, and other sectors may slow down as less cheap electricity from renewables is available.
- To still make targets, further investments via subsidy may be needed, increasing societal cost.
- Imports may not always be available or there may be regulation on fossil-based imports, endangering security of supply (SoS).

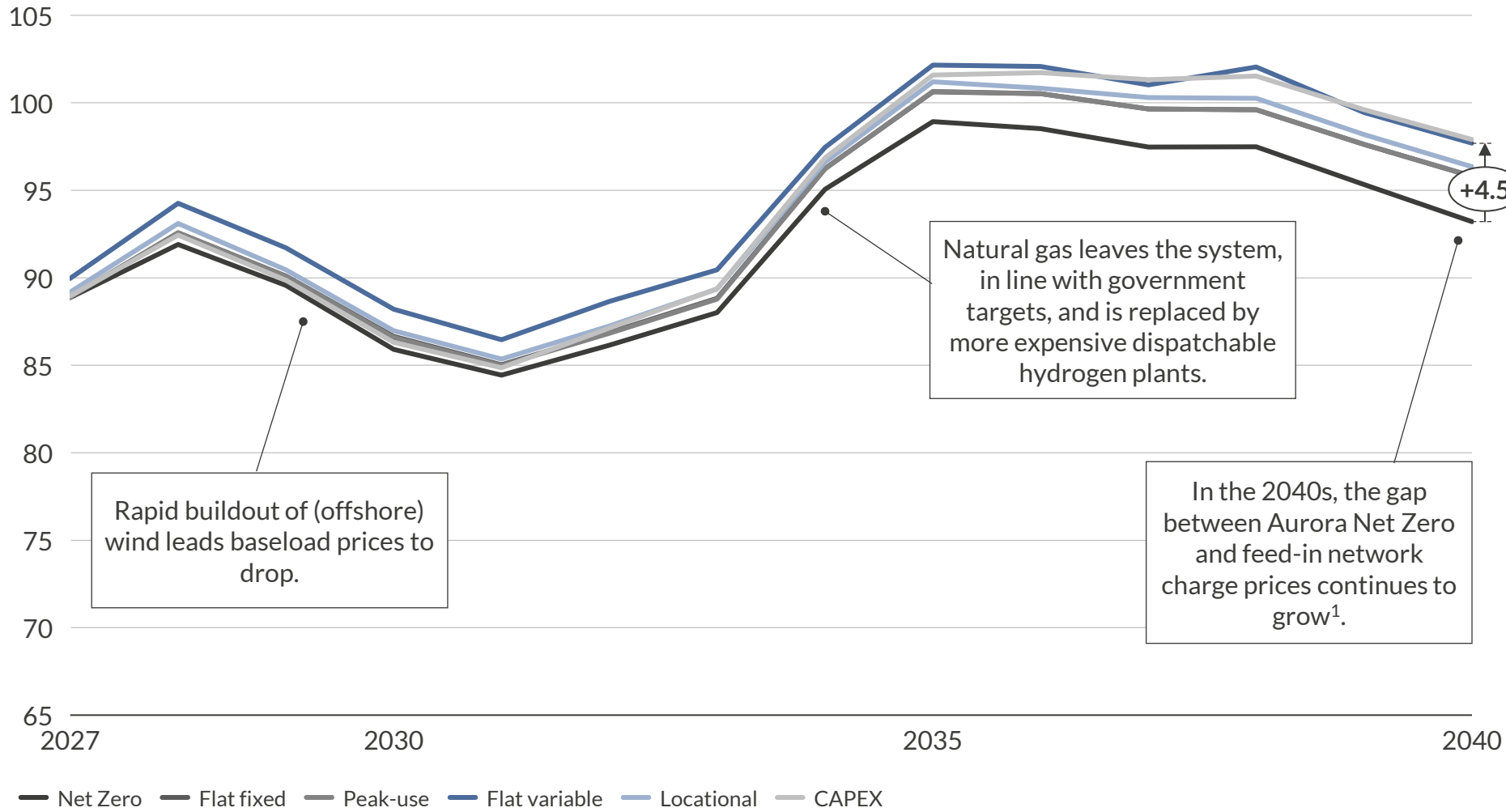
1) Onshore wind, offshore wind, and solar PV; 2) Displaying 2nd order effects; 3) We assume the producers tariff is implemented in 2027 and impacts investment decisions from 2028 onwards; 4) Impact on net generation is similar to other scenarios, as mainly offshore wind is affected in this scenario, compared to solar PV in other scenarios., where offshore wind produces more p.a.

Sources: Aurora Energy Research, Rijksoverheid

Lower renewable generation leads to higher utilisation of EU thermal assets, pushing up electricity prices and the costs for end-consumers

Electricity baseload power prices

€/MWh, real 2023



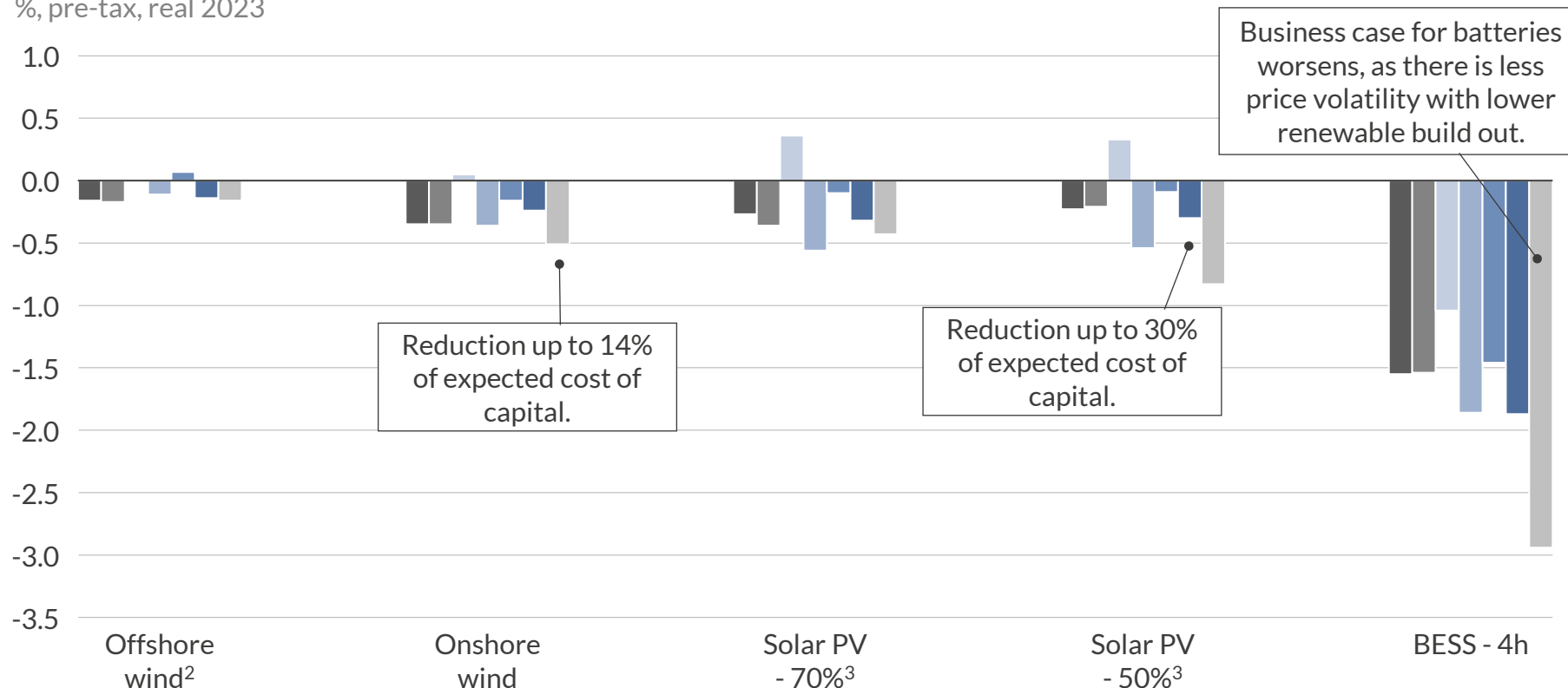
1) In our modelling, we made projections for up to 2050.

- Introducing a feed-in network charge leads to higher baseload prices, whose delta to Aurora Net Zero increases over time.
 - In the short term, prices increase mostly in the flat variable fee scenario, as asset dispatch is directly affected by the additional fees.
 - In the capacity-based scenarios, differences show from ~2028 onwards, when reduced buildout in response to the charges set in.
- Decreased renewable capacity buildout leads to:
 - Higher prices due to increased reliance on dispatchable plants; hydrogen CCGTs and OCGTs from the mid-2030s onwards.
 - Higher prices due to increased reliance on imports, including higher imports from EU thermal assets.

Even after correcting for second order effects (i.e. rising electricity prices), already commissioned assets are still negatively impacted

IRR delta to Aurora Net Zero, reference asset with construction starting in 2024 - including second order effects¹

%, pre-tax, real 2023



Expected WACC under SDE++ 2024 round

%, real 2023

3.7%

2.8%

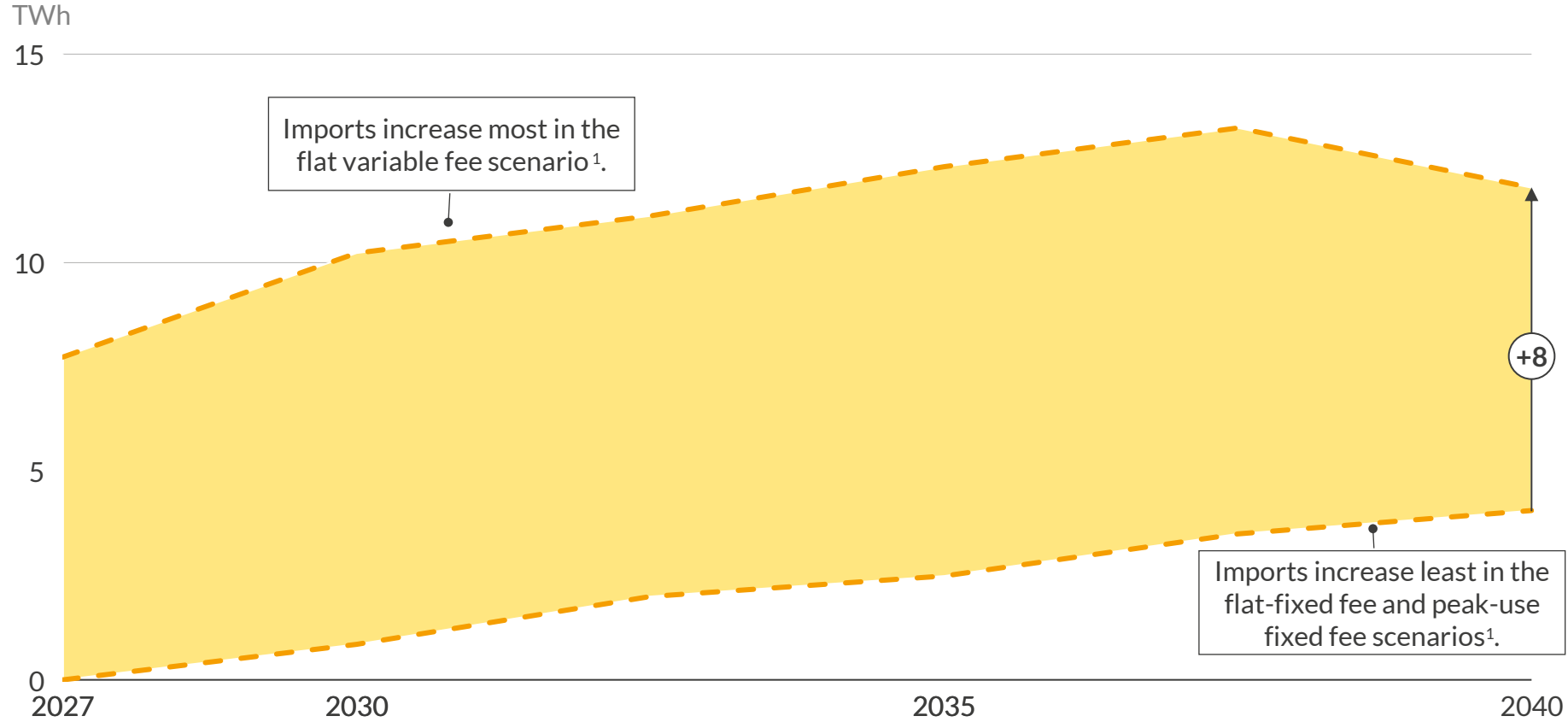
Flat fixed Peak-use Locational - offtake Locational - feedin Locational - combi Flat variable CAPEX⁴

1) Including cost increase due to the fee but excluding the 2nd order effects, negative effect on renewable buildout and increasing prices; 2) No offshore wind assumed in offtake areas; 3) Inverter & grid connection size share of peak capacity; 4) Assumption on distribution taken from CE Delft; 5) One-off CAPEX assumptions CE Delft are high compared to current one-off fee & other countries
Sources: Aurora Energy Research

- The introduction of feed-in network charges leads to a decrease in renewable buildout.
 - Decreased cannibalisation among renewable assets leads to higher capture prices.
 - Medium- to long term higher running hours of hydrogen plants further increases power prices.
- However, the returns of already commissioned projects would still be negatively impacted.
- Additionally, existing assets with long-term PPA contracts will not benefit from 2nd order effects and will be affected more significantly.
- While IRRs for renewable assets in electricity offtake areas increase, most renewable assets would be negatively affected as they are located in other areas⁴.

While higher prices allow for some additional H₂ CCGT buildout, it is not sufficient to cover demand, increasing import dependency

Range of deltas in imports compared to Aurora Net Zero



Maximum increase in imports as a share of total imports in Aurora Net Zero



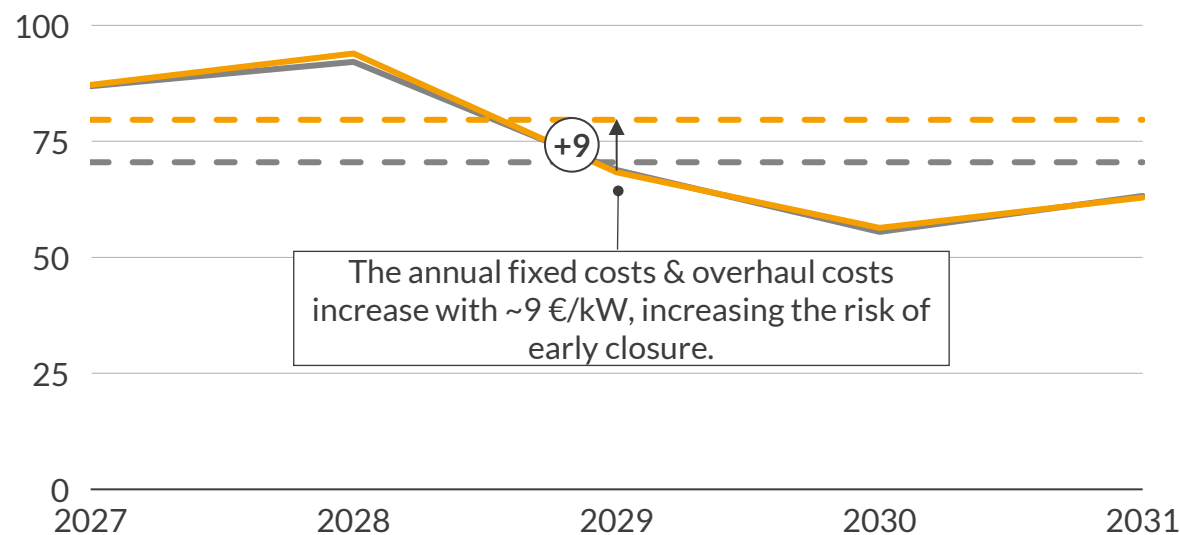
Comments

- As power prices increase, imports become cheaper than building additional assets inside the country. Import dependency increases across all scenarios.
- In the scenario with the highest increases, the flat variable fee scenario, imports increase by up to ~13TWh.
 - This is largely driven by a reduction in thermal running hours due to the increased production costs in the short term and less offshore buildout in the long term.
 - There is not sufficient additional dispatchable capacity to compensate this.
- In the flat-fixed fee and peak-use fixed fee scenarios, imports increase the least, reaching a delta of 4TWh in 2040.

1) In the 2040s, imports increase further in all scenarios.

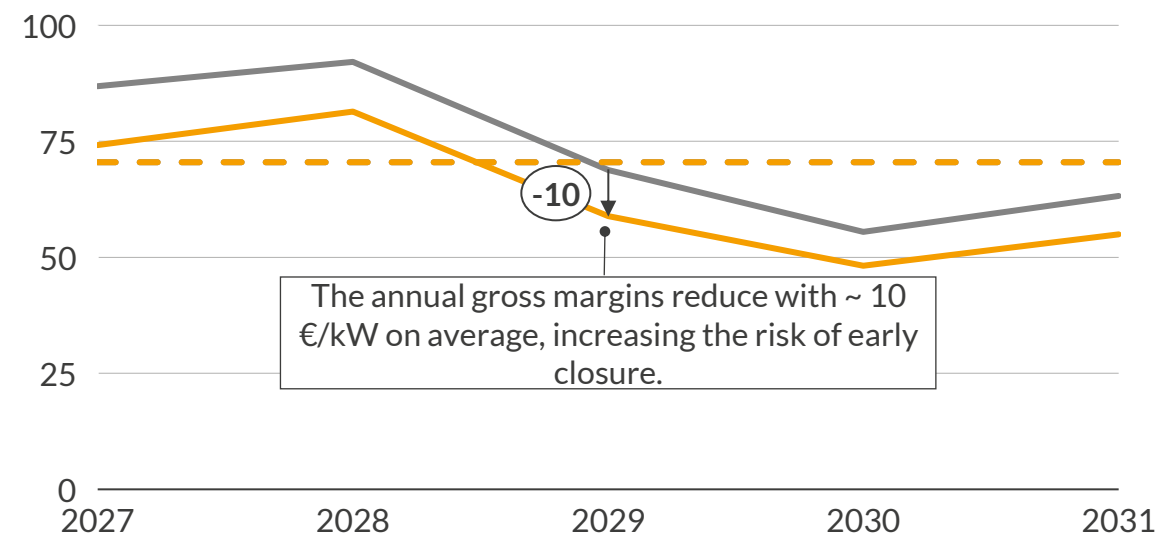
Short- to medium-term security of supply is further at risk as higher costs from feed-in charges may lead to early natural gas power plant closures

Gross margins v. costs - flat fixed fee scenario
€/kW, real 2023



The annual fixed costs & overhaul costs increase with ~9 €/kW, increasing the risk of early closure.

Gross margins v. costs - flat variable fee scenario
€/kW, real 2023



The annual gross margins reduce with ~10 €/kW on average, increasing the risk of early closure.

In both capacity-based feed-in network charge and in dispatch-based feed-in network charge scenarios, charges could imply earlier closure of gas CCGTs.

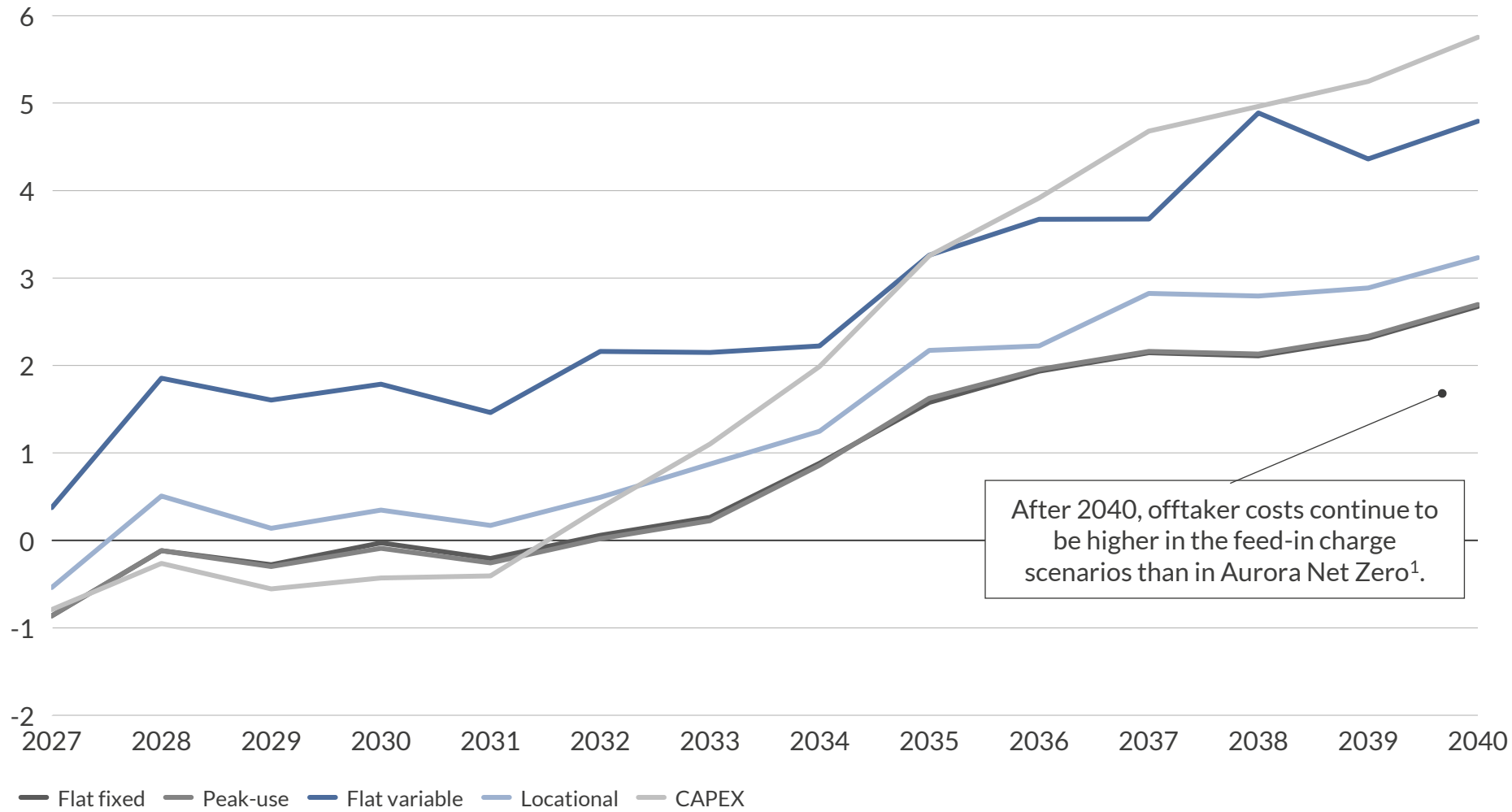
- Feed-in network charges are an additional cost and could lead operators to close their plants early when other expenses, such as overhaul cost, arise.
 - Overhaul costs are capital investments into gas CCGTs for maintenance and need to be made over the course of the asset's lifetime.
 - Even with fixed cost covered, margins may not be sufficient to cover both overhaul cost and feed-in network charges when assets near closure in the early 2030s¹.
- In the displayed flat fixed fee and flat variable fee scenarios, the reference gas CCGT plant is at risk of closing from ~2028 onwards, with the business case becoming more sensitive to any additional changes in costs or revenues.
- Premature closure of gas CCGT plants would have negative effects on security of supply, increasing reliance on imports, pushing up power prices and societal costs.

— Net Zero: annual gross margins — Net Zero: annual fixed & overhaul costs — Scenario: annual gross margins — Scenario: annual fixed & overhaul costs

1) As per the government's goal of reaching a zero-emissions power sector.

Higher electricity prices outweigh the reduced grid fees for offtakers on the medium to long term, increasing total end-consumer bills

Net delta electricity costs to Net Zero for a 100 MW offtaker²
mn €, real 2023



After 2040, offtaker costs continue to be higher in the feed-in charge scenarios than in Aurora Net Zero¹.

- CE Delft estimates annual reductions of grid fee payments of 100 MW large-scale industrial offtakers at 0.9 mn €.
- Short term, this has a slight positive effect on the electricity bill of the end-consumer.
 - This is because renewable investments are not expected to slow down immediately.
 - The first effects are seen from 2028 onwards.
- In the long term, changes in the system driven by the new feed-in network charges lead to significantly higher electricity prices and total annual electricity costs.
- As we see more costs shifting towards end-consumers, the impact of the feed-in network charge is not in line with its purpose, which is to realise more cost reflectivity.

1) In our modelling, we made projections for up to 2050. 2) with stable, full-load consumption profile

The assumptions used in our modelling are relatively optimistic, in practice the negative impact on consumer bills and security of supply could be exacerbated

Assumption

- 1** While we include second-order effects, investment conditions such as capital cost remain unchanged.
 - WACC and hurdle rates are the same as in the Aurora Net Zero scenario.
 - We include second-order effects of feed-in network charges, where differences in capacity buildout in the Netherlands start in 2028.
 - Decisions on feed-in network charges would not be made before 2025, with implementation and feedback effects taking longer.
- 2** There are capacity payments to cover H₂ thermal investment gaps.
 - We assume capacity payment which fill the gap to financing hydrogen CCGTs and OCGTs in the long term, to avoid loss of load.
- 3** Gas CCGT plants only need to recover fixed O&M costs to keep running.
 - In our modelling, gas CCGTs make the decision to decommission by comparing gross margins to fixed operation and maintenance costs.
- 4** The impact of feed-in charges on demand growth is limited.
 - Base demand is the same as in Aurora Net Zero. Flexible demand technology buildout (e.g., electrolyser capacity) remain unchanged. The offtake hours of the demand sources do react to changes in prices.
- 5** In the model, emissions goals are reached according to current emissions goals, with imports available.
- 6** In the model we assume no additional nuclear buildout.

Impact of change in assumption

- 1** Projected effects for capacity buildout and prices could be exacerbated if the investment climate worsened through increased uncertainty.
 - The policy on feed-in charges, and potentially even the discussion on it, will likely raise the cost of capital and hurdle rates due to increased uncertainty.
 - Depending on the speed and kind of policy implementation, this could also imply capacity buildout changes before 2028.
- 2** Without capacity payments, long-term electricity prices would be more volatile, likely increasing the negative impact of feed-in charges.
 - This is due to insufficient dispatchable capacity from thermal plants, which could lead to unacceptable hours of loss of load and impact SoS¹.
- 3** Considering the cost for major overhauls, which are not unlikely to be needed for some plants, could lead gas CCGTs to close early, putting more pressure on security of supply and increasing prices.
- 4** Base demand and the buildout of flexible demand technologies could be affected by increased prices.
 - Decarbonisation targets could be missed through reduced electrification due to higher prices.
- 5** Imported electricity may not be carbon free or available, increasing system emissions and risks on security of supply.
- 6** Additional nuclear capacity would decrease imports but also renewable capacity buildout as it worsens renewable business cases.

1) Security of Supply

Details and disclaimer

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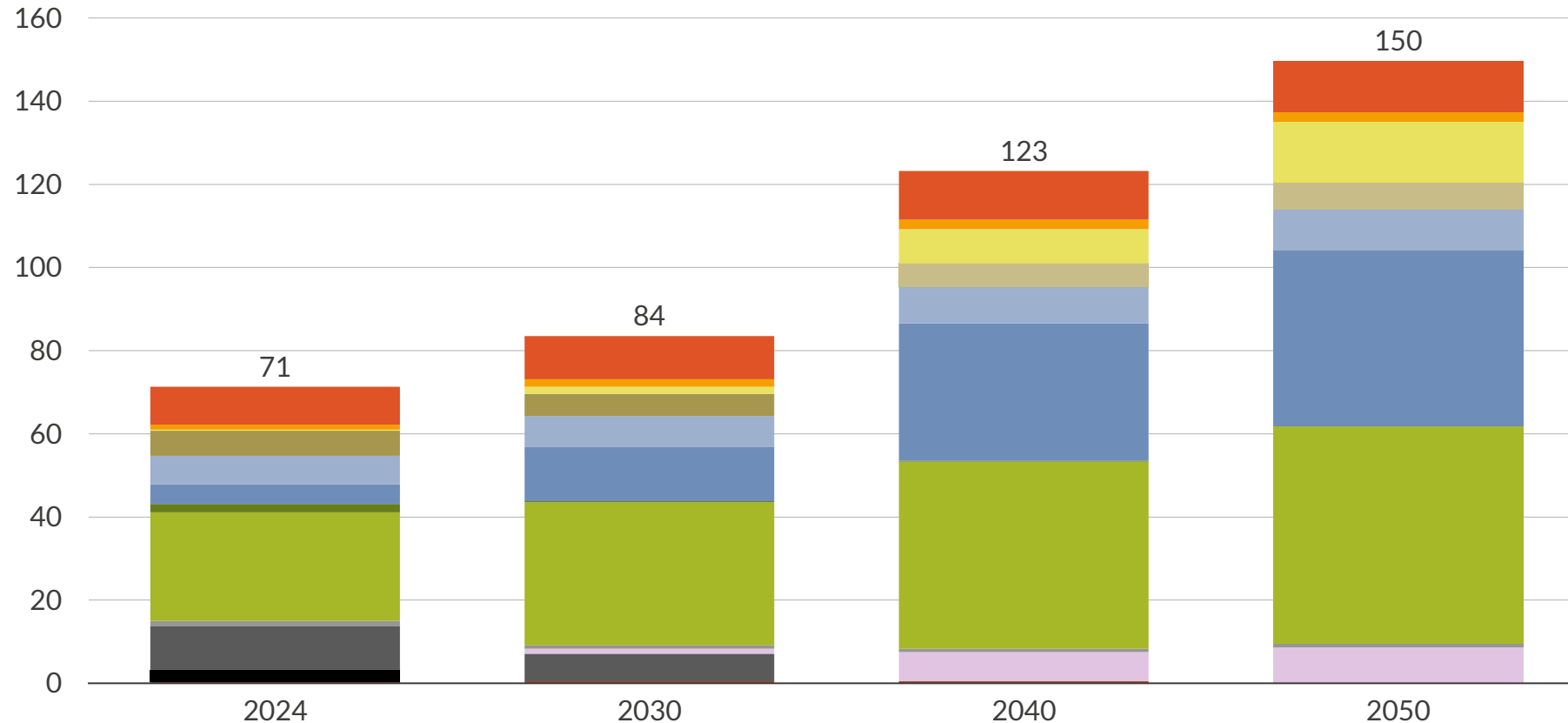
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All scenarios are based on Aurora's target driven Net Zero scenario, adjusting asset cost structures to reflect the feed-in grid charges

Total installed capacity in Aurora Net Zero scenario¹

GW



1) Excluding offshore wind that is developed for direct delivery for hydrogen production. 2) Peaking includes OCGTs and reciprocating engines; 3) Other RES is exclusively biomass in the Netherlands; 4) Other thermal are waste to energy plants, which are assumed to be combined with CCS from 2030 onwards.

Sources: Aurora Energy Research

- Installed capacity increases by 79GW in 2024 -2050, driven by the strong growth of renewables: solar PV (+26GW), onshore wind (+3GW) and offshore wind (+37GW).
- The government's target of a net zero power system in 2035 is achieved through a complete replacement of gas plants by hydrogen plants by 2035 and additional solar and offshore wind capacity.

To assess the different feed-in network designs, they are scored on 6 criteria reflecting the impact on the system

1 Renewable investment

- **Definition:** The impact on investment decisions & renewable buildout.
- **Relevance:** Capturing the impact on governmental decarbonisation targets.

4 Complexity of implementation

- **Definition:** The level of effort and additional costs due to implementation for an asset operator.
- **Relevance:** A feed-in network charge raises the complexity of an asset's dispatch, which might lead to sub-optimal decisions

2 Security of supply

- **Definition:** The impact on import dependence and risk of blackouts.
- **Relevance:** Capturing the societal impact on energy security.

5 Cost reflectivity

- **Definition:** The level in which fees are charged to the parties responsible for costs of the grid.
- **Relevance:** ACM's objective of the feed-in network charge is a more fair distribution of costs.

3 End consumer electricity bill

- **Definition:** The impact on the total electricity costs for an end consumer.
- **Relevance:** Capturing any additional burden on end consumers and the risk of slowing down electrification efforts.

6 Investment security

- **Definition:** The level of retroactive disadvantages and transparency about the impact on asset business cases.
- **Relevance:** Retroactive changes lead to a more challenging investment climate, which might undermine future investments.














The implementation of feed-in network charges would negatively affect end consumer bills, renewable investment, and security of supply


Assessment	Design options					
	No fee ¹	Flat-fixed fee scenario	Peak-use fixed fee scenario	Flat variable fee scenario	Locational difference scenario	CAPEX scenario
Renewable investment	<ul style="list-style-type: none"> Renewable buildout according to reaching decarbonisation targets. <p style="text-align: right;">+</p>	<ul style="list-style-type: none"> Renewable capacity buildout is slowed down. Solar PV most strongly affected. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Renewable capacity buildout is slowed down. Solar PV most strongly affected. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Renewable capacity buildout is slowed down. Offshore wind most strongly affected. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Renewable capacity buildout is slowed down. Solar PV most strongly affected. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Renewable buildout is slowed down, solar PV buildout stops almost fully. <p style="text-align: right;">- -</p>
Security of supply	<ul style="list-style-type: none"> No impact on installed capacity expected if no fee is implemented. <p style="text-align: right;">+</p>	<ul style="list-style-type: none"> Lower renewable generation increases reliance on imports. Gas CCGTs may close early. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Lower renewable generation increases reliance on imports. Gas CCGTs may close early. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Relatively higher increase in reliance on imports. Gas CCGTs may close early. <p style="text-align: right;">- -</p>	<ul style="list-style-type: none"> Lower renewable generation increases reliance on imports. Gas CCGTs may close early. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Relatively higher increase in reliance on imports. Gas CCGTs may close early. <p style="text-align: right;">- -</p>
End consumer electricity bill	<ul style="list-style-type: none"> No additional impact on the electricity bill of an end consumer. <p style="text-align: right;">+</p>	<ul style="list-style-type: none"> Increased fees are handed down to the end consumer, increasing consumer bills. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Increased fees are handed down to the end consumer, increasing consumer bills. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Relatively higher increase in end consumer bills due to stronger system effects of fee. <p style="text-align: right;">- -</p>	<ul style="list-style-type: none"> Increased fees are handed down to the end consumer, increasing consumer bills. <p style="text-align: right;">-</p>	<ul style="list-style-type: none"> Relatively higher increase in end consumer bills due to stronger system effects of fee. <p style="text-align: right;">- -</p>

+ Positive ● Neutral - Negative

1) Based on Aurora Net Zero, Aurora's best view on a system in which government decarbonisation targets are achieved.











Further, the implementation of such charges would increase complexity of dispatch and investments, while risking not being cost reflective




		Design options					
Assessment		No fee ¹	Flat-fixed fee scenario	Peak-use fixed fee scenario	Flat variable fee scenario	Locational difference scenario	CAPEX scenario
Complexity of implementation	<ul style="list-style-type: none"> Not applicable 		<ul style="list-style-type: none"> Weighting by generation and capacity may be difficult to assess and anticipate. 	<ul style="list-style-type: none"> Increased complexity for energy management if producers want to adjust their behaviour to benefit from proposal. 	<ul style="list-style-type: none"> Additional cost to dispatch decision, relatively simple to include. 	<ul style="list-style-type: none"> Anticipation of cost based on area, next to potential uncertainties on whether areas are fixed, increases complexity. 	<ul style="list-style-type: none"> Additional capital expenditure, relatively simple to include.
			 		 		 
Cost reflectivity	<ul style="list-style-type: none"> Limited reflectivity through unequal distribution of cost among consumers and producers. 		<ul style="list-style-type: none"> Costs are more distributed over all grid users. On the other hand, the costs for consumers increase even further. 	<ul style="list-style-type: none"> Favours dispatch in non-peak hours. On the other hand, the costs for consumers increase even further. 	<ul style="list-style-type: none"> Costs are more distributed over all grid users, and production cost is generation based. On the other hand, the costs for consumers increase even further. 	<ul style="list-style-type: none"> Location-based fees concentrate cost where they are incurred. On the other hand, the costs for consumers increase even further. 	<ul style="list-style-type: none"> Costs are more distributed over all grid users. Feed-in charge is not linked to actual use of the grid and costs of consumers increase even further.
							

 Positive  Neutral  Negative

1) Based on Aurora Net Zero, Aurora's best view on a system in which government decarbonisation targets are achieved.

Finally, the impact on investments can be hard to assess and assets may be retroactively impacted

		Design options					
		No fee ¹	Flat-fixed fee scenario	Peak-use fixed fee scenario	Flat variable fee scenario	Locational difference scenario	CAPEX scenario
Assessment							
Investment security	<ul style="list-style-type: none"> No additional impact on business cases of investments. 	<ul style="list-style-type: none"> Retroactive impact on projects that have already been realised. Impact on business case complex to determine as it is difficult to adjust dispatch based on monthly capacity-based fees. 	<ul style="list-style-type: none"> Retroactive impact on projects that have already been realised. Impact on business case complex to determine as the fees do not directly impact dispatch. 	<ul style="list-style-type: none"> Retroactive impact on projects that have already been realised. Impact somewhat transparent as fee can be taken into account in dispatch decisions. 	<ul style="list-style-type: none"> Retroactive impact on projects that have already been realised. Risk of increasing impact over time if classification of location changes. 	<ul style="list-style-type: none"> No retroactive disadvantages for already commissioned projects. Impact on business case of new projects is transparent. 	
		 	 	 		 	

 Positive  Neutral  Negative

1) Based on Aurora Net Zero, Aurora's best view on a system in which government decarbonisation targets are achieved.

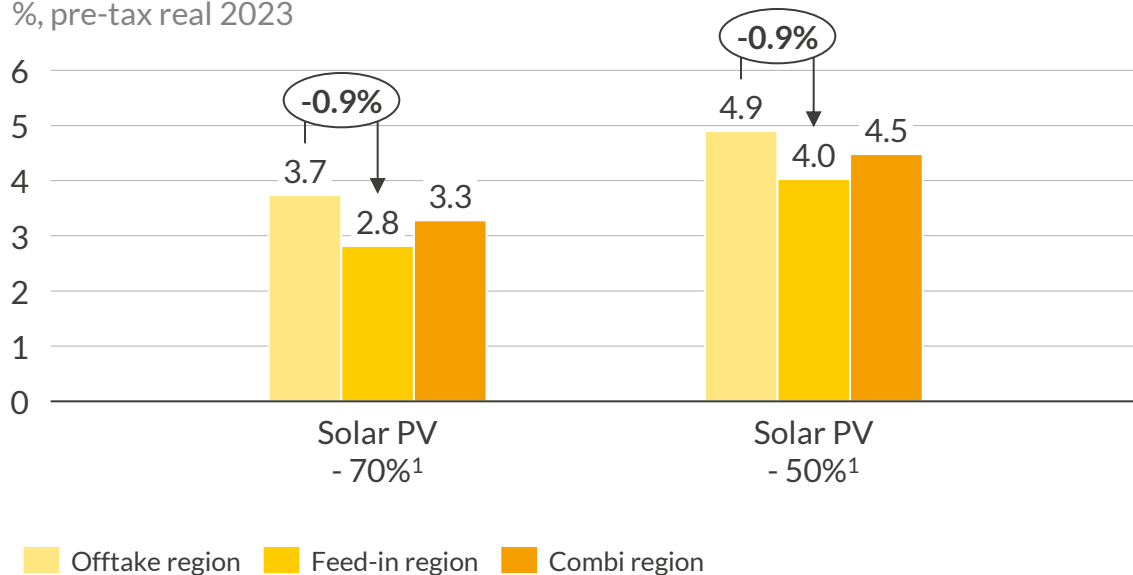
In terms of choice of asset location and operation, solar PV has the most potential to be impacted, but effects are still expected to be limited

Locational changes are most feasible for Solar PV plants, but these are still subject to site requirements

- Newbuild solar PV plants would be able to take the locational feed-in tariff into account when choosing a location. However, they are subject to many site requirements, so the feed-in tariff would not be the only consideration, and only a limited amount of newbuild plants would be expected to change their behaviour.
- The largest difference in locational feed-in tariffs is between the offtake region and the feed-in region. However, buildout potential in offtake regions might be more limited due to other site requirements.

IRR of a reference asset with construction starting in 2024

%, pre-tax real 2023



1) Inverter & grid connection size share of peak capacity; 2) Average wholesale gross margins over lifetime.

Solar PV plants benefit from limiting their grid connection size, subsidy payments may make higher connection reductions more profitable

- In all scenarios, solar PV plants are incentivised to limit their connection size, this is mainly due to lower CAPEX costs for the grid connection and inverter, although they also benefit from lower grid fees.
- Within SDE++, plants will be required to limit their grid and inverter connection size to 50% of peak capacity. However, the subsidies will allow for gross margins to increase, potentially making them more profitable than assets with a larger grid connection size.

Annual costs / revenues of solar PV plants, excluding subsidies¹

€/kW, real 2023

