



Panda Power response to the Renewable Heat Obligation Consultation Paper

October 29th, 2021

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

Panda Power believes that a Renewable Heat Obligation (RHO) could be an appropriate measure to expedite the decarbonisation of the heating sector, but only if it is implemented in conjunction with measures that incentivise the economic development of the renewable heat sector.

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

Panda Power recommends that a form of subsidy is introduced in conjunction with the scheme to assist in the development of Ireland's indigenous renewable heating sector. Although studies have shown that Ireland has the highest potential for biomethane production in the EU, only 953 MWh of green gas certificates were issued by GNI in 2020 despite existing partnerships with the agricultural industry like Project Clover. Incentives such as feed in tariffs, a renewable heat PSO levy, or rebates for renewable heat corporate PPAs would be necessary to increase production of renewable heat to the 110 GWh required in 2023 under the proposed RHO.

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

Agree

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?

Agree

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?

Agree

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

Panda Power agrees that energy suppliers are the most appropriate bodies to be appointed obligated parties in the heat sector, but reiterates the impracticality of these suppliers being able to meet the proposed obligations under the current proposed timelines and without the implementation of concurrent subsidies supporting the sector.



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

Panda Power believes that this eligibility requirement is appropriate and will obligate Ireland's primary suppliers of domestic heat.

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

Considering the limited development of biofuel technologies for heating and their current poor financial viability, Panda Power disagrees with the 2023 start date for the obligation. We would recommend that the start date be pushed back to 2025 to allow the technologies to mature further. Additional government support (i.e. REFIT, etc.) prior to the start of the scheme would be needed to accelerate this process, otherwise suppliers will need to rely heavily on imports to meet their obligations.

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

Agree

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?

Panda Power believes the minimum proposed target of 3% could be achieved in the best case scenario but this will likely require the large scale importation of renewable heating fuels, particularly early in the scheme. This could prove challenging as these imported renewable heating sources would need to meet the sustainability criteria outlined in the EU's Renewable Energy Directive II (REDII) and the Guarantees of Origin (GOOs) issued for these fuels may not count towards Ireland's targets.

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

Panda Power agrees with this principle as the current industry is underdeveloped, although a later start date is required unless the proposed renewable heating technologies become more affordable and are rapidly scaled to meet the proposed RHO targets.



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

Panda Power agrees with the obligation becoming an annual obligation after the first period expires; however, we also believe that a longer or later (i.e. 2025-2027) initial period will be required to develop supply lines and achieve compliance.

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

This would be dependent on the details of how suppliers who trade their credits to another supplier will be compensated. Further information on how this compensation would be calculated and whether there would be a cap on the number of credits which can be traded is needed. Otherwise, there is a possibility that fossil fuel suppliers may find it cheaper to simply buy credits than meet the obligation. This would result in natural gas customers cross-subsidising heating oil suppliers and would diminish the scheme's decarbonisation impact.

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

Agree

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?

Biomethane are likely to be the only sustainable energy source option for suppliers to meet their obligation target by 2030 and indigenous supplies of these fuels would realistically only be able to meet the minimum 3% target. In order to meet any of the higher ambition targets, Panda Power is of the opinion that green hydrogen will likely need to be deployed at scale. This will be highly dependent on how quickly green hydrogen develops as energy source over the next decade and if it is largely compatible with the existing natural gas grid. Based on current estimates from GNI, green hydrogen will not be ready for large scale use in Ireland until the late 2020s/early 2030s.

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

Despite Ireland's biomethane/biogas potential, at the present it is highly unlikely that there will be enough indigenous supply to meet the proposed obligation targets under the proposed timelines. Although GNI's Mitchelstown Central Grid Injection Point is predicted to have a 700 GWh capacity, indigenous supply is not currently developed to this scale. A significant amount of new AD plants would need to be developed and book capacity by the end of next year to meet the initial target due at the end of 2025.

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

Agree

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

Panda Power believes Option B would be preferable for renewable energy that is indirectly supplied to the customer. It would reduce the costs and complexity associated with Option A, while ensuring customers are equally funding the obligation.

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

Panda Power believes that the costs set out in the Consultation paper are not reflective of the likely costs early in the scheme, although they may be more realistic once indigenous renewable heat sources have been further developed later in the scheme. Imported renewable gases meeting the sustainability criteria of REDII are likely to exceed the €90 MWh benchmark price due to transportation and administrative costs. Further data on this topic is required before these costs could be realistically assessed.

Q20: Are these costs reasonable to impose on consumers?

Although the calculated costs for the consumer that are presented in the Consultation paper appear reasonable, it does not seem to take into account the costs required to develop the renewable heating sector to the level which is required for even the minimum 3% target. Natural gas prices (~4 c/kWh) remain considerably lower than any renewable heating source at the moment. A dedicated support scheme for AD/biomethane development is needed to ensure that consumers are receiving the decarbonisation benefits they will be paying for.

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

Agree

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

Based on the projected rates outlined in the Consultation paper being approximately double the current cost of natural gas, the proposed obligation could exacerbate energy poverty unless the price of renewable heat decreases over the course of the scheme.

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

Further investment in the renewable heat sector through support schemes could reduce the start up costs that would be associated with the creation of supply lines needed to meet the proposed obligation targets. This in turn could lower the costs of the obligation for the consumer and minimise the impacts on energy poverty.

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

Although the outlined approach to provide additional support for green hydrogen would work in principle if green hydrogen was a viable energy source or expected to be a viable energy source by 2030, it does not address the fact that green hydrogen remains in the developmental phase. Unless the expansion of green hydrogen proceeds rapidly over the next several years, suppliers would be unable to deploy green hydrogen to take advantage of the multipliers being offered. More evidence would be needed to assess whether this multiplier would actually be an effective incentive.

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?

This could cause shortages in green hydrogen for other sectors like transport if the amount of green hydrogen produced is not able to keep up with demand and ultimately inflate the price of green hydrogen to unrealistic levels.

General Input

Panda Power considers the proposed timelines and targets for the proposed RHO to be unrealistic given the current state of the indigenous renewable heat sector. Although the principle of an obligation to grow Ireland's renewable heat supply is welcomed, additional support measures must be developed in conjunction with the RHO in order for the indigenous supply lines to be sufficiently developed.