Microsoft

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Comments of Microsoft

Microsoft welcomes the opportunity to engage in the stakeholders' consultation process for this first of a kind connection reform. This will also help to inform ongoing European discussions on how to make sure that demand for and supply of electricity can meet in the ever-growing congestion of the transmission and distribution grid in the wider region. This filing builds on a precedent consultation reply from October 2023 on the same reform.

Microsoft acknowledges that there is a need for ACM to address transmission shortages and the current challenges to answer transmission requests and support the energy transition while also enabling growth of new services and industries. We recognize the challenges that the Netherlands faces in developing renewable energy to meet its goal of 100% renewable energy by 2050 while also developing the grid to enable this transition and to meet growing demand. These are challenges not limited to the Netherlands. Across the EU, power generation capacity must double by 2030 to meet EU climate goals around energy and the electrification of transportation and heating. This will require large investments in upgrading and building electricity infrastructure across the EU as well as in the Netherlands.

Cloud as the backbone of our society, inextricable from safety and basic needs

Cloud computing is the engine that will power the carbon-free digital economy of the coming decades. Datacenters are the physical infrastructure behind cloud computing and AI.

Across Europe, Microsoft datacenters are operating around the clock to support a wide spectrum of critical services, from the life-saving work of doctors and first responders to essential services like groceries and online banking. The Minister of Economic Affairs stated in his policy letter on Datacenters, "Datacenters are a key component of the digital infrastructure and therefore crucial for the Netherlands' innovation and earning capacity." [1] At the same time, datacenters also empower everyday necessities like food deliveries, remote work and video calls to family[2].

[1] Datacenters in de Nederlandse digitale economie, 21 november 2024

[2] 'Critical to our modern society': How datacenters power everyday necessities - Source EMEA

Microsoft

In the Netherlands we help organizations to innovate and deliver valuable services to citizens, patients, students, and customers. Microsoft serves more than 350,000 companies, organizations, and government institutions in their ambition to digitize and work with more than 8,000 Dutch software companies in developing products and services for these customers. Our direct customer base includes the following activities in the country: energy, retail and consumer goods, food, telecommunication and media, health, financial sector, professional and business services, industry and manufacturing, NGOs and non-profits, and the public sector (including transport, education, municipalities, water utilities, city administrations, and ministries)[3].

In the past 15 years the digital infrastructure sector has moved away from a model based on a room filled with servers to supply a specific client (on-premise) towards larger dedicated datacenters that provide cloud computing services to multiple customers. These are either owned by the company that operates the IT services ('hyperscalers' like Microsoft, Google, AWS, or companies like OVHcloud or Open Telekom Cloud) or owned by colocation providers. Hyperscale datacenters can be 80% more energy efficient than traditional onsite services and they have ambitious decarbonization targets to match their energy use with carbon free energy[4]. Microsoft datacenters in the Netherlands operate on an average PUE (Power Usage Efficiency) of 1.14, well below the industry average of 1.45.

Microsoft also serves public safety organizations such as the police and cybersecurity services (i.e. the National Cyber Security Center from the Ministry of Justice and Security) or customers like Nationale Nederlanden and Noordwest Ziekenhuisgroep. Some of the abovementioned customers fall into the second category in ACM's prioritization and some of them – including the ICT sector as a whole – are considered critical processes in the context of critical infrastructure protection[5]. Additionally, datacenters themselves are considered critical processes, and cloud computing and datacenter services are designated as critical infrastructure under the related EU legislation (NIS2 Directive).

Data centers are the digital backbone of organizations providing safety and basic needs services

However, according to the newly proposed assessment criteria (Chapter 4.3) defined by ACM, datacenters do not qualify for category 2 or 3. Failing to recognize that datacenters provide digital services to category 2 and 3 activities without which these activities would not function, de facto constitutes a barrier for activities in category 2 and 3 to provide value to society and expand their capabilities. It also creates a disruption for the functioning of Dutch society equivalent to the one described in the first of the assessment criteria.

The way in which the datacenter sector is assessed against the new criteria does not reflect the reality of the market in the Netherlands

Additionally, if all 3 assessment criteria need to be fulfilled to be considered an activity that falls into category 2 and 3, the only type of cloud service provider that can be prioritized is a company that does not provide similar services outside of the Netherlands and has a customer base of only one client who falls into category 2 and 3. This de facto means an onsite enterprise

[3] Search Customer Success Stories | Microsoft
[4] A vision for sustainable data centres in Ireland | Baringa
[5] Critical Infrastructure (protection) | National Coordinator for Security and Counterterrorism

datacenter serving a single customer or a multi-tenant provider that only operates in the Netherlands and has only one customer, which may not exist as of today in the country.

Hyperscale datacenters deliver essential services to both private and public sectors, including emergency services, which cannot be separated within the datacenter cloud architecture. This structure makes it unfeasible to identify or isolate the resources allocated to individual final customers. The IT infrastructure in Microsoft datacenters is shared across multiple customers, who rent portions of the available server capacity; due to this architecture, it is not possible to distinguish the IT capacity used by one customer from another. This approach facilitates more efficient use of server and storage resources, resulting in an estimated 80% energy efficiency improvement compared to on-premises datacenters.

An unintended consequence of the approach proposed by ACM is the possible switch of future cloud storage to on-premise datacenters for grid connection prioritization under category 2 and 3. This may counter the objective of ACM regarding the protection and utilization of existing and new energy infrastructure, as it would require approximately five times the energy consumption compared to cloud storage in a hyperscale datacenter.

To conclude, the intent of the ACM with this reform is to protect safety and basic needs activities. The application of the proposed three assessment criteria may undermine this goal by not recognizing the underlying digital infrastructure that powers many safety and basic needs activities.

Lastly, we would appreciate clarity on the underlining legal basis of the legitimate objective used by ACM to draw the assessment criteria, which seems a crucial element to develop considering the College van Beroep voor het bedrijfsleven (CBb) decision asking ACM to clarify the legal basis used to classify the activities in priority categories.

Grid access is a critical aspect of industrial competitiveness and the functioning of society

Grid access is critical for long-term planning and investment opportunities, enabling European competitiveness. Microsoft supports a level playing field across and within EU Member States and sectors to ensure clear, stable, and consistent regulatory frameworks for grid access.

As electrification increases and demand for grid connections grows, clear procedures for determining access are essential. As underlined in the recent European Parliament INI report on grids, the ‘first come first served’ (FCFS) principle to treat connection requests in the queue cannot accommodate the growth of connection demand associated with the decarbonization and electrification of different sectors, which is critical for the functioning of our society.

We welcome the efforts of ACM, which was a first mover among energy regulators in Europe in reviewing the FCFS to replace it with a qualitative-based prioritization system. The current consultation tries to address aspects that were highlighted by the College van Beroep voor het bedrijfsleven (CBb), specifically calling for a review of the legal basis leveraged by ACM to screen different activities to determine whether they can be prioritized or not.

This is a great opportunity to re-evaluate the way in which customers are assessed for grid connection priority. We support mechanisms that both discourage speculative connection requests which lack intention of bringing projects to life and mechanisms that reward the readiness of the project, like the one proposed by NESO and Ofgem in the UK[6]. There are similar

[6] About Connections Reform | National Energy System Operator

connection reforms in France and Germany where elements of the 'first-ready, first-connected' approach are also being considered.

A grid connection reform for demand customers should include:

- *An approach that rewards the readiness of the project:* a project that is on track with meeting pre-agreed milestones should be able to jump the queue for grid connections in front of a project that has cumulated unjustified delays or is speculative in its nature. If the project is hitting its milestones in advance, it can be rewarded with an advanced connection date. Project milestones can be defined in advance (i.e. energization, submission of the environmental impact or permitting applications, or advanced steps in land acquisition) and included in the connection agreement between the customer and the grid operator, establishing the necessary documentation that can be deposited to prove that the milestone is met. Projects could be asked to provide up-front connection fees during the application process as another option to prove the readiness of the project.
- *Critical infrastructure or critical processes:* if two projects are advancing at similar pace and have applied for the same connection node, customers that are providing critical processes or are essential for those critical processes to exist should be prioritized.
- *Consider that some frameworks or criteria discourage our sector to invest in a region*: These include unclear timelines, reforms without clearly defined criteria from the start, discriminatory criteria that award a specific sector or project without a legal justification applicable across the EU, reforms introducing specific connection requirements that apply to one sector only, and reforms that offer only non-firm capacity.

Another option, which is an element of the UK approach to grid connection in the 'Clean Power 2030 Action Plan', is to have regional targets for quantities of renewable and battery projects based on energy scenario modelling. An interesting impact of this approach is that it mitigates possible speculative connection requests from the supply side, as the UK has recently experienced and as Germany is also trying to tackle. In the context of the current ACM prioritization system, the way in which the first category is defined ('congestion relievers') could lead to a prioritized over-application of projects based on a certain technology and the UK approach based on energy system needs modeling can be considered to avoid this.