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Cambridge Working Papers in Economics

Integrating Distributed Generation: Regulation and Trends in Three Leading Countries

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CWPE 1449

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EPRG Working Paper 1423

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Abstract We explore trends in the deployment and integration of distributed generation in Germany, Denmark and Sweden. In particular, we examine the regulation of renewable energy generation with a focus on grid access and connection mechanisms. The high rate of distributed generation penetration in these countries is the result of early support given to the expansion of renewable energy generation – mainly wind and solar - within their respective national policies. Germany and Denmark are the countries with the most sophisticated support schemes, which have shown changes over time. In terms of connections, Germany is the country with the most favourable connection regime. It provides not only priority connection but also priority use of the grid to generation units that produce electricity from renewable energy sources. Sweden guarantees equal treatment among different technologies (i.e. a non-discrimination principle) and is thus the least favourable. High connection costs have been observed, especially in Germany and Denmark. The costs of network upgrades are usually socialised across customers. The use of smart solutions combined with novel business models might allow more efficient use of the current distribution electricity infrastructure. Hence, integration issues should be taken into consideration in order to avoid expansion of distributed generation in a way that unnecessarily raises total system costs, via high connection costs.

Keywords distributed generation, renewable energy, support schemes, connection arrangements

JEL Classification **H25, L94, L98, Q48**

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Publication December 2014
Financial Support UK Power Networks via the Low Carbon Networks Fund's Flexible Plug and Play Project

Integrating Distributed Generation: Regulation and Trends in three leading countries

By

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Abstract

We explore trends in the deployment and integration of distributed generation in Germany, Denmark and Sweden. In particular, we examine the regulation of renewable energy generation with a focus on grid access and connection mechanisms. The high rate of distributed generation penetration in these countries is the result of early support given to the expansion of renewable energy generation – mainly wind and solar - within their respective national policies. Germany and Denmark are the countries with the most sophisticated support schemes, which have shown changes over time. In terms of connections, Germany is the country with the most favourable connection regime. It provides not only priority connection but also priority use of the grid to generation units that produce electricity from renewable energy sources. Sweden guarantees equal treatment among different technologies (i.e. a non-discrimination principle) and is thus the least favourable. High connection costs have been observed, especially in Germany and Denmark. The costs of network upgrades are usually socialised across customers. The use of smart solutions combined with novel business models might allow more efficient use of the current distribution electricity infrastructure. Hence, integration issues should be taken into consideration in order to avoid expansion of distributed generation in a way that unnecessarily raises total system costs, via high connection costs.

Key words: distributed generation, renewable energy, support schemes, connection arrangements

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1. Introduction

The EU 2020 target of 20% of the EU energy consumption produced from renewable resources; and the associated national renewable energy targets, are the main drivers for the expansion of distributed generation (DG). The empirical evidence suggests that there is a substantial increase in the rate of DG penetration over total installed capacity. The connection of more DG units to the distribution grid poses a number of key challenges for electricity distribution utilities. First, there are the technical issues associated with the operation of the network in the face of intermittent generation embedded in a network built to serve loads. Second, there is the question of how to set up the right economic incentives for connection and operation especially given that there are multiple parties involved. Third, there is the issue of how to set up the regulatory framework to facilitate – rather than impede – the connection of more DG connecting in a cost efficient way.

The aim of this paper is to explore and analyse the experience of three leading countries in the deployment and integration of DG within the distribution grid. We want to know about the influence that regulation and other factors have had on the deployment of DG. The paper analyses the different grid access methods (e.g. deep, shallow) and connection arrangements (including associated charges) for connecting DG facilities. The case studies we look at are Germany, Denmark and Sweden due to the high rate of DG penetration and the maturity of the regulatory framework with a focus on renewable generation.

This paper is structured as follows. Section 2 summarises the challenges and opportunities of DG and its development. Section 3 explains and introduces our case studies from Germany, Denmark and Sweden. Section 4 discusses the case studies and main findings. Section 5 concludes.

2. Background on Distributed Generation

2.1 Challenges and Opportunities

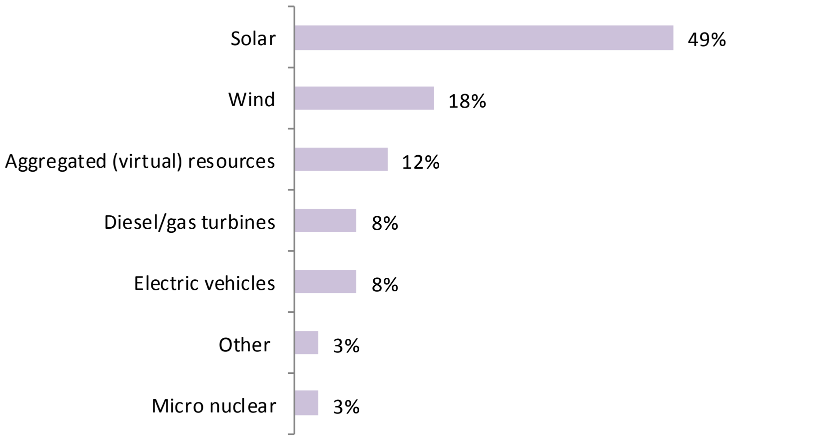
It is generally accepted that DG may produce a negative impact on the distribution network operation. Among the main issues are voltage fluctuation, thermal capacity congestion, fault-level contributions, frequency variation, regulation and harmonics (Currie *et al.* 2006; Lai and Chan, 2007; Passey *et al*., 2011; Wojszczyk and Brandao, 2011). There are also some benefits associated with the integration of DG to the distribution grid. Among the main benefits are the reduction of power losses (subject to the level of DG penetration), provision of ancillary services (e.g. reactive power control and energy balancing)[3], the deferral of distribution and transmission system upgrades (especially in constrained areas), improvements in the security of energy supply (via reduction of the dependency on imported fossil fuels), customer bill savings (net metering) and quick construction (in comparison with conventional centralised generating plants) (Gil and Joos, 2006; Mendez *et al.,* 2006; Harrison *et al.*, 2007; Lai and Chan, 2007; Passey *et al.,* 2011; Wang *et al.*, 2009; Hung and Mithulananthan, 2012). IEEE (2012) indicates that the top three benefits for DG (based on frequency of response to a survey of 460 global smart grid executives) are related to (1) supply issues (supply can be added when needed – 47%), (2) cost reduction (for larger-scale generation facilities – 37%) and (3) improvement reliability (– 36%).

[3] However, following Cossent *et al*. (2009) the contribution of DG to the provision of ancillary services in Europe is still low.

2.2 Distributed Generation Development

Based on the number of respondents in the IEEE (2012) survey, the region that is expected to see the most growth in DG over the next five years is Europe (32 %) followed by North America and Asia-Pacific regions (26% both). Solar and wind technologies are likely to see the most significant growth in the next five years, see Figure 1.

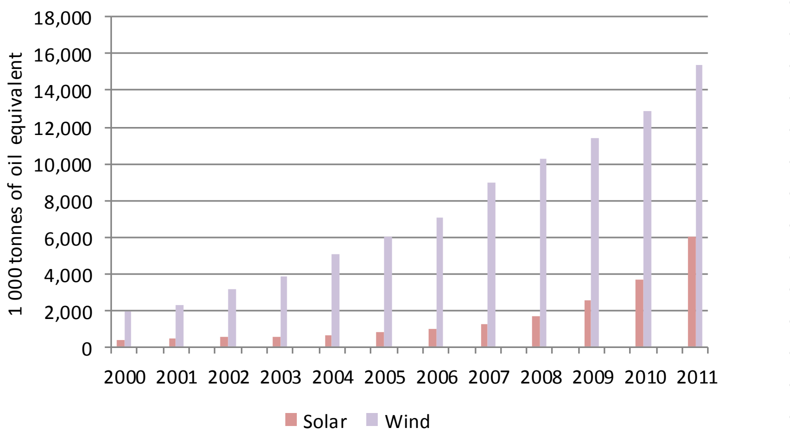
Figure 1: Distributed generation technologies with the highest expected demand over the next 5 years (% of executives surveyed)



Own elaboration. Source: IEEE (2012)

This is in agreement with the trends in the solar and wind energy primary production over the last years in the 27 European Union Member States (EU-27 MS). Solar technology and wind technologies are among those with the highest growth across the EU-27 MS. Figure 2 illustrates this trend.

Figure 2: Solar and Wind renewable energy primary production in the EU-27 MS (period 2000/2011)



Own elaboration. Source: Eurostat.

Even though biomass and waste, and hydro technologies are among those with the largest share of renewable energy, around 67% and 16% respectively, their respective growth rate over the last five years is relatively low, in comparison with solar and wind technologies.

3. Case Studies

The cases studies of other countries have been selected based on the maturity of the regulatory framework with special interest in the support for renewable energy sources in those countries. The implementation of early subsidies and support schemes to electricity generation from renewable energy sources is closely related to the expansion of DG.

Germany and Denmark are among the first movers in implementing substantial support schemes for promoting the use of green technologies through the Feed-in Tariff approach, starting in 1990 and 1993 respectively. Currently both countries apply sophisticated subsidies schemes and incentives. For instance, in Germany before the recent modification of the Renewable Energy Sources Act (EEG 2104), it was possible to make a selection between different methods. In Denmark, premium Feed-in Tariff is the methodology selected. In both cases, specific bonuses (i.e. balancing costs, ancillary services, repowering)[4], digression rates (fixed and flexible)[5] and stepped tariff schemes apply depending on the technology. The early implementation of support mechanisms is reflected in the highest penetration of DG in both countries.

Sweden is also an interesting case, with a very high level of renewable generation electricity, mainly from hydro resources, however wind and solar generation are becoming increasingly utilised over the last years. Sweden has the same subsidy scheme as Great Britain, the Green Electricity Certificates scheme, where green certificates can also be traded with Norway.

A brief description of the country's electricity market and key energy policies is given first, followed by a discussion of the trend in DG and the related connection methods and charging.

3.1 Germany

3.1.1 Background on Electricity Market

Germany is the largest electricity market in Europe and was opened to competition in 1998. It has a decentralised structure with a large number of private and publicly owned utilities. In contrast with many other countries, there is not a single system operator or a separate energy regulator. The German transmission system is the most important electricity-transit country and hub in the mainland European electricity market (IEA, 2013b). Table 1 summarises the German electricity market.

Table 1: German Electricity Market

Electricity Market										
Electricity Market liberalisation	Distribution Grid (km)	Distribution voltage level	Transmission Grid (km)	Transmission voltage level	# DSOs	#TSO	Customers (m)	Electricity Production (TWh)	Installed capacity (GW)	Installed capacity Renewable (GW)
1998	1,753,290	<= 110 kV	34,841	150 kV, 220 kV, 380 kV	888	4	48.8	576.6	178.3	75.6

Source: BNetzA (2014)

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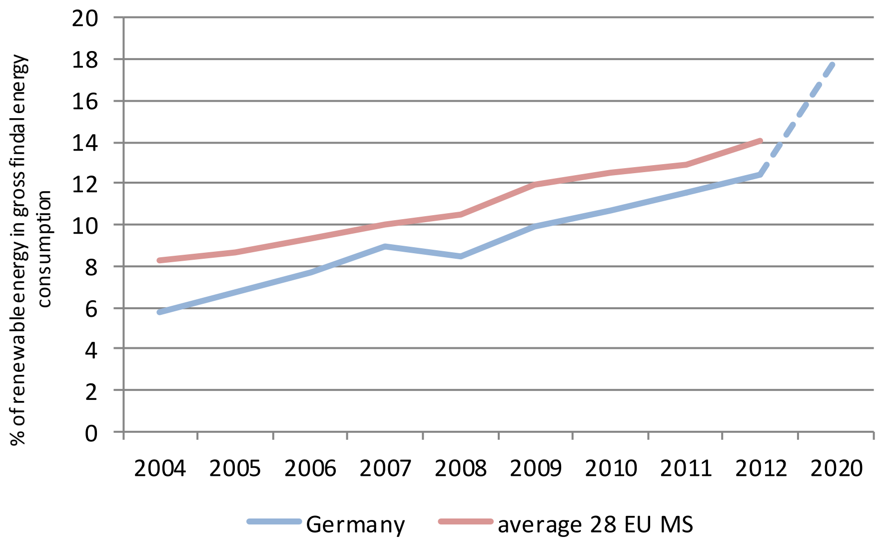
4 Some of the bonuses applied in Germany have been recently abolished under EEG 2014.

5 Flexible rates depend on the expansion of the renewable generation capacity.

Four utilities dominate the electricity market: RWE AG, E.ON Energy AG, Vattenfall Europe AG and EnBW AG, known as supra-regional utilities or Big 4 utilities. Based on IEA (2013b) the continuation of their expansion is in response to the closure of eight nuclear plants and the expansion of renewable energy capacity. The four utilities are involved in the generation activity (together generate around 73% of the total electricity generated in 2012) and supply activity (with a retail market share of 45.5% in 2012). The rest of suppliers comprises circa of 900 regional and local vertically integrated utilities that own generation assets, and are involved in the distribution and supply business (BNetzA, 2014; IEA, 2013b).

In terms of generation installed capacity, the share of generation facilities using renewable energy sources accounts to 43% of total installed capacity. Coal and nuclear remain the major sources for electricity generation with a share of 45.1% and 18% respectively. The share of renewable energy sources in gross final energy consumption has risen from 5.8% (2004) to 12.4% (2012). Even though this important increase, the average share in Germany over the period 2004-2012 is still below the average of the 28 EU MS. Germany is among the 16 of the EU MS that expect to exceed its national 2020 target regarding the share of renewable energy sources in gross final energy consumption, set at 18% (EREC, 2011), see Figure 3.

Figure 3: Share of renewable energy in gross final energy consumption



Own elaboration. Source: Eurostat

In terms of policies, the decisions made under the Energy Concept of 2010 and the Transformations of the Energy System of 2011 (Energiewende) constitute the current (late 2014) federal Government's energy policy. The Energy Concept 2010 represents a long term strategy for the implementation of a reliable, affordable and environmentally sound energy supply system by 2050 and at the same time constitutes the roadmap to the age of renewable energy (BMU, 2011). Energiewende is associated with the move towards an energy portfolio focus on renewable generation and the phase out of nuclear power[6]. In addition, the EEG is a key element in the success

[6] In 2011 the role assigned to nuclear power in the Energy Concept was reassessed due to the nuclear meltdown at Fukushima in March 2011. As a result the seven oldest nuclear plants and the one at Krummel were shut down permanently. In addition, it was proposed to phase out the operation of the remaining nine nuclear power plants by 2022 (instead of 2036)

of the renewable energy expansion. The Act entered into force in 2000 and has been amended several times. For instance, with the latest implementation of the modified Act (EEG 2014), generators with an installed capacity of at least 500 KW that operate new plants are required to sell their electricity in the power market thus the option of Feed-in Tariff is not applicable anymore however some exceptions may apply. The threshold is reduced to 100 KW from 2016 onwards. In addition, from 2017 onwards, a tendering process will be implemented and will replace both the Feed-in Tariff and the market premium.

Specific renewable energy, energy efficiency and climate targets have been also set. Table 2 summarises them. Its implementation requires the increase of energy efficiency, expansion of renewable energy sources, reduction of the greenhouse emissions and additional investment in the electricity grid.

Table 2: The German Targets and Goals

Concept	Targets and Goals	2020	2030	2040	2050
Climate	Reduction of greenhouse gases (base year 1990)	-40%	-55%	-70%	-80%
Renewable Energy	Share in total final energy consumption	18%	30%	45%	60%
	Share in electricity consumption	35%	50%	65%	80%
Energy efficiency	Reduction of primary energy consumption (base year 2008)	-20%			-50%
	Reduction of electricity consumption (base year 2008)	-10%			-25%
	Reduction of final energy consumption in the transport sector (base year 2005)	-10%			-40%
	Building renovation rate	From 1% a year to 2% of total building stock			

Own eleboration. Source: BMU (2011)

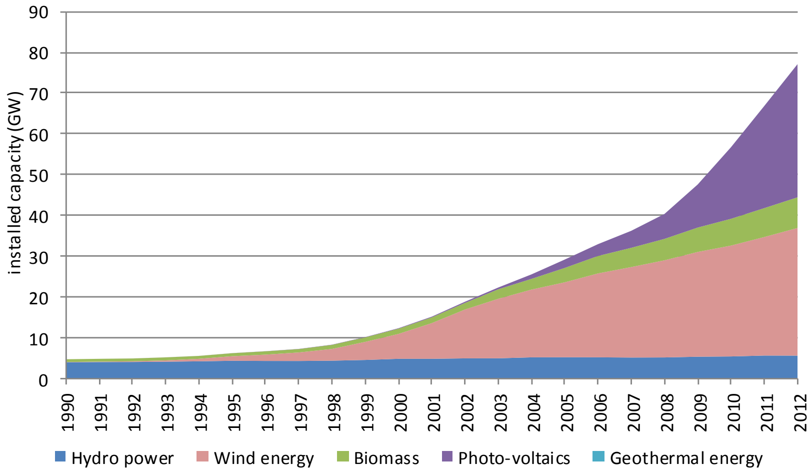
3.1.2 Distributed Generation

3.1.2.1 Distributed Generation Figures

In 2010, the installed capacity allocated to DG was 83 GW and represented 51.7% of the total. In addition, around 97% of renewable energy sources were connected to the distribution grid (BMU, 2012). Wind power and solar PV are those with the highest share of DG. By the end of 2012, wind power and solar PV accounts to 83% of the total renewable installed capacity. In terms of solar PV, the majority of DG customers are connected to low voltage (LV) level (230/400V) and medium voltage (MV) level (11-60 kV). 65% of generators are connected to LV level and 35% to MV level. Only a few plants are connected to high voltage (HV) level (110 kV). In relation to wind energy, 95% of the DG customers are connected to MV (Ackermann, 2013). Figure 4 illustrates the trend in DG with a focus on renewable energy sources for the period 1990-2012.

Regarding electricity generation, wind energy, biomass and solar PV are the technologies that contribute the most to the generation mix. Solar PV is the one with the highest growth rate in the period 2004-2012. On the other hand, electricity generation from hydro sources has remained nearly the same over time.

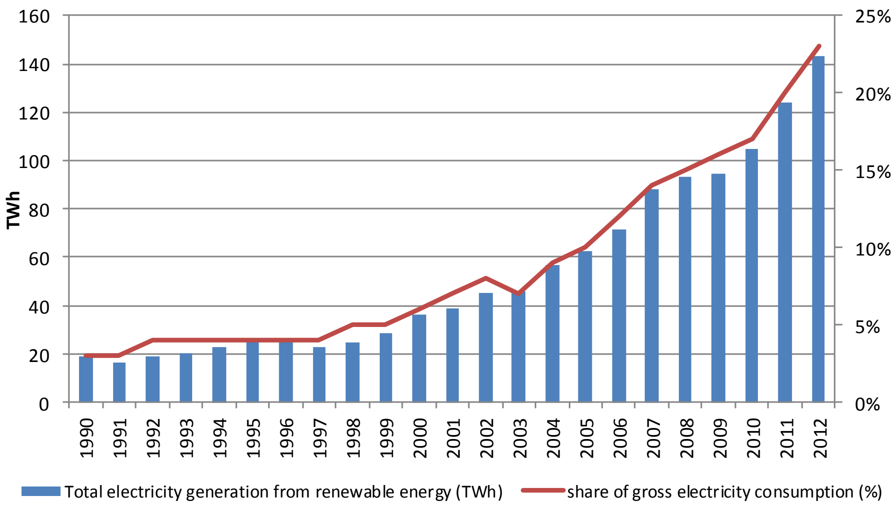
Figure 4: DG Installed capacity



Own elaboration. Source: AGEE-Stat (2013) and BMU (2013)

By the end of 2012, electricity generation from DG accounted to 143.5 GWh with a share of gross electricity consumption of 22.5%. In the 1990's the share of gross electricity consumption was mainly driven by hydro with an average share of only 4%. After this, an important increase in other renewable energy sources is observed. This increase is in line with the implementation of the EEG, which entered into force in 2000. Figure 5 depicts the trend of electricity generation from DG over time.

Figure 5: Electricity generation from DG



Own elaboration. Source: AGEE-Stat (2013) and BMU (2013)

Concerning ownership, more than 50% of DG is owned by customers (private owners, industrial companies and farmers) and only 5% is owned by the Big 4 utilities (Trendresearch, 2012). The integration of more electricity from renewable energy sources to the system grid is affecting negatively the Big 4 utilities due to the reduction of wholesale prices. Utilities such as RWE, which is the largest power producer in Germany, are one of the most negatively affected due to the reduction of wholesale price especially based on the expansion of solar PV. In general, the expansion of renewable energy generation is fostering competition. The RWE strategic roadmap suggests a radical change that allows the firm to create value by leading the transition to the future energy world (from its traditional business model based on large-scale thermal power production to project enabler, operator and system integrator of renewables)[7].

3.1.2.2 Grid access and Charging Methodologies for connections

The EEG requires that grid operators priority connect generating facilities that produce electricity from renewable energy sources and from mine gas. In addition, they are required to prioritise the purchase, transport and distribution of the entire available quantity of that electricity. Thus, distributed renewable generators have to be connected before conventional power plants. The first Feed-in Tariff scheme did not define the sharing of connection costs between the generator and the grid operator (DSO). The 2000 amendment suggested the connection of the generating facility to the technically and economically most appropriate grid connection point. This approach would help to prevent grid operators from using their dominant position to exclude potential competitors from power generation (Jacobs, 2012). A shallow connection charging methodology was adopted, in which the renewable generator has to pay the costs for connecting the renewable generating unit to the grid connection point based on the closest or technically and economically most suitable connection point; including any installation of metering devices for recording the quantity of electricity transmitted and received. Any required additional work (e.g. network reinforcement) should be borne by the grid system operator (DSO) but only when the related costs are economically reasonable. Germany was among one of the first countries in Europe to implement a shallow connection charging approach. The introduction of this approach was made after the liberalisation of the electricity market. The shallow connection methodology applies to most types of renewable generation installations (excluding offshore wind). In relation to use of system charges, renewable generators are not required to pay these charges to the DSO but only the costs associated with the connection to the grid.

In order to facilitate the reduction of the generation output by remote generators in the event of grid overload and to call up the current electricity feed-in at any given point in time, grid operators need to take technical control over the installations (including CHP) connected directly or indirectly to their grid system. Following the EEG 2014, installations with a capacity over 100 kW (including CHP) are required to install the control and communication equipment. Solar PV with a capacity between 30 kW and 100 kW may decide between installing the control and communication equipment that allows the reduction of generation output remotely or face being limited to 70% of their maximum effective exported capacity.

A compensation of 95% of the lost income is provided to the generator including additional expenses (net of any savings) as a result of a grid bottleneck. However, if the lost income in a year exceeds 1% of the income for that year, a compensation of 100% of the lost income is applicable. The methodology for estimating compensation payments for electricity generated from wind, biogas, biomass and CHP installations can be found at the BNetzA Guidelines on renewables energy feed-in management.

[7] See: http://www.energypost.eu/exclusive-rwe-sheds-old-business-model-embraces-energy-transition/

3.2 Denmark

3.2.1 Background on Electricity Market

The Danish electricity market was opened to competition in 2003. Similar to Germany, it has a decentralised structure with a large number of private and publicly owned utilities. There is a single transmission system operator (Energinet) and a single independent energy regulator (Danish Energy Regulatory Agency). Energinet, a state-owned company created in 2005[8], covers both electricity and gas markets. In general, the number of distribution electricity firms is decreasing primarily due to acquisition/merger of very small firms (DERA, 2011). In terms of generation, the market is dominated by central generation plants, the majority of them owned by DONG Energy (publicly-owned) and Vattenfall (Swedish-owned). The rest of firms in the market are owned by other private companies, local authorities, larger industries and cooperatives (Poblocka *et al.,* 2011a). Denmark is integrated into the Nord Pool, one of the world's most successful international electricity markets. Table 3 summarises the Danish electricity market.

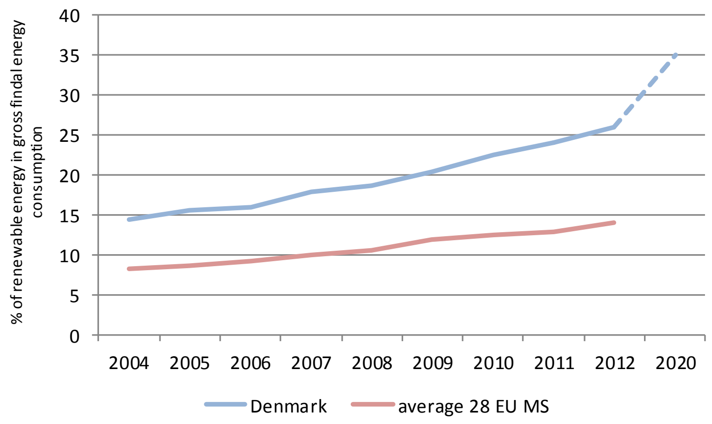
Table 3: Danish Electricity Market

Electricity Market										
Electricity Market liberalisation	Distribution Grid (km)	Distribution voltage level	Transmission Grid (km)	Transmission voltage level	# DSOs	#TSO	Customers (m)	Electricity Production (TWh)	Installed capacity (GW)	Installed capacity Renewable (GW)
2003	168,000	<= 60 kV	6,300	132 kV, 150 kV, 400 KV	77	1	3.2	35	13.6	6.4

Source: IEA (2011), DERA (2011)

By the end of 2012 the total generation installed capacity was around 14.17 GW from which large-scale units (electricity and combined heat power - CHP) account for 51% of total installed capacity; from this CHP alone accounts for 45% of total installed capacity. Up until the early 1990s electricity production capacity was dominated by large-scale power units (DEA, 2012). The share of renewable energy sources in gross final energy consumption has risen from 14.5% (2004) to 26% (2012), see Figure 6.

Figure 6: Share of renewable energy in gross final energy consumption



Own elaboration. Source: Eurostat

[8] Energinet was created by the merger of Eltra, Elkraft System, Elkraft Transmission and Gastra; and as of August 2012, acquired the 10 former regional transmission firms.

In contrast with Germany, the average share in Denmark over the period 2004-2011 (19.5%) is above the average of the 28 EU MS (10.9%). Similar to Germany, Denmark is among the EU MS that expects to exceed its target of share of renewable energy in gross final energy consumption, set at 35% by 2020 (EREC, 2011).

In relation to the key energy policies, the Danish Energy Agreement of March 2012 is one of the most ambitious national energy plans. The new agreement supplements the energy policies already proposed in the Energy Strategy 2050 published in February 2011. The Energy Agreement was launched by the Danish Minister of Climate, Energy and Building and established, among others, specific targets along with different investment programmes by 2020 with a focus on energy efficiency, renewable energy and the energy system. This will facilitate the transition to a low carbon economy by the phase out of fossil fuels and the expansion of energy supply to be covered only by renewable energy by 2050, with an intermediate target of 33% reduction in the use of fossil fuels (KEBMIN, 2011). Table 4 summarises the main targets and goals.

Table 4: The Danish Targets and Goals

Concept	Targets and Goals	2020	2050
Climate	Reduction of greenhouse gases (base year 1990)	-34%	-80%
Renewable Energy	Share in total final energy consumption	>35%	100% renewable energy in the energy and transport sector
	Share in electricity consumption (wind power). Total of 3,300 MW new power capacity (includes repowering) by 2020	50%	
Energy efficiency	Reduction in gross energy consumption (base year 2010)	-7.6%	
	Energy companies: energy savings by consulting energy experts, subsidies to households/business.		

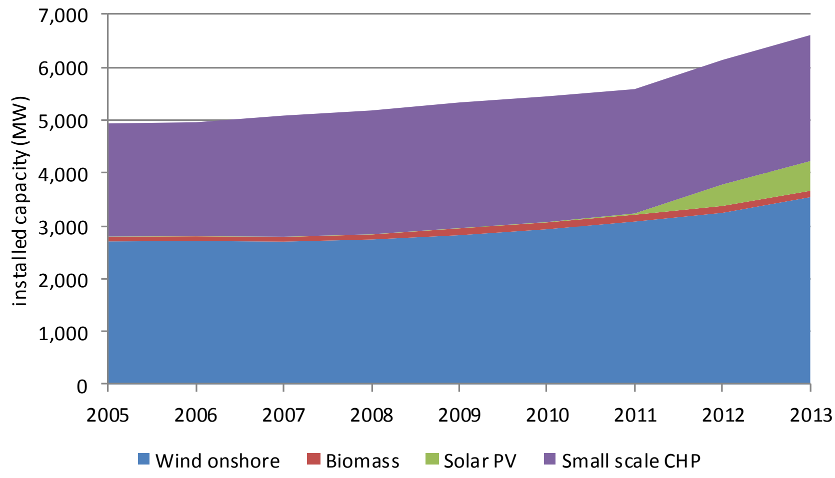
Own elaboration. Source: KEBMIN(2012)

3.2.2 Distributed Generation

3.2.2.1 Distributed Generation Figures

In 2009 the share of DG in total electric power was around 43%, of which 50% from wind (Cherian, 2013). In general, most renewable energy sources, including onshore wind, are connected to the distribution grid and only the biggest offshore plants are connected to the transmission grid (132 or 150 kV) (Poblocka *et al.,* 2011a). According to Energinet, as of 2013 the total DG installed capacity was around 6.6 GW (including small scale CHP). Wind power generation is the one with the highest share of DG (53%) followed by CHP installations (36%). Solar PV only represents around 8.1% of total DG connected capacity however an impressive increase in solar PV connected capacity has been observed in the last four years. The installed capacity increased from 6 MW in 2009 to 563 MW in 2013. On the other hand, biomass installations have remained without any relevant changes over the last four years. Following Energinet, the number of distributed generators by the end of 2013 was 97,952 of which solar PV generators have the highest share (93%) followed by wind generators (5.5%). Figure 7 depicts the trend in DG installed capacity over the period 2005-2013.

Figure 7: DG installed capacity

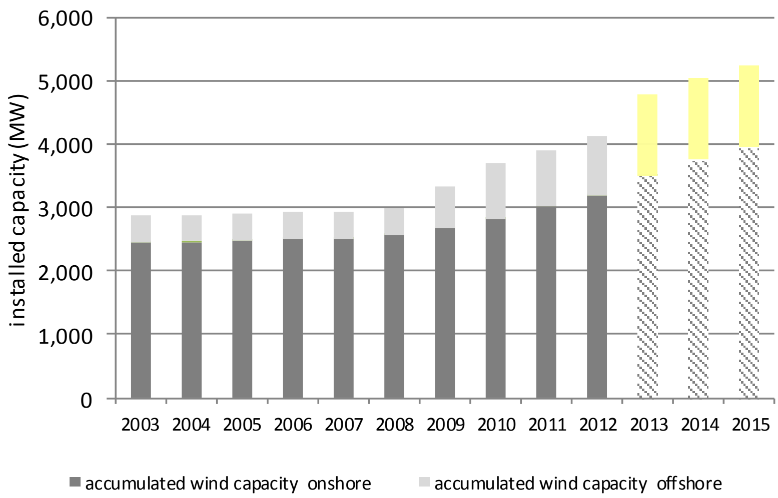


Own elaboration. Source: DG data provided by Energinet

Wind power generation plays an important role on the expansion of DG. According to IRENA-GWEC (2012), the long-term commitment from the government to address climate change and to achieve energy independence have been the main drivers for developing wind energy. There are many conditions that have contributed to this expansion. Denmark is a first mover in the implementation of an industrial and export-driven strategy for commercial scale wind. In addition, it has the most developed permitting and sitting procedures which have improved over time. Priority access to the grid is given to wind energy along with long-term targets for wind development. As of 2012, there were around 5,020 wind turbines which accounted for 30% of the domestic electricity supply. The size of the majority of wind turbines are between 0.5 and 0.9 MW and represent 42% of the total wind capacity (DEA, 2012).

Figure 8 illustrates the trend in wind energy (onshore and offshore) installed capacity during the last decade.

Figure 8: Accumulated wind capacity (MW)



Own elaboration. Source: Danish Wind Industry Association (DWEA). 2013-15: projected figures.

We can observe that the installed capacity for the period 2003-2008 has remained nearly the same. Among the main reasons that may explain this fact are the removal of the Feed-in Tariff scheme and the restructuring of Denmark's power supply sector. In general, energy policy developments were considered very unambitious between 2001 and 2008 (IRENA-GWEC, 2012). The situation improved after the introduction of the energy policy statement of 2008.

3.2.2.2 Grid access and charging methodologies for connections and use of system charges

According to Electricity Supply Act, electricity from renewable sources is not granted priority connection, thus the non-discriminatory principle applies. Grid operators should not discriminate between types of users or to favour their own companies or owners. In addition, the Act establishes that generation installations that produce electricity from renewables or use waste products as fuel and decentralised co-generation plants have priority access to the grid. This means that in the case of network constraints these have priority over the conventional energy sources. Prioritised electricity generation may be reduced only if the reduction of other electricity generation is not enough to maintain the balance in the system. The priority access is also applicable to tendered offshore wind farms, which can be curtailed only under special conditions subject to compensation for operational loss. Concerning the connection charge methodology, the shallow approach has been adapted; this means that generators only incur the direct cost of connection to the nearest connection point to the distribution grid. Reinforcement costs are incurred by the grid operator and are required to receive a permission to proceed with the reinforcement works. The energy regulator has to approve the planned investment due to the fact that these costs are at the end of the day borne by electricity customers through the Public Service Obligation. In the case of wind energy plants over 1.5 MW, the connection costs are borne by the wind generator and the grid operator, see section 4 for further details. According to Energinet, only environmentally sustainable generators are not required to pay for the distribution use of system; however they are required to pay a fee to the distribution company for handing metering and administration. In addition, all generators must pay a tariff to the TSO (transmission network use of system charge). The use of system charges are not differentiated by location.

3.3 Sweden

3.3.1 Background on Electricity Market

The Swedish electricity market was liberalised in 1996. The distribution market is operated by regional and local distribution utilities Svenska Kraftnät is the TSO, a state-owned public utility established in 1992. As of 2010, the supply market was dominated by the 3 largest electricity firms with a share over 50% in the retail market, each of one serving more than 0.8m customers. There are four large companies that own the electricity generation assets: Vattenfall AB, E.ON Sverige AB, Fortum Power and Heat AB, Statkraft Sverige AB. Vattenfall AB, a state-owned company, is the one with the highest share in generation capacity (40%). In addition, the three largest firms (Vattenfall AB, E.ON Sverige AB, Fortum Power) accounted for 80% of the domestic electricity generation in 2011 (IEA, 2013a). Similar to Denmark, the moving towards a more friendly and green environment has started in early 1970, when oil accounted for more than 75% of Swedish energy supply. By 2012 this share has reduced importantly and now amounts to 21.5%. Sweden and Switzerland are among the IEA member countries with the lowest share of fossil fuels in their electricity mix (IEA, 2013a).

Table 5 summarises the Swedish electricity market.

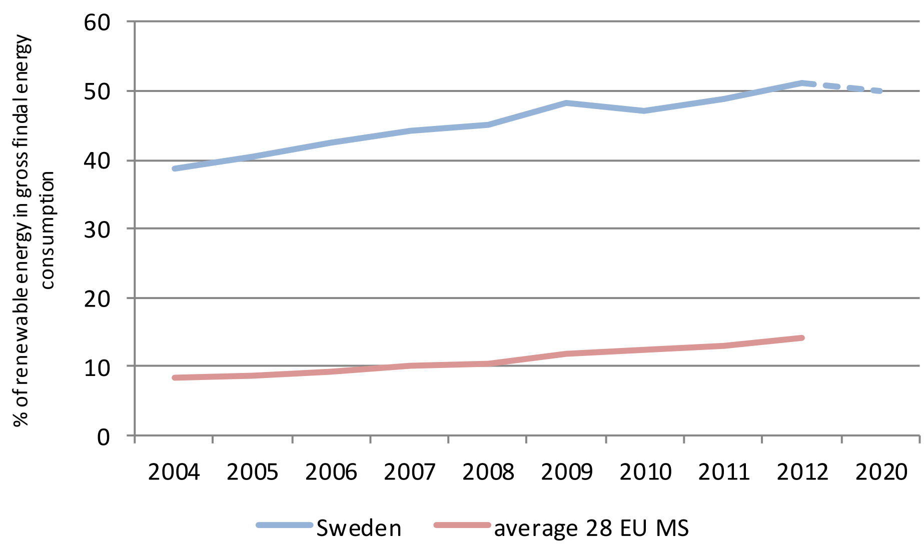
Table 5: Swedish Electricity Market

Electricity Market										
Electricity Market liberalisation	Distribution Grid (km)	Distribution voltage level	Transmission Grid (km)	Transmission voltage level	# DSOs	#TSO	Customers (m)	Electricity Production (TWh)	Installed capacity (GW)	Installed capacity Renewable (GW)
1996	530,000	Regional: 40-130 kV Local: <40 kV	15,000	220 kV, 400 kV	168	1	5.2	142.2	37.3	23.4

Source: SEMI (2013), SVK (2012)

In terms of installed capacity, hydro and nuclear power are the ones with the highest share in total installed capacity. By the end of 2012 the share was 62.5% and 25.1% respectively. Excluding hydro power, wind power had the highest share among renewables (10%). The share of renewable energy sources in gross final energy consumption has risen from 38.7% (2004) to 51% (2012), which would imply that the 2020 target has been already met (set at 50%), see Figure 9. This fact is explained by the large proportion of hydropower and biofuels in the energy system. Sweden, along with Norway, is among the EU MS with the highest share of renewable energy sources in gross final energy consumption.

Figure 9: Share of renewable energy in gross final energy consumption



Own elaboration. Source: Eurostat

Regarding the energy policies, the integrated climate and energy policy approved by Swedish Parliament in 2009, sets the strategic targets in line with the EU Directives. A share of renewable energy in the gross final consumption of at least 50% is envisaged by 2020. Among other targets are those related to climate, transport, energy efficiency, vehicles, and reduction of fossil fuels in heating. Table 6 summarises most of them.

Table 6: The Swedish Targets and Goals

Concept	Targets and Goals	2020	2030	2050
Climate	Reduction of greenhouse gases or 20m tonnes of carbon dioxide equivalent (base year 1990)	-40%		-100%
Renewable Energy	Share in gross final energy consumption	>50%		
	Share in transport sector	10%		
Energy efficiency	Reduction in gross energy consumptio (base year 2008)	-20.0%		
Vehicle			Vehicle stock independent of fossil fuels	

Own elaboration. Source: IEA (2013a)

In addition, under the Climate Roadmap 2050, launched in December 2012, different emission scenarios in several sectors are proposed in order to achieve the 2050 vision of zero net GHG emissions. The proposal suggests different types of actions such as the reduction of domestic emissions, contributions from an increased net uptake of carbon in forests and fields, and by purchasing allowances on the international markets.

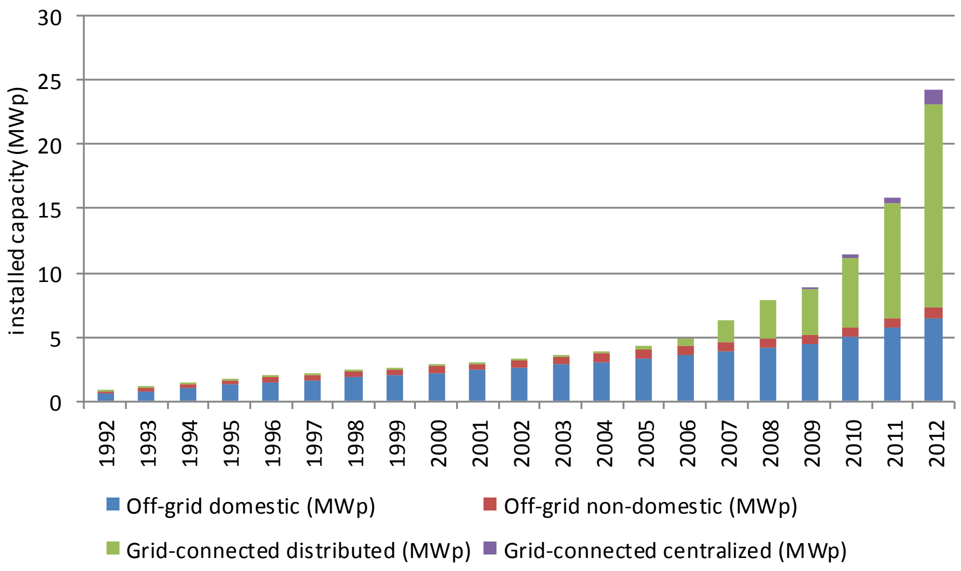
3.3.2 Distributed Generation

3.3.2.1 Distributed Generation Figures

As indicated by the Sweden Energy Agency, the definition of DG in Sweden is related to micro generation which usually is associated with those plants behind a fuse of 100 A[9]. This kind of installation usually corresponds to a plant with a maximum capacity of 40 kW. In terms of solar PV, the Swedish Energy Agency has stated that in general not all solar PV plants are approved for green certificates because this requires that the power output be metered every hour and usually the associated costs exceed the income they would receive for the certificates. For this reason, many solar PV plants remain outside of the green certificate system. The information provided by the Swedish Energy Agency is based on the annual survey conducted by the International Energy Agency under the Co-operative Programme on Photovoltaic Power Systems (IEA, 2013c). Even though the data refer to the total solar PV connected capacity in Sweden, we believe that these figures reflect the trend in distributed solar PV connected capacity (solar PV installations are usually connected at the distribution grid). Figure 10 depicts the trend in solar PV connections over the period 1992-2012.

[9] In order to make proper comparisons we have asked the energy regulators to provide DG connected capacity data in the format required, this means installed capacity data of generation plants connected within the distribution network. However, the DG data provided by the regulator was not in the format required, except for solar PV.

Figure 10: Solar PV installed capacity



Own elaboration. Data provided by Swedish Energy Agency based on IEA (2013c)

By the end of 2012 the solar PV installed capacity was around 24.3 MW. An important upward is observed in the last years. The increase may be explained by the implementation of the support scheme for solar PV in July 2009. The category of grid-connected distributed is the one with the most impressive growth in the last years. As of 2012, this category is the most representative of the total solar PV installed capacity with a share of 65%.

3.3.2.2 Grid access and charging methodologies for connections and use of system charges

Based on the Electricity Act, grid operators are obliged to connect on reasonable terms generation plants regardless of technology, unless there are special reasons. Thus, the principle of non-discrimination applies. However grid operators are not required to incur the costs of grid expansion. Following Poblocka *et al.* (2011b), the main connection issue is the so-called threshold effect. This means that if reinforcement is required in a specific area, the first generator to ask for a connection would bear the whole investment cost. This fact contributes to delays in the expansion of renewable energy sources. The TSO and the DSO are the ones that make the decision on cost sharing. Based on the same principle of non-discrimination, electricity produced by renewable energy sources is not given preference. The Electricity Act proposes a similar treatment for the use of grid across all generation installations regardless of technology. This means that electricity produced by renewable energy sources will not have priority over electricity produced by conventional energy sources. In the case of curtailment, the TSO has the right to reduce the generation of electrical power. Generation plants will be compensated based on the market value of the electricity. Grid operators are required to pay the use of system charges. However, a reduced tariff is applied to those generation plants with installed capacity less than 1.5 MW.

4. Discussion of case studies and main findings

Figures from the case studies have shown an important progress in the integration of DG – mainly wind and solar - within the distribution grid. This is associated with the large and early support that countries like Germany, Denmark and Sweden have provided to the expansion of renewable energy resources within the respective national policies. Some of them were driven by their dependency on oil import and fossil fuels. The consolidation of wind technology industry in Demark, has also contributed to this integration. In Germany, the movement towards a renewable energy portfolio involved the phase out of nuclear generation plants by 2022. However in Sweden, nuclear power is part of the future energy portfolio and hydro power remains the main renewable energy source. Subsidy schemes represent the main source of support. These schemes show a dynamic design over time, from simplistic models (fixed rate) to sophisticated support mechanisms that involved premiums, flexible digression rates, stepped tariffs and tendering (i.e. Germany from 2017 onwards). Thus support mechanisms have been adapted in response to the expansion of renewable energy sources, technology maturity and to the specific targets set in agreement with the European and national energy policies. In agreement with Ferreira *et al.* (2010), we also observe that the expansion of DG might be linked to the energy market structure. The three countries that are part of this study have decentralised distribution electricity systems with a large number of DSOs. This facilitates the connection of more generation units by reducing the distance to the point of connections, by lowering the costs of more specialised equipment required to connect the generation units to higher voltage levels (by connecting to the local DSOs instead of the national or regional DSOs) and by accelerating the connection process (DG customers have more options to select among potential DSOs within the preferred service area).

Connection and the associated charging methods also have an important role in the integration of DG. Different rules are observed across the cases studies. Table 7 summarises the different connection methodologies.

Table 7: Summary of Connection and Grid Access for DG

Country	Connection method			Use of system charges		Connection to the grid		Use of grid	
	deep	shallowish	shallow	Yes	No	Priority	Non-discriminatory	Priority	Non-discriminatory
Germany			X		X	X		X	
Denmark			X		X		X	X	
Sweden	X			X			X		X

Own elaboration. In the case of Denmark, use of system charges (in distribution) is not applicable only for environmetally green technologies.

Germany is the country that has adopted the most favourable connection conditions. A DG customer is not subject to the payment of reinforcement (if applicable), it does not pay use of system charges, and has a priority connection to the grid and in the use of grid. This means that renewable DG plants are connected ahead of conventional plants and have priority when the electricity is purchased and needs to be exported into the grid. The least favourable conditions applied to renewable DG plants in Sweden where grid operators (DSOs) have the obligation to connect the generation plant but they are not necessarily required to incur the reinforcement costs (when applicable). In addition, based on the threshold effect, the first potential DG customer who asks for connection is the one that would incur the whole network upgrade investment cost. At the end of the day, in practice the TSO and the grid operator (DSO) are those who make the decision on cost sharing due to the lack of clarity in the connection rules described in the Electricity Act.

For instance, in other jurisdictions such as Great Britain, a shallowish method is applied, which implies that generators would only pay a proportion of the reinforcement costs under specific conditions (OFGEM, 2009). However, in practice, it is the DG customer that would need to cover the reinforcement costs if the costs associated with the extension of the distribution network have not been budgeted by the DNO. We observe that in comparison with the shallowish connection, the option of shallow connection tends to facilitate the connection process but the socialisation costs increase. DG customers are those that benefit from this approach (i.e. have no reinforcement costs) and DNOs are not affected because any cost related to reinforcement costs will be passed on via higher charges to demand customers. Therefore, Germany and Denmark are the ones where demand customers are the most negatively affected because reinforcement costs are socialised and reflected in the electricity tariff. For instance in Germany, based on the Ordinance on Incentive Regulation of Energy Supply Grids (AregV), distribution operators are allowed in some specific cases to request approval for network expansion or restructuring investment ("investment measures") in order to facilitate the integration of installations under the EEG and the Co Generation Act (KWKG). Such approval allows DSOs to include additional costs in the estimation of the grid fees. The latest amendment of the Ordinance on August 14 2013 mandates the treatment of specific mechanisms for DSOs, namely expansion factor and the lump-sum investment.

Regarding the expansion factor, the Ordinance has established that a sustained change in the grid operator's supply task should be reflected in the determination of the revenue cap by a factor (expansion factor). However, the application of the expansion factor is limited to networks below 110 kV. DSOs may also claim a lump-sum investment allowance which has to be included in the determination of revenue cap prior to the beginning of the regulatory period. In all cases, these additional costs are borne by demand customers through electricity tariffs.

In Denmark, the investment risk (associated with the network upgrades for connecting generating units) may be transferred to DSOs but under specific conditions. According to Energinet, the Udligningsordningen is a mechanism which helps to compensate the costs they incur due to the integration of distributed environmental and friendly power production with a focus on wind power generation. This is in accordance with the Promotion of Renewable Energy Act, which mandates the share of connection costs between the DSO and the wind developer/generator above 1.5 MW. The wind turbine generator incurs the cost of connecting the turbine at a defined connection point inside the area designated by the municipality. If required, DSOs are obligated to pay the related reinforcement costs of the network. Under this scheme, Energinet determines and covers the DSO's grid expansion costs caused by new electricity production units based on an expense model that takes into account a base amount, the quantity of cable required and digging work. Thus, if the estimations made by the DSOs are lower than those computed by Energinet, the DSO retains this excess. An opposite situation is also possible, when DSO receives less money than the incurred costs. In the last case, the DSO is responsible for the loss[10]. This model allows to DSOs to plan a cost-efficient solution that meets future demand (the TSO does not interfere in the solution). It addition,

[10] Following Energinet, total refund provided by Energinet for the 18 projects was around DKK 60.3m (£6.7m) and the total expenses reported by the DSOs were around DKK 57.8m (£6.4m).

it has low transaction costs (i.e. with annual turnover about US$ 35m (£20.9m), transaction costs are 1%). This is based on a simple refund process and releases resources to focus on special cases (especially when model is insufficient). Similarly to the other initiatives, costs associated with the network expansion are borne by all demand consumers through the Public Service Obligation.

We observe that in both cases, reinforcement costs are still borne by the demand customers through the electricity tariff and the use of more innovative or smart solutions (technical and commercial) is not observed (at least as business as usual or deployment). Smart solutions might contribute to use more efficiently the distribution electricity infrastructure (i.e. offers of non-firm connections) and to lower the reinforcement costs (i.e. network deferral) which is translated in lower socialisation costs. According to CEER (2014), only 42% of 27 EU countries have a strategic road map in place for the implementation of smart grids. Denmark has already implemented the plan at national level, Sweden is already working on this with due date December 2014 and Germany has not introduced yet any plan. Great Britain has introduced a high level route map. In addition, in the majority of countries DSOs play the major role in the smart grid development. Only in some of them (e.g. Great Britain, Norway and Italy), the dissemination and demonstration project results is compulsory. Among the demonstration projects in Great Britain are those funded under the Low Carbon Network (LCN) Fund, managed by OFGEM. Flexible Plug and Play (FPP) and the Accelerating Renewable Connections (ARC) projects have suggested novel commercial arrangements (non-firm connections) and smart technical solutions. For further details about smarter commercial arrangements see Anaya and Pollitt (2014).

Finally, network planning is also a key element in the integration of DG units. It is not only about promoting the expansion of DG but also about taking into account the impact that this expansion might have on the distribution network. According to EPRI (2014) one of the main problems that Germany is facing in relation to this expansion is the lack of effective integration, with a focus on solar PV. Until recently, generators were not required to be equipped to provide grid support functions (e.g. reactive power management, frequency control), ignoring power load limitations and grid design. This fact produced an increase in network upgrades for all demand customers. The use of smart inverters can help to avoid this kind of issues including mass disconnection risk of DG customers (EPRI, 2014). In addition, specific remote equipment for managing the generator output (such as those required by solar PV generation units in Germany), can help to deal with technical problems in the event of grid overload and contribute with the efficient integration of DG.

5. Conclusions and Policy Implications

5.1 Conclusions

This study has evaluated the integration of DG within the distribution grid in three leading countries. We have found that there is no specific regulation for DG but for the integration of electricity generation from renewable energy sources and the related support schemes. The study has explored the current methods for connecting DG to the distribution grid, the charging scheme including the use of system charges and the way in which the connections and reinforcement costs are distributed between parties.

We have found that there is a lot of socialisation of connection costs, especially in Germany and Denmark where the shallow approach is the connection methodology and the grid operator or DSO is obligated to reinforce the network and transfer the related costs to demand customers. This is reflected in the high electricity tariff that electricity customers from those countries are required to pay. In terms of subsidies, again Denmark and Germany are the ones with the most sophisticated methodologies. However, this sophistication remains in the subsidies and it is not evident in the business model for the connection of more DG in a cost and efficient way. An interesting initiative is the recent implementation of the EEG 2014 in Germany which attempts to minimise the socialisation of costs by the imposition of direct selling into the market from 1 August 2014 onwards. Nevertheless, initiatives to reduce the socialisation of DG connection to the grid are not generally observed. In Denmark, the expense model proposed by Energinet is quite interesting but is still based on the option of reinforcing the network, and does not relate to the practice of smart connection arrangements that may help to defer investment and to avoid charging demand customers for unnecessary network expansion.

5.2 Policy Implications

The socialisation of connection costs implies higher electricity prices for end customers. Governments should encourage the prompt implementation of national policies that promote the development of smart grids. These might contribute to the integration of DG units in a quicker and cost-efficient way. Currently, most smarter integration initiatives are only demonstration trials. Auctions which include connection costs in the ranking of the bids for new DG units would represent a novel way that may bring value-added to the current distribution business model. There are well-document decentralised auctions (usually performed by electric utilities from the US) that could help as reference. Most of these take into account the provision of additional services required by generators which can help with the integration of the new DG units into the distribution grid.

5.3 Limitations and Further Research

This study has only focused on three leading countries in the integration of DG. Further research, would consider not only expanding the list of case studies on DG integration (e.g. to include examination of Spain, Italy, France) but also assess the progress on specific initiatives on smart grids that promote the efficient integration of DG units into the distribution grid. The evaluation of these policies and the economic impact analysis (with a focus on end customers) would bring additional value to this research.

Acknowledgments

The authors wish to acknowledge the financial support of UK Power Networks via the Low Carbon Networks Fund's Flexible Plug and Play Project. The authors also want to acknowledge the support of OFGEM, the Federal Network Agency for Electricity, Gas, Telecommunications, Posts and Railway from Germany (BNetzA), the Danish Energy Agency (Energinet), the Danish Energy Association and the Swedish Energy Agency for the provision of valuable information and clarifications. The views expressed herein are those of the authors and do not reflect the views of the EPRG or any other organisation that is also involved in the Flexible Plug and Play Low Carbon Networks (FPP) project.

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