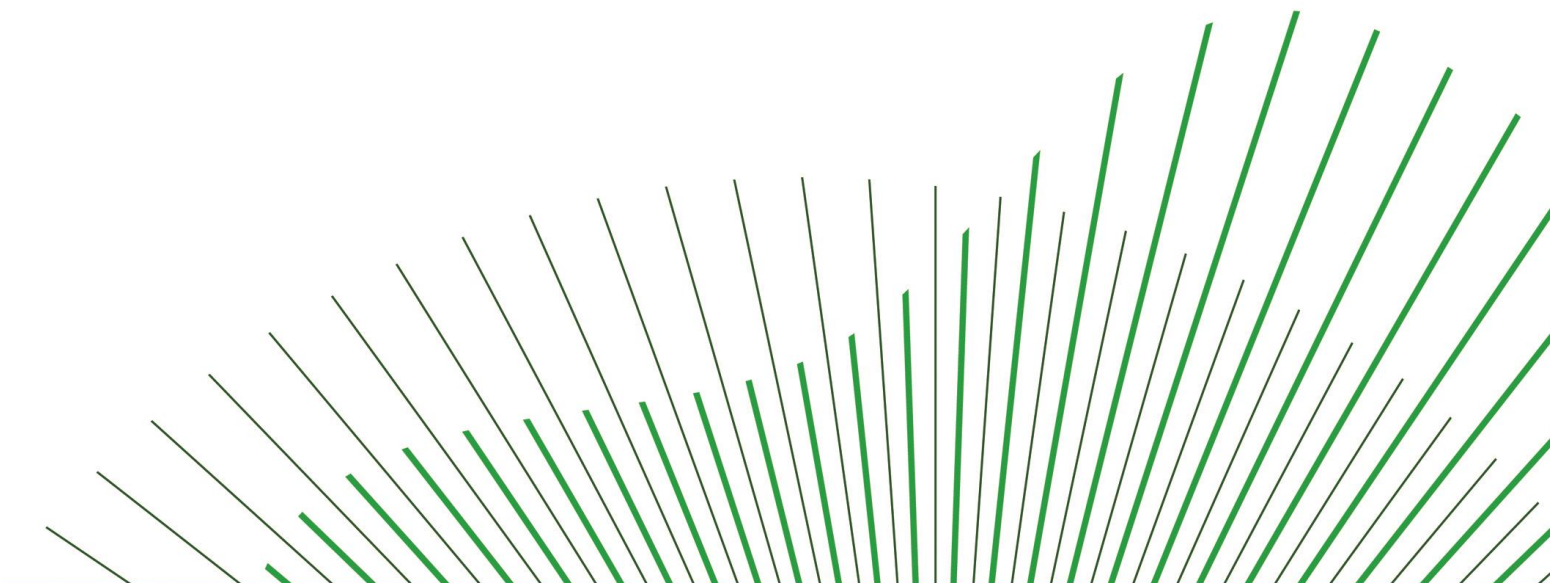


Bord na Móna

**DECC Consultation on the
Introduction of a Renewable Heat
Obligation**

Consultation Response

29 October 2021



Introduction

Bord na Móna (BnM) is evolving to deliver essential climate solutions for Ireland. Having ceased peat harvesting, our focus is on developing Climate Solutions in renewable energy, sustainable waste management, carbon storage and biodiversity conservation.

BnM has a long history of contributing to Ireland's energy demand and we are actively considering development options that respond to energy needs of the Irish system while supporting the low carbon transition. We currently have over 500MW of generation assets under management and we are actively progressing projects totalling 1.5GW across our landbank.

At BnM we are taking real and tangible action by building and managing large scale renewable energy infrastructure to deliver clean power for the national grid. We are a leading developer of onshore wind in Ireland and continue to work across solar, biomass, biogas, storage and other technologies to help achieve Ireland's 80% renewable electricity target by 2030 – to provide Energy Security for the future.

General comments

BnM welcomes the initiation of the consultation process Consultation on the Introduction of a Renewable Heat Obligation and is broadly supportive of the proposed measure. We note that there are existing policy measures aimed at decarbonising the heat sector and that the Renewable Heat Obligation would work in conjunction with existing schemes.

As outlined in the DECC paper, Ireland did not meet its 2020 target of 16% for renewable energy. While we did perform well in achieving higher levels of renewable energy use in the electricity and transport sectors, decarbonising heat remains a challenge. To achieve our targets for 2030 and beyond we will need to consider all our options. There should a sharp initial focus on green hydrogen. While hydrogen may be considered a 'new' technology in Ireland, it has been used in industrial processes, and in heating, in other countries for decades.

'Green Hydrogen' is hydrogen produced from renewable electricity. It can be produced using curtailed electricity and either bottled or directly injected into the gas network thereby decarbonising gas used for heating. To kick start the industry and to produce clear signals to

investors, BnM is calling for hydrogen to receive support commensurate with its nascent status in the Irish market, particularly in the early years of the RHOS. While we acknowledge the role of other fuels such as biomethane and biomass, these fuel sources can not only solution to achieve the 20% reduction in greenhouse gas emissions from thermal energy usage. The development of a national hydrogen strategy setting out the approach to developing a route to market, grid approach and regulatory framework for hydrogen would be welcome.

In addition, recent experience in commodity markets show that diversification is imperative in a global market. At the outset of introducing an RHO, Ireland should seek to diversify its renewable heating sources. Integrating hydrogen into the Irish Energy System presents a real opportunity to diversify the use of existing infrastructure and capacity building need to be 'kick-started', it could also enable Ireland to displace the importation of fuels for thermal energy.

The remainder of this paper sets out our response to the consultation questions.

Response to consultation questions

1. Do you think that a Renewable Heat Obligation is an appropriate measure to introduce?

Yes. Combined with the proposed redesign of the Energy Efficiency Obligation Scheme and the plan spend as part of the National Recovery and Resilience plan, which will address the renovate (retrofitting/deep renovation) the public housing stock. This will hopefully assist Ireland achieve its ambitious targets.

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

N/A

3. Do you agree that the obligation should apply to all non-renewable fossil fuels used for heating (oil, LPG, natural gas, coal, peat and the heat element of CHP)?

Yes

4. 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?

Yes, for electricity, but questions regarding the renewable content of 'waste heat' for district heating would need be brought into the Renewable Heat Obligation scheme.

5. 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?

Yes.

6. Are energy suppliers the most appropriate bodies to become the obligated parties in the heat sector?

Yes, many of the suppliers would be familiar with the Biofuel Obligation Scheme operated for the transport fleet.

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

Yes. This can be reviewed after appropriate period of implementation.

8. Do you agree with the 2023 start date for the obligation?

Yes, assuming a design of the Obligation scheme is communicated in the First quarter of 2022. Later communication of the design of the scheme, would push it out to 2024. This should allow suppliers time to develop their supply chain and also allow indigenous producers develop their product offering.

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

0.5% is relatively modest, which could question the overall ambition of the Obligation Scheme. Although there is nothing stopping Public procurement setting higher levels of renewable obligation when tendering for heating supplies. As such exemplar behavioural change to other sections of society.

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

10% higher ambition Bord na Mona also suggest that there should be review periods to reflect the implementation of the Heat Obligation Scheme.

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

Yes

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

Yes

13. Do you agree with suppliers being able to trade credits in order to meet their obligation?

Yes

14. Do you agree with allowing 10% carry over of renewable credits to be used in the following year's obligation?

Yes

15. 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?

Over the decade, the role of AD and Green Hydrogen will substantially deliver these targets (in addition, the role of sustainable biomass can also be relevant in the baseload power sector).

16. Will there be enough sustainable indigenous supply to meet this demand?

As a general high-level point, it must be called out that sustainability does not exclusively equate to indigenous; there is a clear legal framework in defining whether a biomass/fuel is sustainable. However, in responding to these specific criteria and being mindful of state aid implications, Bord na Móna believe that 'Yes' there is sufficient indigenous biomass to meet demand.

However, it is possible that the capacity issue will not be feedstock but rather infrastructure and hence in addition to the receipts from the RHOS, in the early year of the scheme, there may be a need supplement (or borrow forward from the Scheme) to fund the capex for qualifying renewable heat projects (in particular AD & Green Hydrogen).

Regarding the substantive question, It should be noted these existing bioenergy business and future potential industries are predominantly based in rural Ireland, there is a 'win-win' when national energy policy initiatives also inherently support and favour balance regional Development. This potential for 'win-win' is highlighted in a recent IMP report which stated "The overarching conclusion from this study is that gearing post-COVID economic stimuli to investments that favour decarbonization and carbon-capture through nature-based solutions is not just good for the planet: it also promises to be the cheapest and shortest route back to a prosperous global economy". "These findings can be rationalized by noting that, compared with fossil fuel technologies, which are typically mechanized and capital intensive, the renewable energy industry is more labour intensive." IMF working paper: Building Back Better: How Big Are Green Spending Multipliers? March 2021. In addition, it reinforces Ireland security of Supply of energy.

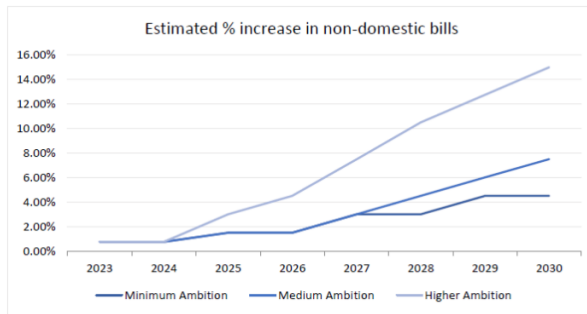
17. Do you agree that for renewable fuel delivered directly to a consumer that this will be the point of supply?

Yes. This would appear to be simplest method, combined with increase energy efficiency, and increase cost of fossil fuels. Switching to renewable source of heat may be naturally development. Suggest that this would be reviewed every three years from inception.

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

Option A-

Costs



DECC estimate the above % increase in costs for businesses over the life of the scheme, shown below. The costs in the chart are based on 10c/kWh cost of sustainable renewable fuel.

19. Do you think the costs set out above are reflective of likely costs?

As recent Energy Complex volatility has proven, it is very difficult to accurately forecast future costs. However, it is likely that recent increases in carbon and the underlying fossil commodities are indicative of the new normal for energy costs. Therefore, while DECC's forecast of the absolute cost to the consumers may remain correct, the % increase in cost to the consumer from the above graph is no longer valid; hence the marginal cost of funding the RHOS is likely to be less impactful than originally predicted.

20. Are these costs reasonable to impose on consumers?

Yes - being mindful of Ireland's overall competitiveness, balanced against the need to decarbonise more difficult sectors.

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

Efforts should be made to encourage compliance in general (more carrot than stick); penalties should be the last resort, albeit that penalties should bite those who flagrantly disregard the obligations. As replied earlier, public procurement has a big role to play in exemplar behaviour in exceeding obligation targets.

22. Do you think the proposed obligation poses a significant risk to increased energy poverty?

It does not appear to pose any additional significant risks relative to the counterfactual of not introducing the proposed obligation. Without increasing renewable heat penetration as

facilitated by the obligation fuel poverty may increase with higher fossil fuel price in the future. Existing Social Welfare mechanisms (e.g. winter heating allowances) are already in place and can be easily adapted should this Scheme increase the burden on vulnerable members of the community. In addition, the inherent cost of the RHOS could also bolster the business case for targeted Retrofitting by Local Authorities.

23. Do you agree with the outlined approach for additional support for green hydrogen?

Yes. Green technology can and should only be considered for high value applications, especially given the technology is still in its infancy. It would require triple credit to establish offtake market for Green Hydrogen. To provide a clear market signal BnM is calling for hydrogen to receive support commensurate with its nascent status in the Irish market particularly in the early years of the RHOS. While we acknowledge the role of other fuels such as biomethane and biomass, these fuel sources can not only solution to achieve the 20% reduction in greenhouse gas emissions from thermal energy usage. The development of a national hydrogen strategy setting out the approach to developing a route to market, grid approach and regulatory framework for hydrogen would be welcome.

24. 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?

No. The market outlook for green hydrogen points to limited production out to 2030 in all sectors. To stimulate the development of a market, regulatory framework, and supply chain in Ireland during the period out to 2030, a clear signal and attractive value proposition is needed. Not providing such a signal may have the unintended consequence of investment being diverted elsewhere and the hydrogen industry may not materialise in a meaningful way.