



RENEWABLE HEAT OBLIGATION: CONSULTATION RESPONSE

October 2021

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

- Yes this obligation is an appropriate measure to achieve the goal of increasing the amount of renewable energy in the heat supply market. However, there are also other important policies to explore in addition to the RHO particularly on the demand-side. For example, subsidising capex to reduce the cost of low carbon and renewable heating technologies, standards for energy efficiency in buildings and open access to heating networks. Policies which price carbon and help to accurately account for the difference in carbon intensity of different technologies are also complimentary to schemes such as the RHO.

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

- Alternatives such as feed-in-tariffs for biomethane-to-grid injection has been proven in other countries (UK, Netherlands) to stimulate development of biomethane production .

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

- Yes.

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?

- Where electricity is renewable and is covered under other schemes (such as the Renewable Electricity Support Scheme), then agree that it should be exempt. However, electricity from fossil generation (even if it is based on an average grid intensity) should be counted under non-renewable heating supply. The exclusion of fossil-generated electricity from the obligation could have the unintended effect of diverting fuels such as Natural Gas away from domestic boilers towards power generation to feed domestic heat pumps, for example, which would have no (or very minimal) effect on overall emissions.
- District heating systems, while more efficient than individual household boilers, are still using non-renewable, or fossil, fuels to heat homes. District heating networks tends to be fuelled by biomass, natural gas or, more recently, electric heat pumps. Where they run on biomass, biomethane or renewable electricity district heating networks should be excluded given they are renewably fuelled. However, where they are fuelled by natural gas or fossil-fuel-generated electricity district heating networks should be included in order to incentivise the switch to more sustainable fuels in heating.

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?

- Yes.

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

- Yes.
- However, in addition large industrials are heavy consumers of fossil fuels for heating and can procure energy direct from the market rather than via an energy supplier. This could represent a decent volume of fossil-fuelled heating which is missed by the obligation if it

only covers energy suppliers. Including large industrials who consume a minimum volume of energy (i.e. energy-intensive industry) in the obligation would help to combat this.

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

- The threshold should make sure that the almost all suppliers are obligated in the scheme. Small supplier exemptions have been proven to create market distortions in the past. For example, the Warm Homes Discount and ECO in the UK created a noticeable cost advantage for exempt suppliers which affects competitiveness. This must be kept in mind when setting the threshold

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

- Yes.

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

- 0.5% presents hardly any challenge for suppliers to meet based on the existing amount of renewable energy in heating. According to the energy balance breakdown in the consultation document, the current numbers on renewable energy in heating relative to the amount of non-renewable energy (i.e. how the targets set-out in the obligation are measured) look like this:

Fuel used for heat	GWh
Oil	23,259
Gas	22,736
Renewables	3,489
Coal	2,965
Peat	2,128
Wastes (non-renewable)	662

	GWh	% share of non-renewable heating
Non-renewable heating	51,750	-
Renewable heating	3,489	7%

- The % of renewables in heating is already 7%, so to set the hurdle at 0.5% doesn't seem challenging for the majority of suppliers and would mean the policy will have a very low overall impact for several years.

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?

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

- More flexibility at the start of these schemes will make it easier for energy suppliers to adjust. As long as it doesn't affect the overall amount of renewable energy that needs to be

supplied from 2023-2025 then there is no downside to allowing this flexibility. Furthermore, obligated parties could also benefit from being able to store the RHO credits for the whole of this three year period. This will help to incentivise early uptake, rather than suppliers scrambling in 2025 to meet the goals, while also maintaining the flexibility that a three year compliance period is intended to provide.

- A risk from this flexibility is that suppliers who do not purchase renewable energy in 2023 or 2024 are left with a significant burden to comply in 2025. Slow-movers being caught with outsized obligations and the impact of their subsequent risk of financial difficulty on other market participants must be considered. However, given that the absolute size of the obligation in early years will be small, the risk of significant difficulty is likely to be low

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

- Yes.

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

- Yes. Credits should also have a floating, market-determined value rather than a fixed-price. This will send the right signal to make sure the most efficient investments are made across the industry.

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

- 10% seems like it can strike a reasonable balance between flexibility which will allow energy suppliers to benefit from 'over-investing' in renewable energy supply for a given year, alongside the ability to sell excess credits to other suppliers, while maintaining the ongoing incentive to invest in renewable energy for each year of supply.

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?
 - o Regardless of the specific % target set it is most likely that there will be a portfolio of renewable energy technologies to meet them. This could include renewable gases (biomethane and hydrogen), renewable electricity, biomass and other technologies.

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

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

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

- Option A: renewable energy traced to the end consumer via a certification system, allowing consumers valuing the green-ness of their energy to pay more

- Option B: Renewable energy equally proportioned across consumers , and for each supplier the same proportion of renewable gas would be deemed to have been supplied to all their customers
 - o Option A is a more typical way to address this question. For example, the REGO system in the UK power market or the UK biomethane guarantee of origin system. This allows suppliers to create new, green products and gives consumers the choice over whether to pay extra which makes this a fairer way to any distribute additional costs. Any certification system should follow international / EU standards.

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

- For unsubsidised energy, the costs shown in paper of 8-12c/kWh seem like a reasonable estimate for the market.

Q20: Are these costs reasonable to impose on consumers?

- Using a guarantee of origin system to track renewable gas, for example, empowers the consumer to make the choice over whether they want to pay extra for renewable energy by selecting a 'green' tariff – this can be seen in residential energy markets across Europe. If the consumer is electing to pay a premium for a green product then there is no question of fairness. If cost is allocated to consumers regardless of their preference then fairness is more of a concern. The estimated annual energy bill impacts published in the consultation seem manageable for most households, but attention must be paid to low-income households which may struggle more.

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

- Yes. A strong enforcement mechanism is the best way to ensure effectiveness of the policy.

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

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

- Introducing biomethane guarantees of origin, which will enable energy suppliers to offer 'green' tariffs, will let households choose whether they want, or are able, to pay the extra for renewable energy. Any measures to minimise impact on energy poverty should be designed in a way that does not influence market price formation.
- In other markets, such as the UK, there are separate schemes that suppliers operate to deliver fuel poverty relief to consumers who need it. This is done in collaboration with government and is paid for by other customers.

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

(i.e. double counted credits)

- Yes, support for technologies with significantly higher levelized costs is needed to stimulate development. Other forms of renewable energy such as biomethane, which is still a very nascent market in Ireland, could also benefit from a double credit to accelerate development and ensure that Ireland is able to maximise the proportion of renewable energy that is generated in Ireland.

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?

- For Hydrogen to become a widespread energy vector it needs support in multiple industries to stimulate demand and help support a market. As long as the transport market is adequately supported then the risk of unintended consequences should be low. Of course, there is a risk that if the incentives in one sector hugely outweigh another (for example, heat versus transport) then it can draw Hydrogen away from a specific sector and also that it could draw investment away from other renewable technologies. However, these impacts are likely to be limited given how nascent Hydrogen is as a technology and stimulating green hydrogen investment is an overall positive for Ireland's energy market