

Department of Finance Proposal for a Carbon Energy Tax in Ireland Consultation Paper: Irish CHP Association Response

General

The Irish CHP Association welcomes the proposed Carbon Energy Tax as it believes that it will help focus attention on the need for efficient technology and motivate energy users to use energy more efficiently and therefore help reduce Ireland's emissions of greenhouse gases. **Combined heat and power (CHP)** has a key role to play in helping Ireland meet its obligations under the Kyoto Protocol. At present Ireland has very low levels of CHP with only 2% of electricity generated from CHP against a European average of 9%. The ICHPA welcomes any fiscal change that will help promote CHP in relative terms in Ireland. In addition, the ICHPA would suggest that relief from the proposed Carbon Tax should be applied to energy consumed in CHP power plants.

The Role of CHP in Cutting Greenhouse Gases

At National Level, the benefits of CHP are clearly recognised. The Government's Green Paper on Sustainable Energy concludes, on this issue, that industry with a high year round heat demand can make energy efficiency gains from CHP. In the National Development Plan £4m has been allocated for the encouragement of a high efficiency CHP. As part of the National Climate Change Strategy, the Government has set a target of a reduction of 0.25Mt of CO₂ by increasing the penetration of CHP.

Combined heat and power is an efficient way of producing electricity, with an efficiency of over 70%, compared to other methods of generating electricity such as by Combined Cycle Gas Turbine technologies which have an efficiency in the region of 50% to 55% or single cycle technologies which generally have an efficiency less than 40%. It is widely recognised that CHP has environmental benefits. This benefit is increased if primary fuel for CHP is natural gas, as the carbon intensity and hence CO₂ emissions are considerably reduced when compared with other fossil fuels.

The reduction by 0.25Mt per year of CO₂ was referred to the above the Government's National Climate Change Strategy and a target for new CHP capacity of approximately 250MW by 2010 was set. This analysis was reinforced in the Sustainable Energy Ireland report entitled "An Examination of the Future Potential of CHP in Ireland" published in December 2001 which concluded by stating that,

" CHP is recognised as being one of the key technology responses to Ireland's achievement of its Kyoto protocol commitments and significant potential exists for its expansion."

CHP Exemption

Throughout Europe, CHP has been recognised as a 'clean' efficient generator of electricity and has been given exemptions from energy taxes in a number of countries. CHP is exempt from the UK Climate Change Levy. In Denmark there are exemptions from carbon tax for CHP, especially small-scale CHP. In the Netherlands, CHP units are exempt from paying a tax on gas used for electricity production and the Dutch Ecotax does not apply to heat supplied by CHP. In Germany, CHP with an overall efficiency of 70% is exempted from the increase of tax on gas and fuel oils and CHP of over 700kWe is exempt from tax on electricity production.

A relief from the proposed carbon tax for fuels used in CHP would greatly boost the development of CHP in Ireland in line with Government objectives as outlined previously.

Revenue Recycling

The ICHPA supports the view that any revenue raised by the Carbon Tax should also be recycled to support such proven **carbon displacement technologies** such as CHP.

Consultation

The Association would be happy to meet with the Department to discuss the comments further.

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