

Irish CHP Association Response

Comments on the Implementation of the Market
Arrangements for Electricity (MAE) in relation to Renewables,
CHP and Distribution-connected Generation

Consultation Paper CER/03/253

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Comments on the Implementation of the Market Arrangements for Electricity (MAE) in relation to Renewables, CHP and Distribution-connected Generation Consultation Paper CER/03/253: Irish CHP Association Response

General

The Irish CHP Association welcomes the Consultation on the Implementation of the Market Arrangements for Electricity (MAE) in relation to Renewables, CHP and Distribution-connected Generation Consultation Paper (CER/03/253).

The benefits of CHP are clearly recognised by Government. In addition to significantly improving the energy efficiency of industry and commerce, the National Climate Change Strategy has set a target of a reduction of 0.25Mt of CO₂ to be achieved by increasing the penetration of CHP. However, this is against a background of low penetration with CHP accounting for only 3% of electricity produced in Ireland and no substantial CHP capacity added in the last 2-3 years. It is difficult to see how national targets for CHP development can be achieved without radical change to the regulatory environment. With current payback times of between 5-6 years the outlook for CHP in Ireland remains bleak. The new Market Arrangements for Electricity is a fundamental redesign of the electricity market in Ireland and presents an opportunity to stimulate CHP development: the Irish CHP Association strongly believes that CHP incentives should be built into the market arrangements to reflect the clear benefits of CHP – ignoring CHP in this redesign of the electricity market is not consistent with the supportive stance on CHP CER has taken to date.

The Irish CHP Association has examined the CER proposals and participated in the CER workshop. ICHPA has concluded that overall the proposals:

- Not sufficiently transparent
- Insufficient detail on how CHP will be treated
- Only focused on network as against the development of distributed distribution

There is a clear danger that CER's proposals as they stand amount to an opportunity lost.

CHP and the Electricity Market

The new market arrangements for electricity should not act as a disincentive for the further development of CHP in Ireland and indeed, the new arrangements offer the opportunity to build in incentives for this highly efficient form of electricity generation. Although much of the detail is yet to be worked out there are a number of practical arrangements for CHP in specific that need to be built into the proposed market arrangements.

Dispatch and pricing

The proposed limits for dispatch are similar to the existing system whereby any unit over 10MWe would require central dispatching. Electricity produced from CHP is inherently linked to the production of heat and therefore **dispatch tolerances** in such cases should be +/- 3% above the tolerance for other plant (this is the norm in other systems). Spill from CHP units onto the National Grid is by nature more unpredictable – e.g. loss of heat load due to process plant breakdown. The level of penalties for not meeting agreed dispatch rules should more generously reflect the constraints CHP units have.

The heat load generally drives the designed level of output from a CHP plant which means that CHP plant will probably be price takers in any new market arrangements – including negative prices, which would disproportionately penalise CHP units. For facilities with CHP units the production of electricity is not part of their 'core business' and the new market arrangements will add significant complexity to CHP unit operations. Simply saying that "they can use CfDs and FTRs" to mitigate any risk does not reflect this significant potential barrier for new CHP entrants. Existing operators will have to take on new competences and new costs in the risk management area: CfDs, FTRs etc. Additionally CHP operators will be exposed to **increased price volatility** which equals increased **risk and uncertainty** which will

only act as a barrier for new entrants - price transparency should not be seen as being risk free. For example, 'top-up' will be available at pool price which exposes the operator to increased volatility which is not ideal for CHP which is heat driven.

'Top-up' and 'spill' should be available at a discount and premium respectively linked to an annualised average market price for electricity.

Reserve

There may be limited benefit in providing reserve from CHP plant as some plants can provide this because of their seasonal nature (e.g. dairy sector) but the benefit would depend on the level of payment. As regards charging for reserve cost the unpredictable nature of CHP exports should be reflected in any penalty payments.

Incentives for CHP

Redesigning the electricity market arrangements offers CER the **opportunity to design incentives for CHP into the arrangements**. Once the new system is up and running it will be difficult to add on any such incentives – ICHPA accepts that the main priority for CER is to get a system that works effectively, but CER should also not neglect the needs of present CHP units and future projects. There are national targets to be met. Other electricity markets in Europe, such as Spain, give any spill from CHP plant a **premium** on the market price. The new arrangements could give spill from CHP units a premium on the LMP they receive for exporting or as previously suggested in this paper a premium set price that would remove the volatility aspect of the market. The total sums involved will not have a major impact on the overall arrangements as the volume of electricity produced from CHP is only 3% with only a fraction of this exported onto the National Grid.

Benefits for CHP?

It is difficult to see any real benefits for CHP in the details given to date on the new arrangements. Most of the listed "advantages" are not advantages. Price transparency is not nearly as important a benefit as eliminating price volatility or

indeed simply lowering the level of prices after the system has been introduced. CfDs smooth out prices, mitigating the risk from price spikes but they do not remove uncertainty – you can lose money on a CfD!

There may be limited benefits in reserve provision payments but these will be limited to some for larger seasonal CHP units e.g. in the dairy sector – the strategic objective of CHP is to provide a baseload on-site.

Nature of CHP Should be Reflected in Market Arrangements

Many of the barriers for CHP arise from the nature of CHP – heat load driven, exporting to the maximum export capacity only a small part of the time. For example, a CHP unit is currently required to pay separate UoS charges based on their import connection capacity even though they may only be importing 5% of their electricity needs over the year. The existing PSO charges are also treated similarly being based on MIC and not on actual imported volumes which may be as low as 5%. CHP plant should only pay UoS at a rate which relates to average rather than maximum import/export requirements. A similar approach should be adopted to PSO charges.

In order to treat CHP fairly under the new arrangements there should be a principle of ‘**CHP-proofing**’ the market arrangements so that any charges or penalties should reflect the volume of electricity exported or imported and not the MIC/MEC levels. Furthermore there should be a premium for any electricity exported from CHP units in order to reflect the clear environmental benefits of CHP.

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