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Improving the competitiveness of Power-to-X projects in Chile

19th Annual Ammonia Energy Conference Phoenix

11.16.2022

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Capabilities & clients

Inodú is focused on providing services related to:

- ✓ Electricity markets & regulation
- ✓ Energy market intelligence
- ✓ Energy data and analytics
- ✓ Renewable energy integration, flexibility, energy storage & grid transformation
- ✓ Decarbonization strategy and policy
- ✓ Distributed energy resources & services
- ✓ Green powerfuels
- ✓ Energy, environment & social nexus

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Inodú covers the following energy markets
U.S., Chile, Peru and Colombia.

Agenda

1. Supply alternatives and costs for green hydrogen and ammonia projects
2. International benchmark of grid & reliability costs
3. Chilean grid & reliability cost dynamics
4. Implications for the development of green hydrogen and ammonia projects

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Supply alternatives and costs for green hydrogen and ammonia projects

Supply alternatives for a H_2/NH_3 facility

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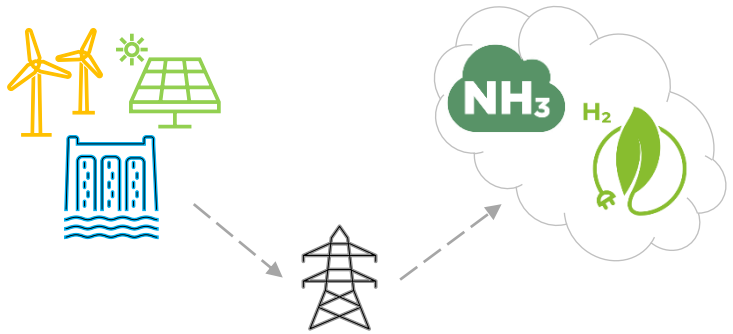
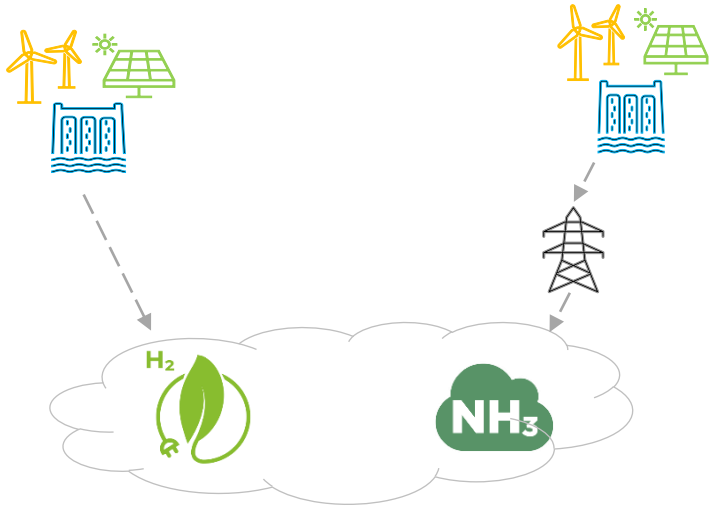
Full On-Grid supply



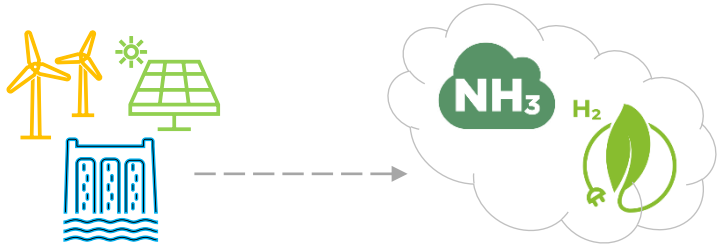
- Grid-connected H_2 plant
- Grid-connected NH_3 plant

Hybrid supply



- H_2 plant connected directly to VRE facility
- Grid-connected NH_3 plant

Full Off-Grid Supply



- H_2 and NH_3 plants connected directly to VRE facility
- Development of a stand-alone power system (SAPS)
- Project exposed to a higher risk in variability of supply
- Energy storage could be considered to firm supply to the H_2/NH_3 plant

Full **on-grid** supply cost breakdown

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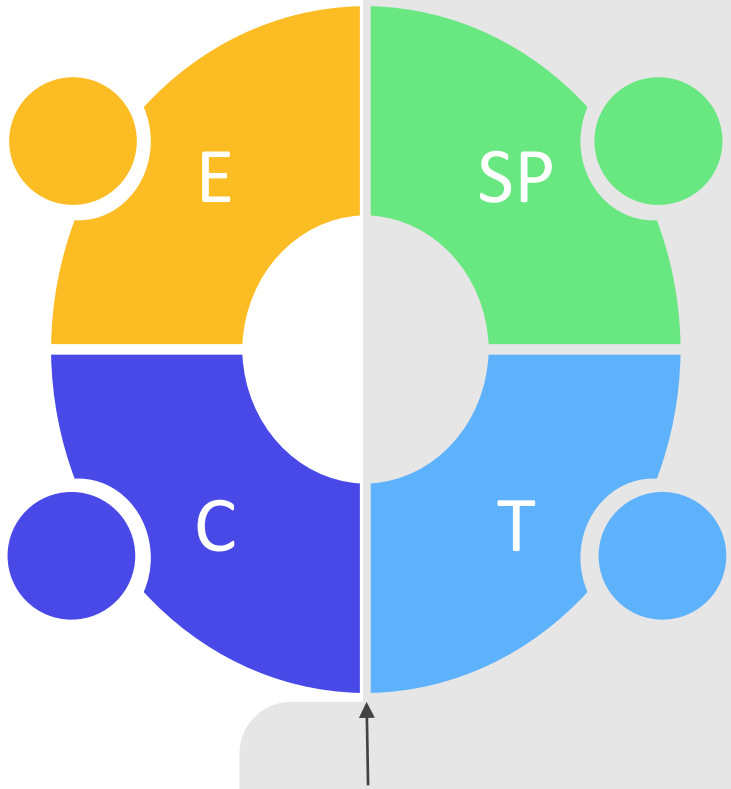
Energy

Is the price the energy consumer pays for each MWh consumed. The energy price can be a function of a price defined in the Power Purchase Agreement or energy spot prices.

Capacity charge

Is a reliability charge that is associated with the grid's capacity to supply the consumer at all times, particularly during periods of maximum demand.



Sidepayments

Are costs which are passed on to end consumer. They include costs of ancillary services and other grid costs that are not included in other categories. Side payments can vary monthly.

Transmission

(National + Zonal + Distribuition)

Used to pay for the existing transmission system and new works. These costs might depend on the voltage level and location of the client. These costs are passed on to the end consumer.

ISO Fees - ISO fees are paid by all clients.

Grid & reliability costs

Full **off-grid** supply costs to be considered

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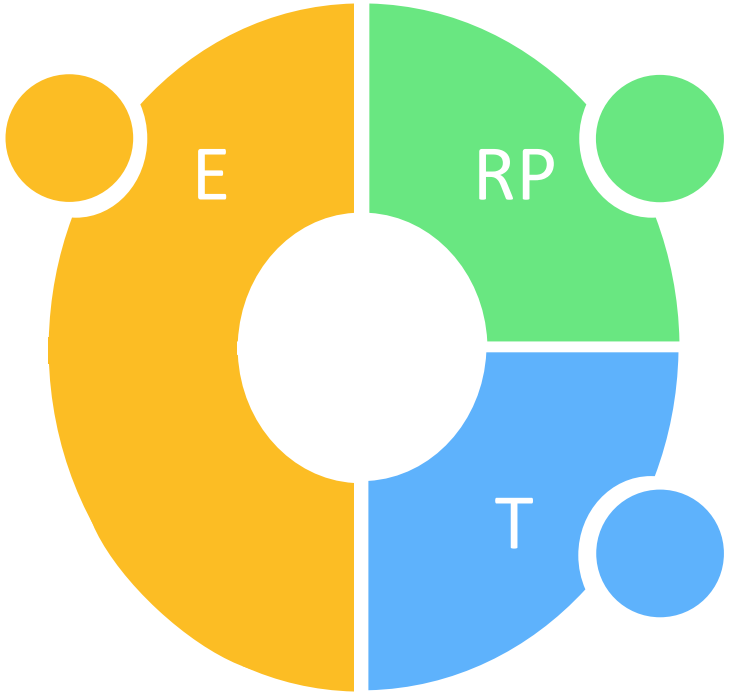
Energy

Energy price is the fixed price agreed with the supplier or developer of the off-grid VRE project. There are different options available for the structure of an off-grid supply agreement.



Reliability premium

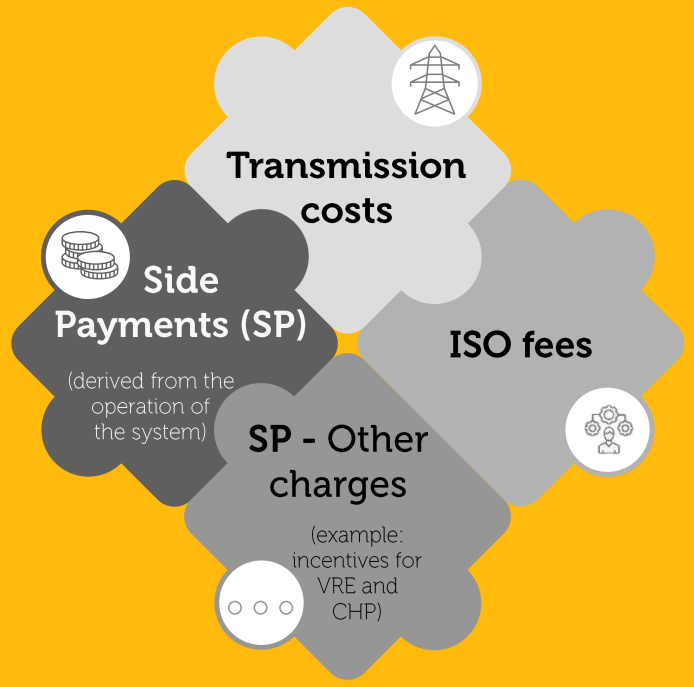
Cost related to an off-grid reliable supply. This could consider investment in energy storage, CSP and others. The investment will depend on the flexibility and reliability required by the H_2/NH_3 project.

Transmission

(Dedicated)

Transmission or transport costs associated to the dedicated line from the VRE facility to the H_2/NH_3 project.

Grid & reliability Costs



Why are grid and reliability costs important?

Energy accounts for nearly **50-80%** of the cost to produce a kilogram of H_2 .

Grid costs are comparable to solar and wind LCOE, therefore can **double energy costs**.

Advantages of connection to grid

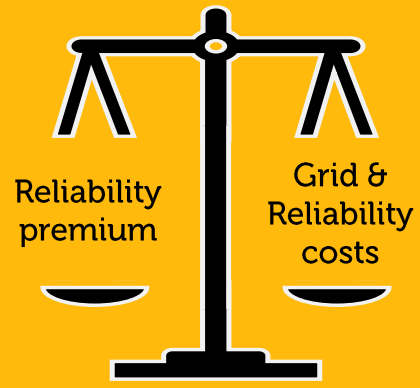
- ✓ Provides reliability of supply for the projects, and stability to H_2 / NH_3 processes.
- ✓ Allows higher utilization factors of the electrolyzers.
- ✓ Reduces pressure for flexibility for the H_2 / NH_3 plant.

Evolution of grid and reliability costs

Renewable energy transition is significantly changing grid & reliability costs. Drivers include:

- Renewable energy integration
- Transmission investment
- Transformation and limitations of thermal generation facilities.

Off-grid vs. On-grid tradeoff



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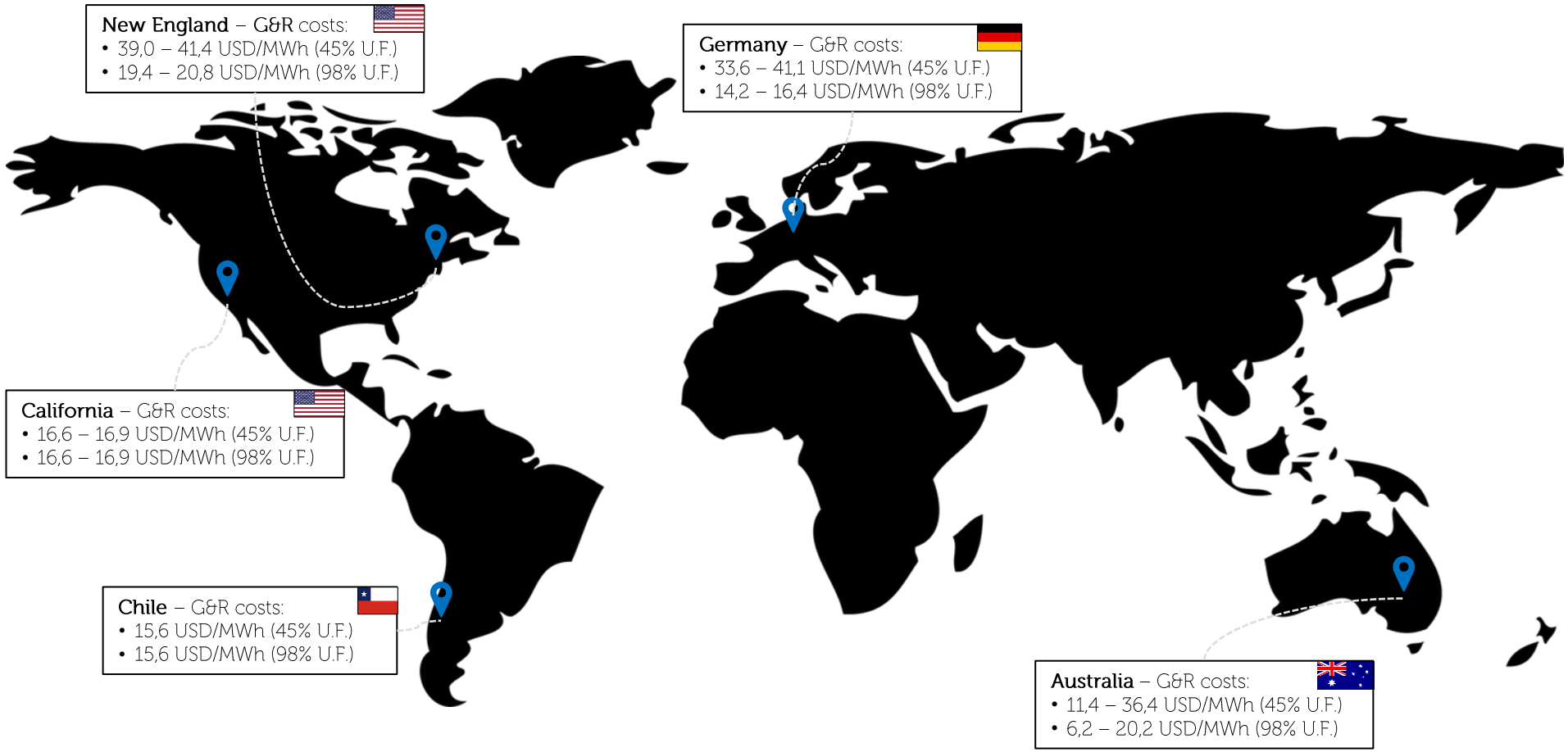
International benchmark of grid & reliability costs

International benchmark of grid & reliability costs

Costs estimated based on information from 2nd semester 2021 and 1st semester 2022



Transmission charges in some markets are **heavily affected** by **localization.**

In New England, Germany and Australia **transmission costs depend on load factor**.

U.F.: Utilization factor

Grid & reliability (G&R) costs* = Transmission costs + Side payments + ISO costs + other systemic charges

* Does not include capacity charge.

International benchmark of grid & reliability costs

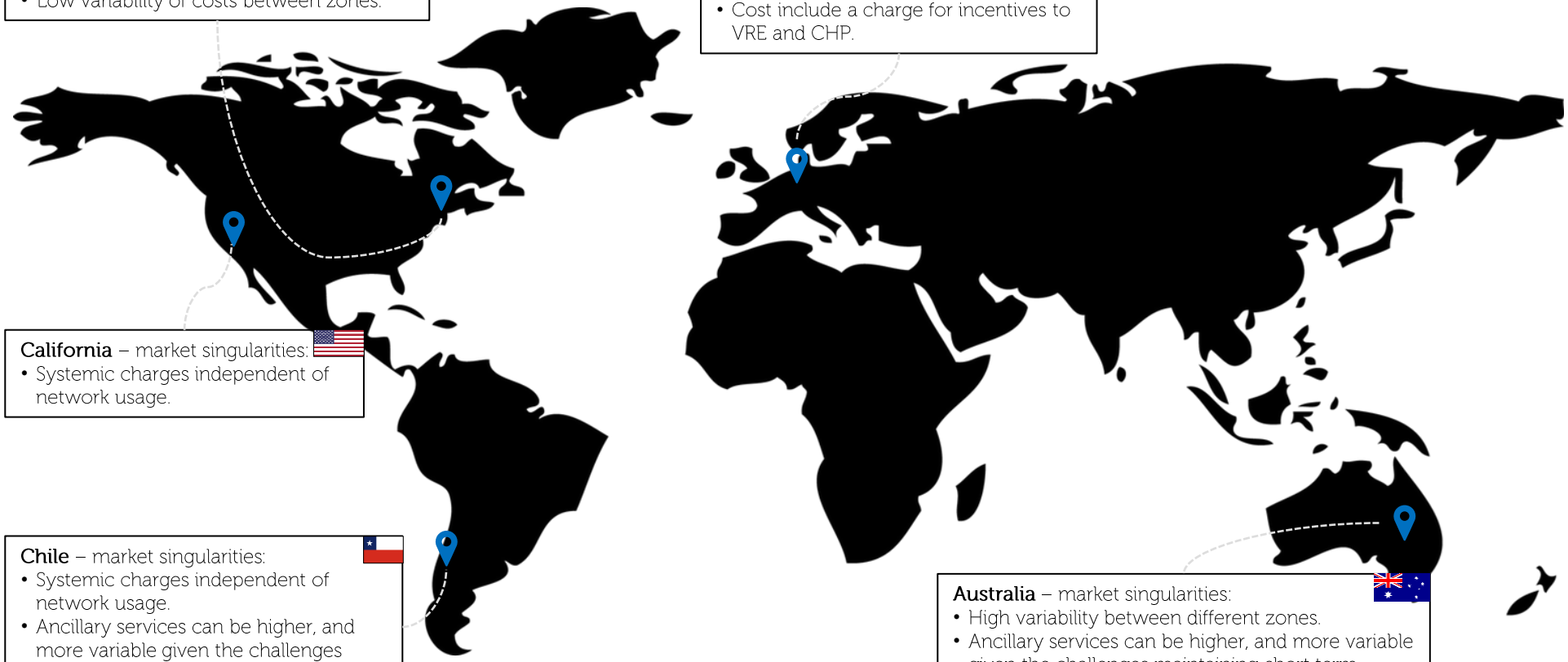
Market singularities

New England – market singularities:
- Low variability of costs between zones.

Germany – market singularities:
- 4 different TSO, each define their costs.
- Cost include a charge for incentives to VRE and CHP.

California – market singularities:
- Systemic charges independent of network usage.

Chile – market singularities:
- Systemic charges independent of network usage.
- Ancillary services can be higher, and more variable given the challenges maintaining short term reliability of the grid with high VRE integration.



Australia – market singularities:
- High variability between different zones.
- Ancillary services can be higher, and more variable given the challenges maintaining short term reliability of the grid with high VRE integration.
- NSW, QLS and SA systems were studied*.

*New South Wales, Queensland and South Australia.

Germany is a **potential** green H_2 **importer**.

Australia and **Chile are potential** green H_2 **exporters**.

Connecting large projects to the grid can lead to **develop grid infrastructure improvements.**

ISO fees are between 0.6 – 1.0 USD/MWh. These costs are not relevant among the grid & reliability costs.

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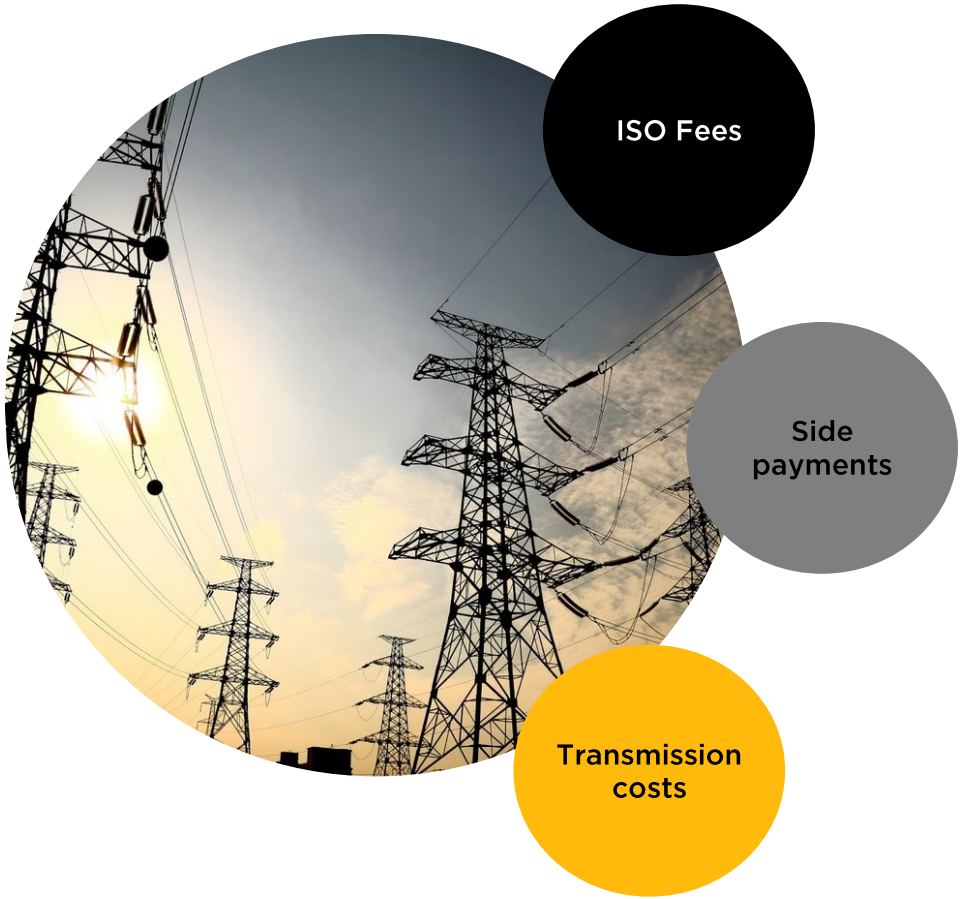
Chilean grid & reliability cost dynamics

Grid & reliability costs in Chile

ISO fees from National Electric Coordinator (CEN)



Evolution of ISO Fees

ISO fees could increase considering possible regulatory changes.

- A price stabilization surcharge could be included as part of ISO fees.
- The price stabilization surcharge could add 4.14 USD/MWh to the ISO fee for non-regulated consumers with a demand over 5MW.
- The price stabilization surcharge will affect all consumers of the system, in particular large non-regulated consumers with a load over 5 MW.
- The regulatory changes could impact consumers between January 2023 and the end of 2032.

Existing ISO Fees

The ISO fees for 2022 were about 0.63 USD/MWh.

Side payments are highly influenced by the energy transition

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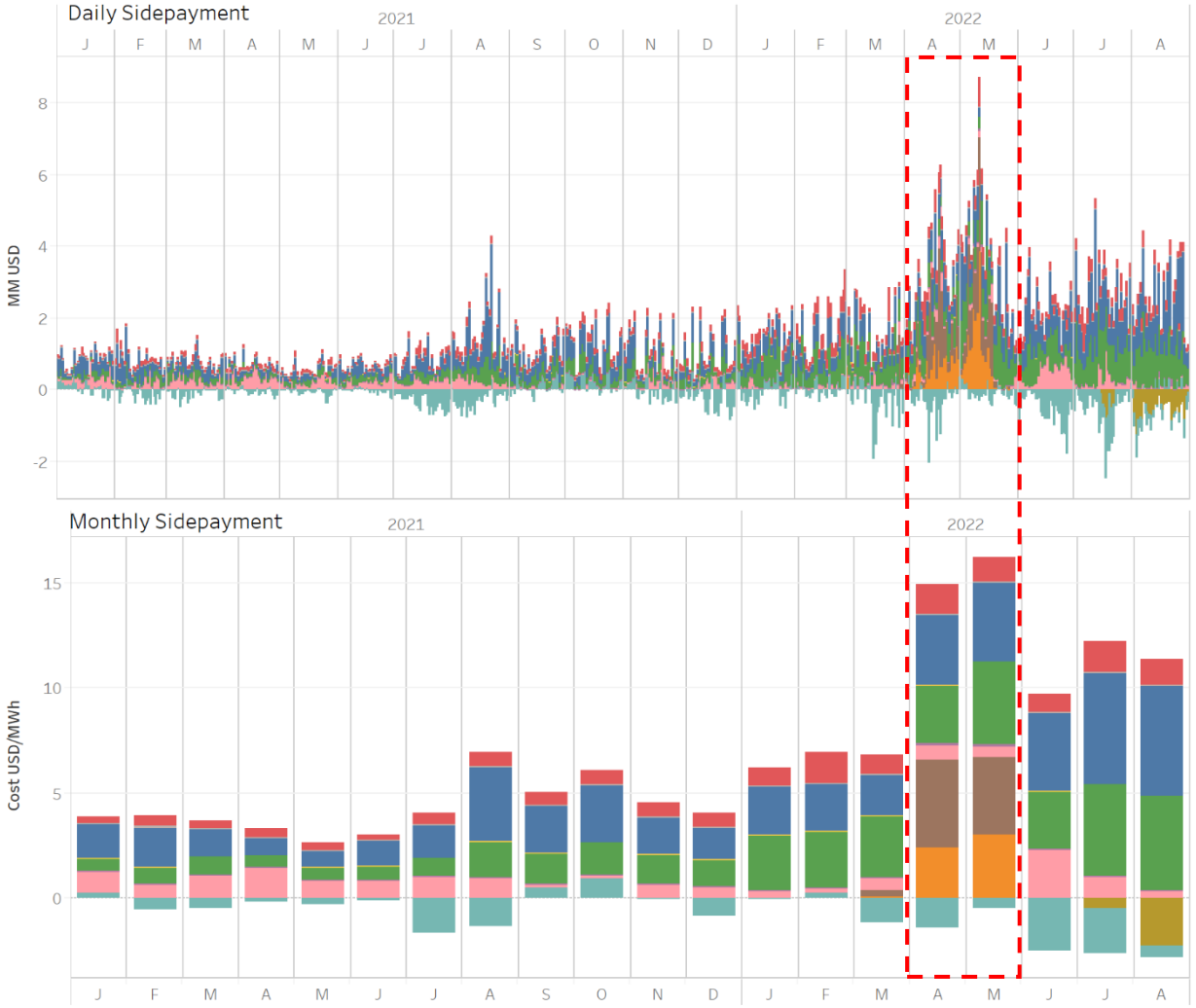


Renewable energy transition is significantly changing grid & reliability costs

During 2022 water reserves have been active due to a rationing decree, because of water scarcity conditions.

Water scarcity rationing decree

Minimum operational level at thermal units

Side payments of thermal units whose variable cost (VC) of production is higher than the spot price and operating at *minimum* operational level conditions have increased in 2022.

Water scarcity	Ancillary services	System inflexibilities	Other
OCRD	SSCC	SPML	PE
SPRD	SPOC	SPSS	Other
RRD	SS/PDO		

In Chile, side payments have been increasing in the past years, reaching amounts above 15 USD/MWh per month during 2022. Part of the increase was driven by a recently activated water rationing decree.

Summary of grid & reliability costs in Chile

Cost item	≥ 200 kV	Zonal Systems
National Transmission (USD/MWh)	8.2	8.2
Zonal Transmission (USD/MWh)	-	2.7 – 14.6 *
Side Payments derived from the operation of the system (USD/MWh)	2.4 – 15.8	2.4 – 15.8
ISO cost (USD/MWh)	0.63	0.63
Grid connection costs (USD/MWh)	**11.2 – 24.6**	**13.9 – 39.2**

* Differences are related to location where energy is withdrawn and voltage level at point of connection.
**Indicated values do not consider costs associated with sufficiency capacity and distribution grid costs.

In Chile, grid and reliability costs are only counted when energy is withdrawn from the system.

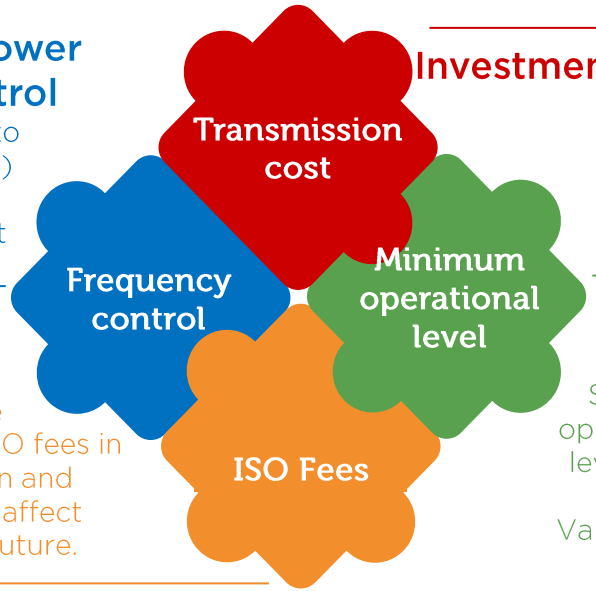
Future grid & reliability cost drivers

Variable Renewable Energy (VRE) could lower cost of frequency control

PV solar projects are starting to provide frequency control (FC) services by default, which will increase supply and lower cost of FC ancillary service.

ISO Fees and other subsidies

A price stabilization surcharge could be included as part of ISO fees in 2023, increasing them. Inflation and other market incentives could affect rates to end consumer in the future.



Investment in transmission assets

Due to high integration of VRE and congestion issues, new investments in transmission assets could increase costs for final consumers.

Minimum operational level at thermal units

Side payments for thermal units operating at minimum operational level have increased during 2022. This could keep increasing. Variability of fuel prices could also affect this cost.

Grid & reliability costs are increasing in other markets

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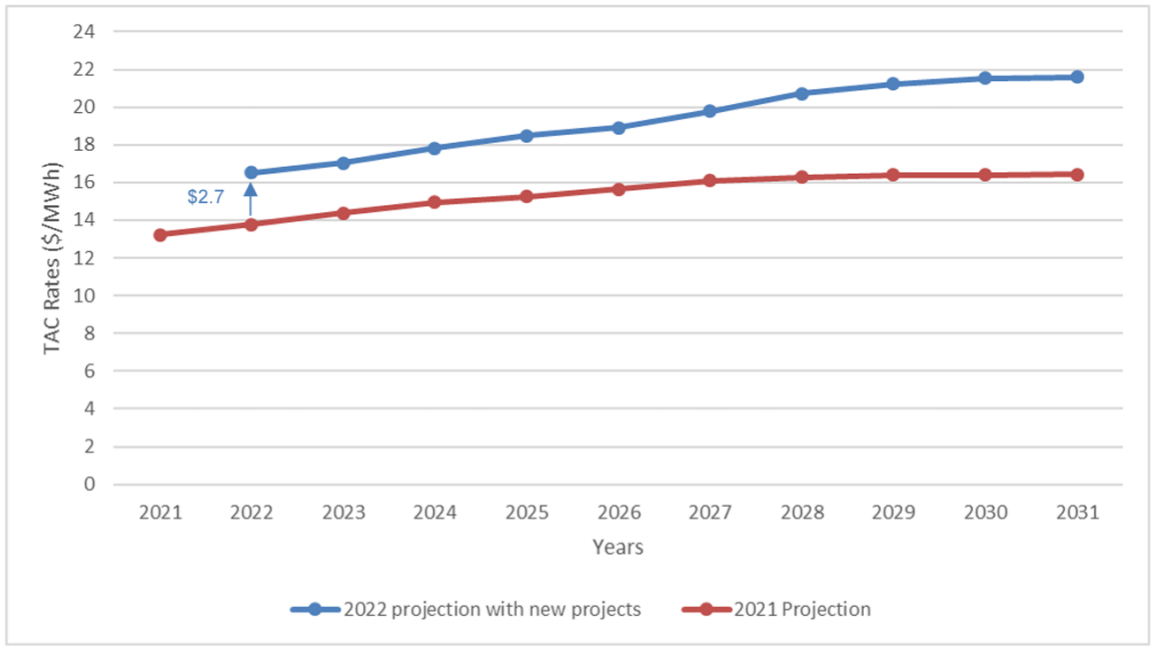
Transmission costs in California should increase over time

ISO 2021-2022 Transmission Plan **March 17, 2022**

Figure 8.5-1 Forecast of ISO High Voltage Transmission Access Charge Trending from First Year of Transmission Plan



Source: CAISO.

Australia plans *massive* investments in transmission…

Who is going to pay for them and how?

NEWS

Australia's AU$20 billion transmission initiative supports Tasmania's 'Battery of the Nation'

By Andy Colthorpe

October 19, 2022

Asia & Oceania, Southeast Asia & Oceania | Connected Technologies, Grid Scale | Policy

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Source: Energy storage news.

Regulators reinforce need for 'massive investment' in energy sector

Australian energy regulators have called for urgent investments in renewable energy capacity and the transmission infrastructure needed to connect new projects to the grid as they look to ensure an orderly transition as coal-fired generation exits the National Electricity Market.

SEPTEMBER 30, 2022 DAVID CARROLL

COMMERCIAL & INDUSTRIAL PV | DISTRIBUTED STORAGE | GRIDS & INTEGRATION | MARKETS | POLICY | RESIDENTIAL PV | SUSTAINABILITY | UTILITY SCALE PV | UTILITY SCALE STORAGE | AUSTRALIA

Source: PV Magazine

Sustainability

Australian government unveils first step towards 'rewiring the nation'

The new government's partnership with state governments to roll out billions in concessional finance is expected to accelerate Australia's energy transition.

Tharshini Ashokan - 21 October 2022

Share | A- | A+ | 100%

Source: Infrastructure Investor

In California, investments in new infrastructure are expected to drive cost increases. Australia is also planning massive investments in transmission assets. How will these investments impact the total grid & reliability costs?

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Implications for the development of green hydrogen and ammonia projects

Cost differences lead to opportunities for load flexibility and reliability premium technologies

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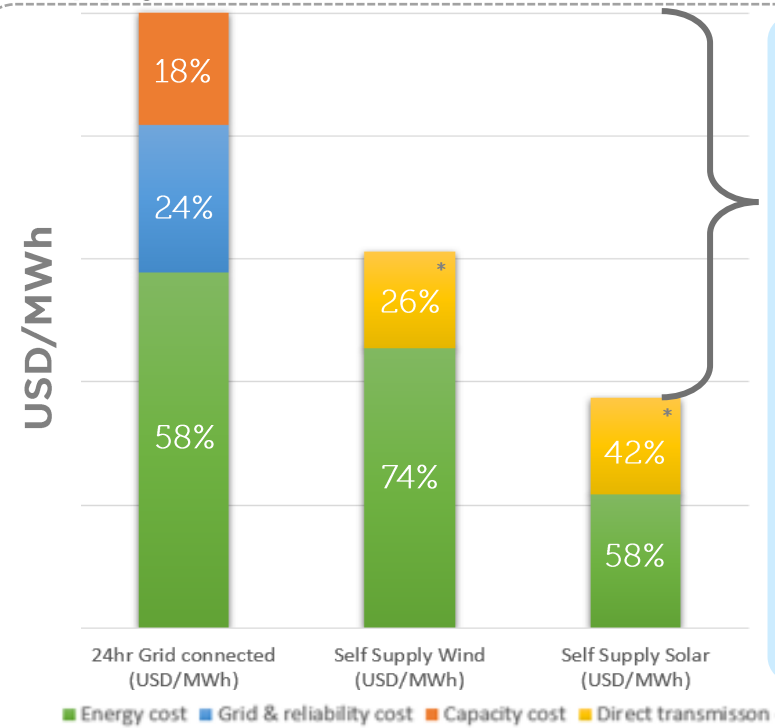
Load characteristics for production process

- Low-temperature electrolysis is highly adaptable to variable supply.
- Electrolyzer capacity and hydrogen storage can be used to avoid 24/7 supply.
- Supply distribution over day/year can be optimized to minimize LCOH.

- Haber-Bosch (HB) to produce ammonia accounts for approximately 10% of H_2 electrolysis energy requirements.
- Load and HB process inflexibilities lead to need for 24-hour supply.
- Development is focused on making HB process and load more flexible.

Supply cost breakdown

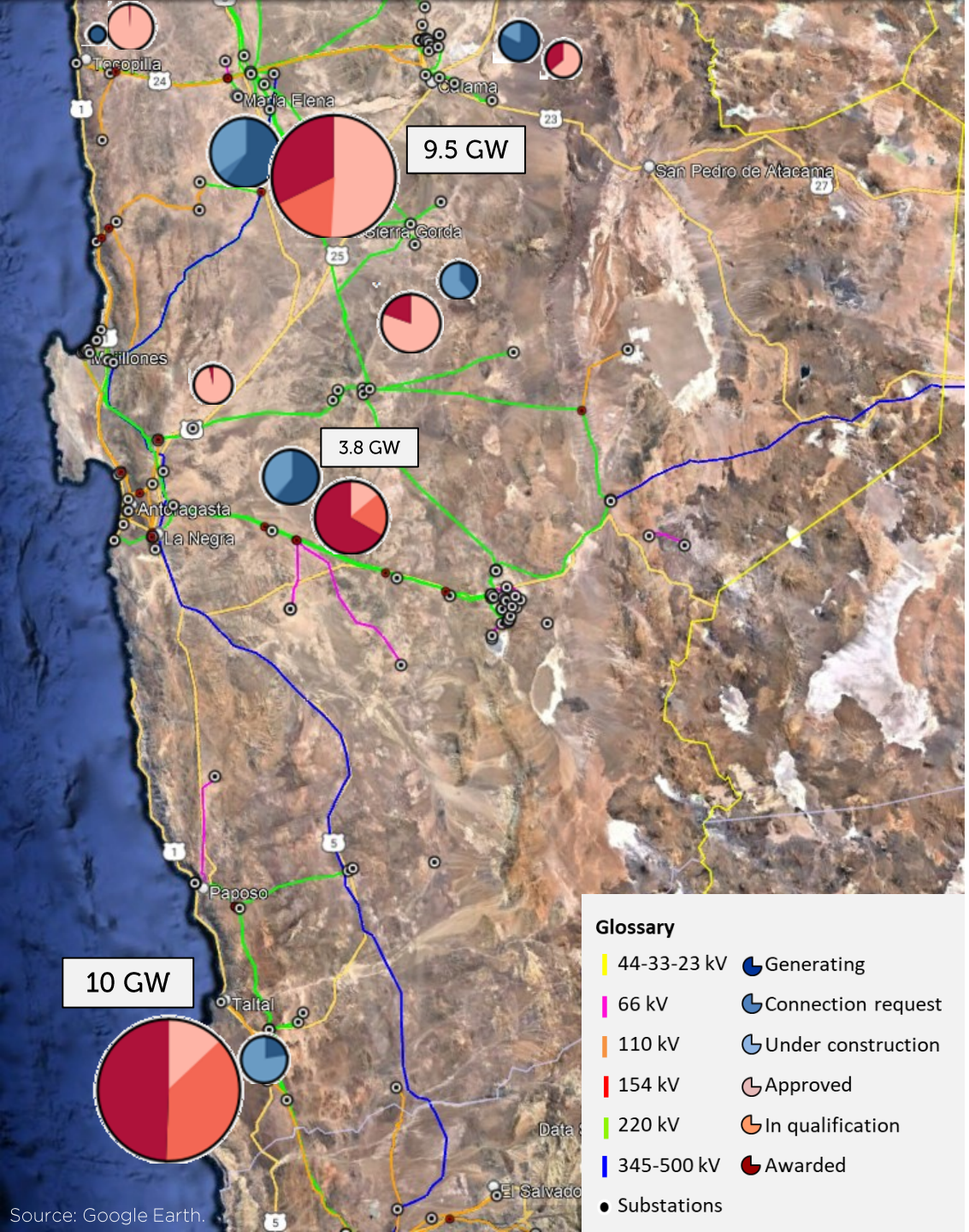


Opportunities for load flexibility and reliability premium technologies

- NH_3 process flexibility
- H_2 process flexibility
- Energy storage alternatives (BESS, CSP, etc.)
- Storage alternatives

* Direct Tx connection considers a line of 100km, for a 500 kV line for 3,000MW load and a 35% U.F. Referential costs considers 500kV lines in the north of Chile.

Off-grid supply implies reliability and security risks. Nevertheless, there is a big difference in cost between off & on grid supply, which could drive investments in load flexibility and reliability premium technologies.



Source: Google Earth.

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Stand Alone Power Systems (SAPS) might be favored because of increasing grid & reliability costs and the difficulty to integrate H_2 - at scale - with legacy systems

- ✓ Supply **quality requirements for isolated systems** which supply large loads (NH_3) **have not been properly defined** in regulation. Technical standards (or grid codes) have to be improved to establish reliability, frequency, voltage, quality, stability, protection, security systems and open access for SAPS.
- ✓ Initially, **smaller scale projects may start connected** to the grid and as the system evolves, **may transition** to being **partially connected** or **fully disconnected** from the grid.
- ✓ As hydrogen & ammonia hubs are developed, it is **important to define** how **isolated power systems** to **supply** these **large loads could evolve** (new demand & generation).

Robust and comprehensive site selection can lead to more competitive H_2 and NH_3 projects

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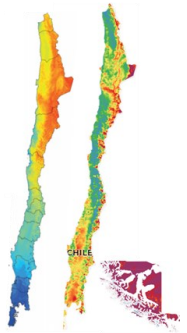
Site selection methodology

Energy sourcing

Analysis of renewable generation hubs

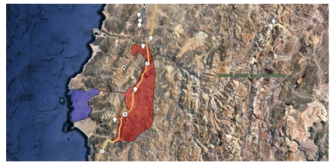


Grid connection or SAPS development

Critical infrastructure

Water sourcing

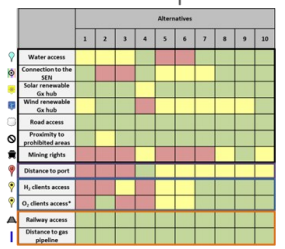
Client analysis



Other infrastructure

Zone analysis

Criteria comparison

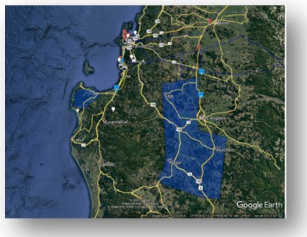


Analysis includes:

- Water sourcing
- Connection to the SEN
- Renewable generation hubs
- Road access
- Proximity to prohibited areas
- Mining rights analysis
- Distance to port
- H2 client access
- H2 derivatives client access
- Railway access
- Distance to gas pipelines
- Others

Selection of sites inside the zones

Site selection



Grid & reliability costs in Chile are comparable to VRE LCOE.

Grid & reliability costs are likely to be higher in other international markets.

Grid & reliability cost variability might favor flexible green ammonia plants and stand-alone power systems.

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