



Renewable Heat Obligation,  
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By email

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### **Balcas Energy Response to Introduction of a Renewable Heat Obligation Consultation**

Dear Sir / Madam,

Thank you for the opportunity to contribute to this “Introduction of a Renewable Heat Obligation Scheme” consultation. Balcas Timber is a producer of sawn timber, renewable heat and electricity and the UK & Irelands largest manufacturer & distributor of wood pellets. We are active members of many trade associations and bodies including REA, Irbea, UK Pellet Council, Smart Grid Ireland, Forest Industries Ireland & Northern Ireland Chamber of Commerce.

Our expertise is in the Forestry sector, sawn timber, renewable heat and electricity generation, wood pellet production, wood pellet distribution and installation of efficient systems for wood pellet use at customer premises. Our answers will therefore focus only on questions that touch on these areas.

Balcas strongly advocates for the timely introduction of an ambitious Renewable Heat Obligation (RHO) Scheme in Ireland. In terms of renewable heat, Ireland is starting from a very low base. The introduction of a heat obligation scheme represents an important step to mobilise the renewable heating sector. We have answered the specific consultation questions below, but would like to make some general points on the consultation document and proposals including:

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- The threshold level of 400 GWh for those who will be subject to the obligation is too high. As a wood pellet producer and supplier of 200,000 tonnes of wood pellets per annum, equates to 960GWh of heat. The proposed limit of 400GWh is equivalent to producing and supplying almost 83,000 tonnes of wood pellets, which would displace 41,500,000 litres of oil and 110,000 tonnes of carbon per annum. It will mean that most home heating fossil fuel suppliers will not be subject to the obligation thus limiting the overall potential of the scheme, deployment of renewable heat and displacement of fossil fuels.
- We believe that the outlined heat obligation rate set out of 0.5% represents a very low ambition. Balcas would welcome a more ambitious target of by 2030 considering the total 55.2TWh heat consumed annually
- Clarify how they are going to ensure that the proposed obligation support indigenous renewable fuels rather than imported fuels.

Meeting the energy and climate change targets, and the increased ambition to 2030 proposed in the EU Commission Fit for 55 package, presents significant challenges. Bioenergy is a limited resource, but that is not the same as being scarce. There are a wide variety of supply chains, all of which are also subject to commercial market dynamics that sees demand drive availability (and cost).

Increased use of sawn timber in the future to replace more carbon intensive building materials will create more sawmill residues which in turn will allow greater amounts of sustainable biomass to be made available. All of these need strong direction supported by consistent policies from Government to give the confidence to allow the necessary expansion in local sawmilling and wood pellet production to take place.

This market driven obligation scheme presents an opportunity for the continued development of the indigenous Bioenergy sector that will help support the Governments ambitious plans for decarbonisation. We look forward to opportunities to meet with the Department to discuss the various aspects of our submission and the role we can play in the proposed Renewable Heat Obligation Scheme.

Yours sincerely,

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## **Balcas response to the specific consultation questions**

Q1: Do you think that a Renewable Heat Obligation (RHO) is an appropriate measure to introduce?

**Balcas Response:** With appropriate measures and controls the Renewable Heat Obligation will increase the use of renewable heat. The RHO if properly designed and implemented is an appropriate measure to increase the use of renewable heat. The RHO scheme needs to introduce an open market facility for obligation certificates. The design of the scheme needs to ensure that control of the measure does not lie in the hands of the fossil fuel suppliers, but that free market forces ensure that both suppliers of renewable energy and the fossil fuel suppliers have equal impact on the market.

Q2: If not, what alternative measures would you consider appropriate to increase the use of renewable energy in the heat sector?

**Balcas Response:** There needs to be clear messaging that carbon neutral bioenergy fuels have a role to play in the future of Ireland's energy mix. We agree with the need to accelerate decarbonisation and with this need to accelerate we believe it is important that we do not get distracted by unproven technologies. This is not to say that new and innovative technologies do not have a place in long-term, but the priority should be in accelerating Ireland's decarbonisation. Proven technologies, such as those using biomass wood pellets can achieve substantial carbon savings in the short and medium-term. Wood pellets are an indigenous, sustainable fuel and Ireland has several manufacturers like Balcas already established.

Direct policy measures to encourage and stimulate the renewable heat market are also required. Policy support measures such as the Support Scheme for Renewable Heat need to continue in parallel with an obligation scheme until such time as there is significant penetration of renewable heat into the market.

Q3: Do you agree that the obligation should apply to all non-renewable fossil fuels used for heating as set out above?

**Balcas Response:** Yes, the obligation should apply to all non-renewable fuels.

Q4: It is intended that electricity used for heating purposes and renewable/waste district heating systems would be exempt from this obligation, do you agree with this approach?

**Balcas Response:** We agree that all renewable and waste heat should be exempt. In terms of electricity used for heating, on the assumption that the electricity suppliers will be the obligated party, then the exemption should only apply to renewable electricity.

Suppliers already report their percentages of renewable electricity in their mix so it would be easy to apply the exemption to the renewable portion while applying the RHO to the non-renewable portion. The Department must ensure the RHO is not subject to various forms of “Gaming”. A risk of gaming exists where if a wide exemption is given to the supply of electricity then the suppliers could concentrate their fossil fuel portion of electricity on heating while still being exempt from the RHO.

Q5: Do you agree that the portion of fossil fuel input used in CHP plants to generate heat would be considered to be part of the obligation?

Balcas Response: Yes, the RHO obligation should be on the energy supplier, and that this should be defined as the supplier of heating fuel to the final customer.

Q6: Are energy suppliers the most appropriate bodies to become the obligated parties in the heat sector?

Balcas response: The proposal to obligate the suppliers requires more clarification, the success of this measure will be influenced on what suppliers qualify and on the proposed 400GWh limit.

Balcas Timber is a producer of sawn timber, renewable heat and electricity and the UK & Irelands largest manufacturer & distributor of wood pellets. As a wood pellet producer and supplier of 200,000 tonnes of wood pellets per annum, equates to 960GWh. The proposed limit of 400GWh is equivalent to producing and supplying almost 83,000 tonnes of wood pellets, which would displace 41,500,000 litres of oil and 110,000 tonnes of carbon per annum

The document 'Consultation on the redesign of Ireland's Energy Efficiency Obligation Scheme'. In this it is stated that "at present, multiple entities have annual sales between 50 and 200 GWh". With the combination of a proposed limit of 400GWh and the reported sales between 50-200 GWh in our view could potentially put the impetus on suppliers to continue to provide oil or gas as a lower cost than non-renewable fuel. We would recommend all VAT registered suppliers are the obligated parties.

Q7: Is the 400 GWh of energy supplied an appropriate level for a supplier to become obligated?

Balcas response: The 400GWh limit we believe is too high. The proposed limit of 400GWh is equivalent to producing and supplying almost 83,000 tonnes of wood pellets, which would displace 41,500,000 litres of oil and 110,000 tonnes of carbon per annum. We believe it will be challenging to administrate the threshold based on this metric. We recommend all VAT registered suppliers are the obligated parties.

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Q8: Do you agree with the 2023 start date for the obligation?

Balcas response: Yes, the obligation needs to start as soon as possible to make the greatest possible impact to our 2030 targets. Certainty needs to be given to the market to encourage investment and project planning regarding the introduction of a RHO as soon as possible with the design of the RHO following shortly after.

Q9: In terms of the obligation rate, do you agree with the proposed initial level of obligation of 0.5%?

Balcas Response: The outlined level of 0.5% we view as a very modest level of obligation and does not reflect the scale of the heat decarbonisation challenge. To meet the targets, we believe should be set much higher.

Q10: In terms of ambition for a 2030 target, what level of ambition do you think is appropriate?

3% minimum

5% medium ambition

10% higher ambition

Other?

Balcas Response: 10% should be a minimum target for 2030. We consider that a more ambitious target would be more in line with Ireland's commitments under the Climate Action and Low Carbon Act 2021, under the NECP, under RED II (25% renewable heating by 2030) and under 'Fit for 55'.

The Renewable Energy Ireland (REI) "40By30" report<sup>1</sup> details that Ireland has the renewable resources to meet more than the entire Irish heating demand. This report outlines that 40% renewable heat is achievable by 2030, therefore the proposed 3%, 5% and 10% obligation levels in the RHO lack ambition and should be maximised.

Q11: Do you agree with the first obligation period being multiple years 2023-2025 to give the industry time to develop supply lines?

Balcas Response: To meet the required targets by 2030, obligated parties will have to adapt quickly and act fast. The three-year period seems an unnecessary sustained time to allow the industry develop supply lines.

Q12: Once the first period 2023-2025 expires, do you agree with the obligation then becoming an annual obligation?

Balcas Response: Yes

Q13: Do you agree with suppliers being able to trade credits to meet their obligation?

**Balcas Response:** Yes, we agree this should be an option for suppliers to trade credits. The RHO scheme needs to introduce an open market facility for obligation certificates. To ensure indigenous generation, certificates recognised by the RHO need to be generated in the Republic of Ireland.

Q14: Do you agree with allowing 10% carry over of renewable credits to be used in the following year’s obligation?

**Balcas Response:** Yes

Q15: What are the sustainable energy sources likely to meet the Renewable Heat Obligation at an obligation rate of (i) 3%, (ii) 5%, (iii) 10% by 2030?

**Balcas Response:** According to the Renewable Energy Ireland 40by30 report the sources are as follows (with capacity in TWh)

Renewable heat resource potential	TWh/yr	%
Indigenous forestry & energy crops	9.7	15%
Tallow, residual MSW, BioLPG	2.4	4%
Biogas/Biomethane	10.0	15%
Surplus heat	21.1	32%
Electrification of heat <sup>18</sup>	16.7	25%
Other renewable heat resources	6.8	10%
<b>Total</b>	<b>66.7</b>	

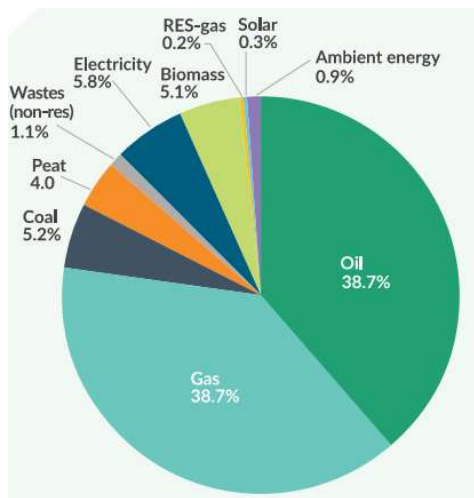
Source: 40 by 30 Renewable Energy Ireland

Q16: Will there be enough sustainable indigenous supply to meet this demand?

**Balcas Response:** The total thermal energy use was estimated at circa 58 terawatt hours (TWh) in 2018, according to a review of the national energy balance (SEAI, 2019). This is 40% of the total national energy consumption and 39% of the total primary energy supply.

Chart below, provides a breakdown by source and shows that oil and gas are by far the greatest source of heat. Solid fossil fuels such as coal and peat still represent 9% of our heat

use. Renewable energy contributes 6.4% to which we should add 1.8% contribution on from renewable electricity through direct electrical heating or heat pumps.



Source 40 by 30: Breakdown of thermal energy use in 2018

Refer to question 15, the table sourced from the 40 by 30 report details the quantities of the renewable heat sources available to Ireland. Overall, the renewable energy resources accessible for heat supply in Ireland, have a total potential forecasted at 67 TWh/yr for 2030.

Q17: Do you agree that for renewable fuel delivered directly to a consumer that this will be the point of supply?

Balcas Response: Yes.

Q18: Which option to you think should be applied for renewable energy that is indirectly supplied (e.g. via the natural gas grid)?

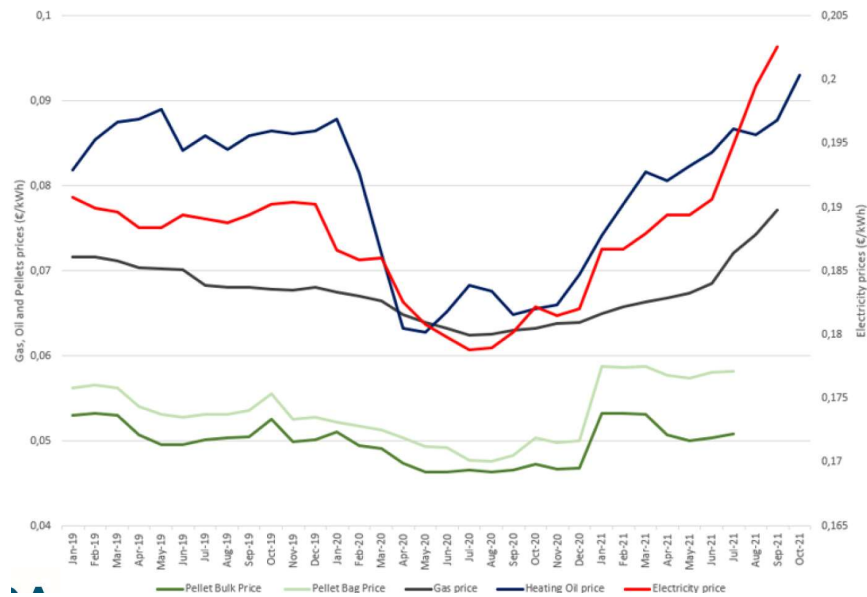
- Option A: Renewable energy is traced to the end consumer. For renewable gas, this would work similar to other fuels with individual customers being supplied the gas (verified by a certification system). This would allow consumers who value the 'greenness' more to pay slightly more and thus reduce the cost for other consumers. However, it could lead to some gas consumers funding the obligation but being credited with no 'greenness'.
- Option B: Renewable energy is equally proportioned to all of the supplier's consumers. For a supplier of natural gas, the same proportion of renewable gas would be deemed to be supplied to its consumers in the heat sector.

Balcas Response: Option B

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Q19: Do you think the costs set out above are reflective of likely costs?

**Balcas Response:** fossil fuel prices have been volatile over the past number of months and are likely to continue to do so. Below graph illustrates the acute increase of gas and oil in comparison to wood pellets. Based on this the cost for replacement is likely to be similar or even less of what is proposed.



Source: Irbea

Q20: Are these costs reasonable to impose on consumers?

**Balcas Response** – Yes, the rates offer a certain level of “push factor” for fossil fuel users to move to renewable fuels, with incremental increases over the timescale up to 2030. We consider that higher levels could be tolerated given the climate emergency and the need to rapidly decarbonise our economy.

Q21: Do you agree with the intended position in relation to penalties for non-compliance?

**Balcas Response:** In order for the obligated parties to help meet Ireland's targets and increase the share of renewable fuels suffice penalties will help to ensure high levels of compliance. Through the Biofuel Obligation Scheme it has been proven this indeed works and if required depending on success penalties may well have to be increased over the years.



Q22: Do you think the proposed obligation poses a significant risk to increased energy poverty?

Balcas Response: No, it is critical that the government weights its commitment the net zero appropriately. Recently we have seen a significant increase in oil and gas prices internationally and are at an all-time high putting further financial pressure on businesses. Wood pellet's prices have remained relatively flat and consistent over the years. The option of an alternative to gas or oil for a heating appliance in the form of wood pellets will help reduce costs and overall carbon footprint.

Q23: How best could the impacts on energy poverty be minimised?

Balcas Response: Energy poverty can continue to be alleviated through measures undertaken by the Department of Social Protection and at an increased level if required. Energy poverty cannot be used as a reason to neglect our climate impact responsibilities and can be alleviated by social welfare supports.

Q24: Do you agree with the outlined approach for additional support for green hydrogen?

Balcas Response: care should be taken for any proposal that may over incentivise any particular technology, in particular where this may increase CO2 emissions.

Q25: Do you think that offering multiple credits for green hydrogen in the heat sector might have unintended consequences for supply in other sectors such as transport?

Balcas Response: Other new renewable sectors (wind, solar, battery vehicles, bioenergy etc) have received support to help them become established. We welcome the suggestion to provide multiple credits to hydrogen, provided that the power to produce the hydrogen is not also supported through the REFIT or RESS schemes.