

PRESS RELEASE
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NEW GERMAN CHP LAW PASSED

On 25 January 2002 the German Parliament has finally passed the long awaited new German CHP Law. The "Law on the Conservation, Modernisation and Development of Combined Heat and Power" ("*Gesetz für die Erhaltung, die Modernisierung und den Ausbau der Kraft-Wärme-Kopplung*") will probably come into force on 1 April 2002. It will replace the "Law for the Protection of Electricity Generation through CHP", the so-called "*KWK-Vorschaltgesetz*", adopted in March 2000 as an emergency measure to stop the rapid decline of CHP in Germany during that period. The new CHP Law regulates the purchase of, and remuneration for, electricity exported to the public grid from certain CHP plant. In order to support their conservation, modernisation, and partly the installation of new units, a number of support mechanisms are foreseen.

The Law enacts a duty to connect certain types of CHP units to the grid and purchase their electricity exports to the public grid. On top of the agreed price for these exports, the operators of the units are entitled to obtain supplementary payments on each kWh exported as given in the Table on the next page. Also, the law establishes, for the first time, the statutory right of CHP operators to receive the market price for their electricity exports to the grid according to stock market value. Furthermore, avoided grid use costs have to be rewarded back to them.

The new Law thus increases the financial returns and therefore supports the continued operation and modernisation of already existing CHP plant regardless their size. It does not limit itself to support existing CHP plant. It also aims to encourage the installation of new small-scale CHP units up to 2 MW_e capacity and applications based on fuel cell technology. For these types of CHP plant, the law foresees a particularly high supplementary payment over an extended period of time. A recent study highlighted precisely the significant future market potential for small scale CHP in buildings, and the importance of the wider use of these technologies for achieving the Kyoto Protocol targets in the EU¹.

Regrettably, the new law will still fall far short of fully developing the enormous CHP potential present in the German industry, and residential and commercial sector, because it will only support already existing CHP installations or new small-scale CHP units with an electrical capacity up to 2 MW_e. There will thus be no incentive to construct new CHP plant beyond a capacity of 2 MW_e.

Legal targets, or quotas, for new CHP capacity were initially the preferred mechanism of the German government. Through a market-based system they would, in all probability, have brought about significant growth across all CHP

¹ The future of CHP in the European Market – The European cogeneration study.
<http://tecs.energyprojects.net/>

types and sizes in Europe's biggest economy. The quota model sparked, however, a huge polemic debate and encountered fierce opposition from economics minister Werner Müller and big power firms, which successfully managed to put off the project and promote an alternative voluntary agreement with government on lowering carbon dioxide emissions by 23m tonnes per year by 2010.

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Existing old CHP plant (Start of operation before 31/12/89)	1.53	1.53	1.38	1.38	0.97				
Existing new CHP plant (Start of operation between 31/12/89 and the date when the new Law comes into effect)	1.53	1.53	1.38	1.38	1.23	1.23	0.82	0.56	
Modernised CHP plant (Start of operation after the new Law came into effect)	1.74	1.74	1.74	1.69	1.69	1.64	1.64	1.59	1.59
New small-scale CHP plant between >50 and 2000 kW _e	2.56	2.56	2.40	2.40	2.25	2.25	2.10	2.10	1.94
New small-scale CHP plant ≤50 kW _e , which start continuous operation before the end of 2005, and fuel cell units	5,11 cent for a period of 10 years beginning from the start of continuous operation								
Supplementary payments for small scale CHP plant up to 2 MW _e (this includes also units <50 kW _e) will only be made up to a total electricity export of 14 TWh from these plants									

Table 1: Supplementary payment for Electricity exports to the public grid (in €Cents)

As a result of the law, increase of CHP is therefore to be expected mainly through the modernisation of existing plants, and the installation of new small-scale units. After tough debates, CHP supporters in the German parliament have managed to achieve a significant increase in the price supplements paid to CHP electricity exports. The amounts originally envisaged in the government's draft law were much lower, meaning that they would have been insufficient to actually trigger the necessary effort in keeping, modernising and developing the targeted CHP market segments.

Slightly increased grid use costs will provide the funds to finance the supplementary payments envisaged in the law. A balancing mechanism should ensure a fair distribution of these costs across grid operators and the costs they charge. The maximum additional grid use costs for final consumers with an annual electricity consumption of more than 100,000 kWh electricity have been fixed at 0.05 cent/kWh. In reality, however, the new law will mean that grid use costs of final customers will probably decrease during the first years, because it replaces the old "Law for the Protection of Electricity Generation through CHP", which partly supported non-CHP electricity and therefore implied higher grid use tariffs.

From COGEN Europe's perspective, and despite some limitations, the approval of the new German CHP law is to be welcomed as a rare sign of tangible support for CHP by a European Government, four years after an EU-wide target was set to double the sector's size by 2010. Together with the forthcoming European CHP Directive, the new law is expected to have an important knock-on effect in Germany and also with regard to other European governments, bringing the sector again in motion after difficult times. This raises hopes that dysfunctions in European energy and climate protection policies will be overcome and that CHP can still make a significant contribution to the prevention of climate change, enhanced security of energy supply, more competition in the energy sector, and job creation.

CHP, Combined Heat and Power, or cogeneration is the simultaneous production of heat and electricity. This proven technology produces around 10% of Europe's electricity and heat requirements and has a significant growth potential, which will lead to an improved environment and greater economic competitiveness. It is a highly efficient energy solution that delivers substantial reductions in greenhouse gases and other pollutants and is the single largest solution to meeting the Kyoto Protocol on climate change for Europe.

COGEN Europe is Europe's umbrella organisation representing the interests of the cogeneration industry, users of the technology and promoting its benefits in the EU and the wider Europe. The association is backed by the key players in the industry including gas and electricity companies, ESCOs, equipment suppliers, consultancies, national promotion organisations, financial and other service companies.