



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Winter Peak Demand Reduction Scheme 2005/2006**

**Decision Paper**

**CER/05/216**

**12<sup>th</sup> October, 2005**

## **Background**

The Winter Peak Demand Reduction Scheme (WPDRS), operated by ESB National Grid, and approved by the Commission, encourages participants ('designated customers') to reduce their peak demand and consumption from determined typical usage and demand levels during the peak hours of 17.00 to 19.00 on selected business days during the winter months of November to March. Participants are rewarded for demand and consumption level reductions via payments based on pre-approved demand reduction and peak consumption reduction rates.

In September this year the Commission consulted on the proposed rules and timelines for the Winter Peak Demand Reduction Scheme (WPDRS) for the winter of 2005/06 (Ref.: CER/05/129 & CER/05/130). At that time, it was noted that a decision on these rules and the accompanying rates would be published in early October.

## **Consultation Response**

One response was received in relation to this consultation. This response focussed entirely on the rates on offer for participating in this scheme. The following comments were made:

- Profile Payment: The profile payment in 04/05 was €63/MWh. The cost of fuel has increased significantly in the last year and diesel fuel is now over 50c/l. This means that the cost of fuel to a typical diesel generator (33% efficient) is approximately €145/MWh. Even allowing for the fact that the electricity generated also has a value, the profile payment should be increased to €100/MWh which will adjust for the increase in fuel cost in the last year.
- Reliability Payment: The PSO levy includes for a payment of €21.6m for 373MW of ESB operated peaking capacity. This amounts to payment of €57,908/MW.

The reliability payment of €165/MWh equates to a payment of €32,010/MW for the 97 days of the scheme (€165 x 2 hrs x 97 days).

This is exceptional value when compared to the €57,908/MW for the ESB peaking stations and there is a good case for increasing the reliability payment to attract additional capacity.

- Baseline for Reliability Payment: The very large increase in gas cost this winter (up to GBP £1.00/therm compared to GBP 30p/therm in 2004) means that it may not be economic for some CHP stations to operate as base load from November 04 to March 05. These stations will not be available for peak capacity operation because under the present rules, the baseline is determined by the demand/export between 17:00 to 19:00 during the period November 04 to March 05, when these CHP stations

were operating. In such cases the baseline for the reliability payment should be calculated in a manner similar to the profile payment.’

### **Commission Response**

The Commission recognises that fuel costs, and therefore generation costs, have risen over the last year and acknowledges that rising fuel costs may affect the ability of some participants with diesel or gas-fuelled embedded generators to participate in the scheme.

The Commission is of the view that the rebate (demand) and profile (energy) payments made under the WPDRS should rise in line with energy and demand elements of the regulated tariffs, and not just in line with rising fuel costs. The reasoning behind this is to strike a balance between, on the one hand, encouraging participants to reduce demand consistently – via the reliability and reliability rebate rates – and rewarding customers for reducing peak consumption usage – via the profile payment – on the other.

Secondly the Commission is of the view that the reliability rate adequately rewards capacity for the period of time for which it is available i.e. over the 97 business days of the scheme.

Finally, regarding the comment on the calculation of the baseline the Commission does not recommend changing the methodology used to change baselines at this stage due to the confusion this may cause amongst participants. However, this proposal has been noted.

### **Subsequent Amendment to Rules by ESBNG**

ESB National Grid has separately submitted to the Commission a change to the rules for calculating baselines and benchmark ratios for certain customers that had participated in WPDRS last season and whose demand had changed significantly in the last 12 months. ESB National Grid felt the rules were treating these customers unfairly and that the revision proposed would provide a fairer and more favourable basis for participation.

### **Decision**

The WPDRS rules, as modified by ESB National Grid (Ref.: CER/05/130), in September, are approved (the modification refers to text on page 20 of the WPDRS rules document.)

The rates for this scheme, as submitted by ESB National Grid based on changes to ESB PES tariffs for larger customers, are as follows:

<b>Payment Type</b>	<b>Payment</b>
Reliability Payment Rate	€358/MW per day (€ 179/MW per hour)
Reliability Rebate Rate	€3580/MW per day (€ 1790/MW per hour)
Profile Payment Rate	€ 80 / MWh

Having reviewed the impact of these revised rates on the operation of the scheme, the Commission considers that the above rates adequately reward WPDRS participants for reducing demand and energy usage at winter peak times. Therefore, the above rates are approved and will apply for the WPDRS for the 2005/06.