



**SSE AIRTRICITY RESPONSE TO DECC CONSULTATION ON A
RENEWABLE HEAT OBLIGATION**

OCTOBER 2021

INTRODUCTION

SSE Airtricity welcomes the opportunity to participate in this public consultation on renewable heat policy in Ireland. Ireland's renewable heat share is among the lowest in the EU. While Ireland is likely to meet its renewable electricity and transport 2020 targets, very little progress has been made in reaching our 12% renewable heat target. Ireland's forthcoming National Retrofit Programme will drive the transformation of Ireland's building stock through the retrofitting of 500,000 homes. It is clear that additional policy measures are needed, however. This consultation has come at an important time with Ireland in the process of setting its first carbon budget.

WHO WE ARE

At SSE Airtricity, we're proud to make a difference. From small beginnings we've grown to become one of Ireland's largest energy providers, supplying green electricity and natural gas to over 700,000 homes and businesses on the island. We're proud to be the largest provider of 100% green energy¹ and are committed to playing our part in supporting customers as Ireland transitions to net-zero. We recently launched our 'one-stop-shop' for home energy upgrades in partnership with An Post to support customers with low-carbon investments. Our aim is to provide a solution that addresses the key barriers to retrofit including complexity, consumer hesitance and access to finance.

Since entering the Irish energy market in 2008 we have invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years alone. Through our renewables business we have 890MW of onshore wind capacity across the island. As a leading developer of offshore wind energy in Great Britain, we believe offshore wind has the potential to transform Ireland's response to climate change. SSE has ambitions to progress the development of projects off the East and South Coast of Ireland including the Arklow Bank project off the coast of County Wicklow.

EXECUTIVE SUMMARY

Heat is fundamental to our well-being. It keeps our homes and workplaces warm and comfortable and is an essential part of many industrial processes. Thermal energy use in Ireland was responsible for 14 million tonnes of CO₂ emissions in 2018, circa 36% of the total energy related CO₂ emissions and 21% of the total greenhouse gas emissions in Ireland². Reducing energy consumption in the heat sector and transitioning away from fossil fuels therefore needs to be a key plank of Ireland's plan to reach net zero emissions by 2050. Decarbonising the built environment will require a transformation of our residential and commercial/industrial building stock. SSE Airtricity supports the Government's objective to reach 24% renewable heat by 2030. Given that Ireland's current renewable heat share stands at just 6%, we agree that further policy action is required.

Electrification will be the key driver of the decarbonisation of heat in Ireland. We support the key role outlined for retrofitting and electrification in the Climate Action Plan. SSE Airtricity were the first in the market to establish a "one-stop-shop" for energy efficiency to support consumers to retrofit and switch to heat pumps in support of the Government's ambitious targets. Electrification should continue to be at the centre of Ireland's renewable heat policy.

We recognise, however, that electrification may not be a suitable solution for all uses. Renewable electricity is expected to decarbonise a large share of the EU's energy consumption by 2050, but not all of it. Other solutions will need to be explored and developed e.g. district heating in dense, urban areas, while hydrogen has potential to decarbonise hard to abate areas particularly high temperature

¹ Largest provider of 100% green energy claim and total TWh supplied to homes and businesses based on Electricity Market Share by MWh published by the Commission for Regulation of Utilities (CRU) in Retail Market Reports for 2019

² Reference

heat. The EU has identified hydrogen as essential to support the EU's commitment to achieve carbon neutrality by 2050³.

The Supplier Renewable Heat Obligation has been proposed in order to comply with Article 23 of the Renewable Energy Directive 2018 which states that Member States must “endeavour to increase the share of renewable energy in that [heating and cooling] sector by an indicative 1.3 percentage points as an annual average calculated for the periods 2021 to 2025 and 2026 to 2030”. It is SSE Airtricity's view that more information and analysis is required to inform how best to meet Article 23 and policy decisions on renewable heat policy more broadly. A strategy and policy vision for hydrogen and bioenergy is needed as part of this. An assessment of the potential for integration between the electricity and gas networks and a policy and regulatory roadmap for green hydrogen and biomethane use in the gas grid is also needed as per the Interim Climate Actions 2021.

An assessment of alternative policy options and their potential suitability needs to be carried out as it does not appear to us that a supplier RHO would be an appropriate policy measure to introduce to the Irish market. A considerable level of market maturity would be needed to facilitate a mechanism like a Supplier RHO which does not exist in Ireland at this time. Direct supports to the bioenergy industry would be more appropriate and in keeping with the approach taken in other countries. Amending existing schemes such as the Support Scheme for Renewable Heat (SSRH), an alternative support scheme, a renewable gas PSO or other exchequer funded supports may be more appropriate. The feasibility of these options should be assessed and consulted upon.

SUMMARY OF RECOMMENDATIONS

- More information and analysis is required to inform how best to meet Article 23 and policy decisions on renewable heat policy more broadly. This should include an assessment of alternative policy options particularly those pursued in the UK and EU as these may better meet the Department's objectives.
- The nascent nature of the market in Ireland needs to be taken account of. A considerable level of maturity would be needed to facilitate a market-based mechanism like a Supplier RHO in our view.
- A strategy and policy vision for hydrogen and bioenergy is needed to inform the development of renewable heat policy and how this can support electrification which will be the main driver of decarbonisation.
- An assessment of the potential for integration between the electricity and gas networks and a policy and regulatory roadmap for green hydrogen and biomethane use in the gas grid is also needed as per the Interim Climate Actions 2021.
- Non-financial barriers to deployment need to be tackled. Financial supports alone may not be sufficient to unlock deployment.

With regard to the proposed RHO, SSE Airtricity would highlight the following:

- Uncertainty around the costs for the proposed RHO are a significant concern. We request that a Cost-Benefit Analysis be undertaken and published to inform decision-making.
- An analysis of the existing market for bioenergy in Ireland is also needed particularly as imported biofuels are unlikely to meet the EU's sustainability criteria. Low supply risks putting upward pressure on costs. It is important to remember that it will take some time for a hydrogen market to develop and so sources of biogas and biomethane will need to be the primary drivers.
- We are also concerned about the proposed timeline for implementation which does not take account of the nascent state of the market in Ireland or the nature of the gas retail / contracting market. SSE Airtricity is already committed to commercial gas contracts for 2023 and 2024.
- The proposed scheme does not involve any credits for the installation of electric heat pumps. Suppliers are making significant investments in developing new business models to support the

³ A hydrogen strategy for a climate-neutral Europe: https://ec.europa.eu/energy/sites/ener/files/hydrogen_strategy.pdf

Government's retrofit targets. Suppliers role in supporting consumers to switch from fossil fuel to electric heat pumps needs to be acknowledged in any scheme and an appropriate level of credits should be available.

We provide responses to the consultation questions below.

RESPONSE TO CONSULTATION QUESTIONS

10.1 Background

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

As we note above, decarbonising the built environment will require a transformation of our residential and commercial/industrial building stock. Reducing energy consumption and transitioning away from fossil fuels is a key plank of Ireland's plan to reach 55% emissions reductions by 2030 and net zero emissions by 2050. SSE supports the Government objective to increase the share of renewables in Ireland's heat supply. As Ireland is lagging behind in comparison to our EU peers, further action is needed.

Electrification will be the key driver of the decarbonisation of heat in Ireland but we know that electrification alone will not be able to get us to net zero. Other solutions will need to be explored and developed e.g. district heating roll out, hydrogen for high temperature heat. A strategy and policy for hydrogen and bioenergy is needed to guide policy in this space. An assessment of the potential for integration between the electricity and gas networks and a policy and regulatory roadmap for green hydrogen and biomethane use in the gas grid as per the Interim Climate Actions 2021 is also needed.

More information and analysis are required to inform decision-making on how best to meet our obligations under Article 23 of the Renewable Energy Directive and the role of bioenergy. Europe is the world's leading producer of biomethane. The introduction of various support schemes for promoting the utilization of renewable resources have encouraged the development of biogas plants for energy production⁴.

According to a European Commission report, a stable policy framework and support schemes appear to be the number one driver of successful bioenergy deployment. National targets and goals are also identified as an important driver for the sector, as is the availability of suitable feedstocks and waste collection processes for biogas production⁵.

By far the most widespread schemes in the heat sector to support biogas are grants (12 Member States), followed by loans (7 Member States) and tax regulations (5 Member States). Feed-in Premiums in the heat sector have also been applied in Austria, Estonia, Finland, and the Netherlands. While the UK has applied a Feed-in Tariff or 'Renewable Heat Incentive'. The scheme supports biogas combustion and biomethane injection into the gas grid with a fixed tariff per kWh produced.

Policymakers in GB are in the process of reforming their feed-in-tariff for heat with the Green Gas Support Scheme. The Department for Business, Energy and Industrial Strategy (BEIS) intend to continue supporting biomethane production from AD plants through a tariff-based mechanism. According to BEIS, a tariff mechanism is particularly well suited for biomethane support, as it helps to address the significant ongoing operating costs of AD plants. Additionally, as the payments are

⁴ Nicolae Scarlat et al, "Biogas: Developments and perspectives in Europe", Renewable Energy 129 (2018) 457-472

⁵ European Commission report: Optimal use of biogas from waste streams: An assessment of the potential of biogas from digestion in the EU beyond 2020: https://ec.europa.eu/energy/sites/ener/files/documents/ce_delft_3g84_biogas_beyond_2020_final_report.pdf

directly related to the specific volumes of biomethane injection, it continues to incentivise ongoing biomethane production after the capital costs are paid off.

The consultation document on the Green Gas Support Scheme notes that for the longer-term, BEIS expect to focus on market-based mechanisms, which leverage competitive forces to drive down costs and ensure cost-effectiveness. Future policy options highlighted include a Supplier Obligation or alternatively a Contracts for Difference (CfD) model which has helped to drive down costs in the power sector⁶.

The UK market is much more advanced than Ireland in terms of biogas/biomethane production. If the UK Government does not deem their market ready for a market-based mechanism, then Ireland's certainly could not be. SSE Airtricity are concerned that the market is not in the position to sustainably and competitively facilitate a supplier RHO. It is our understanding that bioenergy production levels are very low in Ireland. To introduce a Supplier Obligation now with limited bioenergy stocks and a nascent market would push up the costs of compliance for suppliers and ultimately the costs to the consumer. Alternative policy measures more akin to what has been tried and been successful in other European countries would be more appropriate.

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

Article 23 of the Renewable Energy Directive 2018 requires Ireland to increase its share of renewable heat *“by an indicative 1.3 percentage points as an annual average calculated for the periods 2021 to 2025 and 2026 to 2030, starting from the share of renewable energy in the heating and cooling sector in 2020, expressed in terms of national share of final energy consumption”*.

The Directive does not specify which policy measures should be brought forward to reach this target. As we note in Q1, direct supports to the bioenergy industry would appear more appropriate and in line with the approach taken in other jurisdictions. A number of options are available to the Department including expansion / variation of the Support Scheme for Renewable Heat, a renewable gas PSO, exchequer supported programmes or tax incentives. We believe these options should have been assessed and included as part of this consultation and may offer a more effective way to stimulate the growth of the biogas/biomethane industry.

10.2 Market Coverage

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

SSE believe this would be appropriate were a Supplier RHO to be introduced though we do not believe this policy should be seen as a substitute for the phase out of fossil fuels in heating.

We note that the Climate Action Plan 2019 contained a commitment to essentially ban oil boilers in new builds from 2023 and gas boilers from 2025 through the enactment of NZEB regulations. We welcome that the relevant legislation has been enacted to enable this. The Climate Action Plan 2019 also contained a commitment to look at the phase out of fossil fuel boilers in all homes. A study on this should be commissioned to explore the potential for this and progress plans. We believe an ambitious date should be set for Ireland and supportive policy should be progressed in a sensible manner. New regulations will need to be signalled well in advance and should be accompanied by sufficient incentives and supports to ensure consumers are able to switch.

⁶ Department for Business, Energy and Industrial Strategy, Future support for Low Carbon Heat, July 2020: [Future support for low carbon heat: consultation \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/90414/future-support-for-low-carbon-heat-consultation.pdf)

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?

SSE Airtricity agree that electricity used for heating purposes and renewables / waste district heating systems should be exempt were a Supplier RHO to be introduced but would highlight the points below:

Electrification

It is important that the proposed RHO be integrated with wider renewable heating policy and electrification if it is to be introduced. The Climate Action Plan has set a target of 500,000 retrofits and the installation of 600,000 heat pumps by 2030. The Energy Efficiency Obligation Scheme (EEOS) is being revamped to reflect this target and changes brought about by the EU Clean Energy Package 2018.

Suppliers are making significant investments and developing new business models or “one stop shops” so that they can help meet the Government’s ambition. Suppliers’ role in supporting consumers to switch from fossil fuel to electric heat pumps needs to be acknowledged in any scheme. Suppliers should be able to meet this requirement through heat pump deployment and the renewable portion of the heat pump credited. It is important that any scheme is sufficiently flexible and allocates credits for the removal of fossil fuel heating systems.

Heat pumps have an efficiency of more than 300% as they extract significant renewable energy from the external environment. As electricity continues to decarbonise as more renewable generation is connected, heat pumps will emit fewer carbon emissions each year. Allocating credits for heat pump installation would also help achieve the Government’s targets and ensure an integrated approach

District heating

A consultation was held on District Heating in February 2020. Industry is still waiting on a policy decision and the publication of a policy and regulatory framework. District heating could make a significant contribution to decarbonising heat and increase the share of renewables on the system. The contribution of district heating to meeting the REDII Article 23 target needs to be captured.

District heating is estimated to account for less than 1% of heat in Ireland, representing one of the lowest shares of district heating in Europe. District Heating can play a key role in improving energy efficiency and reducing emissions. Given that end-users are supplied with heat rather than fuel (gas, heating oil, etc.), district heating networks offer the flexibility to adapt to changes in the economic and policy landscape, that may see different combinations of energy resources used at different times over the lifetime of a district heating network.

Ireland has a diverse housing stock. District Heating can play an important role in dense, urban areas where there is a heat source nearby that can be utilised. Often district heat is seen as an enabling technology for the electrification of heat, where waste heat increases the uptake of high efficiency heat pump solutions and allows them to operate with greater flexibility, putting less strain on the local electricity network.

The policy and regulatory framework to enable district heating needs to be published soon to ensure there is sufficient time for projects beyond the two pilot projects identified to be brought forward and meet our REDII 2030 renewable heat target.

10.3 Obligated Parties and Obligation Threshold

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

Energy suppliers are not necessarily the most appropriate bodies to be obligated parties. We note that no consideration has been given in the consultation to alternative options.

In the EEOS, energy suppliers carry out energy efficiency works themselves or deliver upgrades through partners or supply chain companies. External market conditions aside, Obligated Parties have a degree of control over their ability to meet the obligation. Energy suppliers will have no control over the supply of biogas stocks. Unlike energy services in the case of the EEOS, it is not a natural fit or partnership for energy companies.

Gas Networks Ireland (GNI) may be a more appropriate body to obligate were such an obligation to be introduced. GNI have a key role in the decarbonisation of the gas grid, manage injection points and have line of sign to existing Anaerobic Digesters. We believe consideration should be given to this alternative.

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

We note evidence to justify the selection of this threshold has not been included in the consultation document. The threshold for the EEOS is 400GWh. It does not necessarily follow, however, that it is also an appropriate threshold for an RHO. The EEOS covers a larger market – gas, solid fuels and electricity. Whereas the proposed RHO would cover solid fuels and gas.

10.4 Obligation Rate

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

As noted above, while SSE Airtricity support the overall objective of increasing Ireland's renewable heat share, we are conscious there may be other much more effective ways of achieving this at least cost to the consumer. We do not believe the market is in the position to facilitate such an obligation. 2023 would be far too soon for the introduction of a policy such as this.

The following are of concern:

- **Readiness of biogas/biomethane market**

There was no analysis on the state of the biogas/biomethane market and its capability to meet the demand of a Supplier Obligation included in the consultation. Our understanding is that biogas and biomethane production and stocks are very low. There is currently only one biomethane injection point to the gas grid in Ireland. Given the nascent nature of the market and the experience of other European markets, direct support to biogas producers would appear a more appropriate approach. If a Supplier Obligation is brought forward at this time, we are concerned there will not be sufficient supply to meet the demand. This will push up the cost of credits and ultimately the costs to the consumer.

- **Hydrogen market**

There is no hydrogen market in Ireland currently. The extent to which it will have developed by 2030 is unclear. The EU has identified hydrogen as essential to supporting the EU's commitment to reach carbon neutrality by 2050. Renewable electricity is expected to decarbonise a large share of the

EU's energy consumption by 2050, but not all of it. Hydrogen has a strong potential to bridge some of this gap⁷.

While, it is expected that hydrogen will play a role in the decarbonisation of Heavy Goods Vehicles (HGVs) and maritime transport, the role of hydrogen in heating is less certain. While suitable for high temperature heat in industry, its suitability for domestic heating remains an open question. As noted in the UK's Energy White Paper, unlike electric heat pumps and heat networks, the feasibility of using hydrogen for clean heat needs further testing and development.. Whilst we recognise that the gas network itself is more modern in Ireland than in GB, we understand from an end to end perspective various pieces of equipment from infeed to households may mean we have similar challenges, The practicalities and cost of safely converting or replacing existing networks and appliances in Ireland to operate with pure hydrogen need to be fully evaluated⁸

The UK's Hydrogen Strategy notes that before hydrogen for heating can be considered as a potential option to decarbonise heat in buildings, the UK needs to generate further evidence on the costs, benefits, safety, feasibility, air quality impacts and consumer experience of using low carbon hydrogen for heating relative to other more established heat decarbonisation technologies. A policy decision on the role of hydrogen will not be taken until 2026⁹.

Ireland needs to start working on its own Hydrogen Strategy to ensure it is ready to utilise this potential source of renewable fuel and ensure a holistic approach is adopted. It will be towards the end of the decade at the earliest before hydrogen could contribute to the proposed RHO. This makes it all the more important that alternative renewable fuel sources are available. It is not clear that these will be available in sufficient quantities and a competitive market will exist from 2023.

- **Appropriateness of a supplier obligation**

We understand the purpose of an obligation is to stimulate and help create a market. In the case of the EEOS, boiler replacements, insulation and other shallow energy efficiency works were occurring albeit in an ad hoc manner before the scheme was established. There was a semblance of a market which could be built upon. The same cannot be said for the biogas market. As we note in Q1, a sufficient level of market competitiveness needs to be in existence to support an Obligation Scheme. Otherwise there is a substantial risk of an obligation not being met or costs spiralling. Other policy options would appear more appropriate at this time e.g. exchequer supports as we also outline in Q1.

- **Commercial gas contracting market**

Suppliers like SSE Airtricity will already have commercial gas contracts in place with Large Energy Users (LEUs) for 2023 and even 2024. LEUs typically procure their annual gas needs ahead of time based on a risk strategy. Gas contracts generally include provisions which deal with regulatory charges. As this is a pass-through charge, it is uncertain how it would be managed and there is a risk that suppliers could be facing a loss. A longer lead in time is needed for the introduction of pass through charges such as this to ensure the market can prepare appropriately.

⁷ A hydrogen strategy for a climate-neutral Europe: https://ec.europa.eu/energy/sites/ener/files/hydrogen_strategy.pdf

⁸ UK Energy White Paper: Powering our Net Zero Future, Dec 2020:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945899/201216_BEIS_EWP_Command_Paper_Accessible.pdf

⁹ UK Hydrogen Strategy, Aug 2021:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1011283/UK-Hydrogen-Strategy_web.pdf

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

We agree that the obligation should be set at a very low level for the initial period. Our understanding is that biogas and biomethane stocks are very low and are unlikely to increase substantially in the short term. It is difficult for us to say whether 0.5% is an appropriate level. Indeed, 0.5% might not be low enough considering the nascent nature of the market. An analysis of the state of market is needed to inform this.

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?

Given the challenges we have identified in our submission, we believe Ireland should opt for minimum ambition. With the uncertainty in regard to biogas/biomethane stocks, a minimum ambition level would help minimise policy costs on bills. We believe a conservative approach is needed if an RHO is established given the immaturity of the market and the remainder of the Article 23 REDII target should be met through other policy measures if an RHO is introduced e.g. SSRH, district heating, heat pumps deployed in new builds.

10.5 Meeting the Obligation

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

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

SSE Airtricity agree that the first obligation period should involve multi-year compliance to allow time for supply lines to develop. Government should adopt a flexible approach as it may not be appropriate to move to annual compliance if the market is not ready. The initial multi-year compliance period should be extended if needed.

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

Trading of credits should be facilitated as part of any scheme as it allows Obligated Parties flexibility and incentivises over-compliance.

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

Flexibility is key in any obligation scheme. We agree that carry over should be permissible in any scheme. The rules governing carry over should be developed in consultation with those who are obligated.

10.6 Sustainability

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?

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

It is critical that bioenergy is produced sustainably and the REDII criteria are adhered to. We are unable to fully comment on the above questions as it is outside of our expertise and information on sustainable sources was not included in the consultation document. If sustainably sourced bioenergy stocks are not available in sufficient quantity, the costs of compliance and cost to consumer will be pushed up.

10.7 Traceability

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

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

We believe further information is needed on this topic to allow us to comment fully. Option A has merit in our view but care would be needed to ensure it could be implemented in a fair and equitable manner. If a decision is made to introduce an RHO, further information and detailed engagement on this issue would be needed to ensure an appropriate course of action is taken.

10.8 Estimated costs for consumers

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

It is difficult for us to say in the absence of further market analysis. We would request that the Department publish its modelling and assumptions in relation to cost. We also request that a Cost-Benefit Analysis of the proposed RHO be undertaken and published.

SSE Airtricity have concerns that costs could exceed those outlined in the consultation document given the nascent nature of the market. If there is limited supply of bioenergy, the costs of compliance will escalate as suppliers will be competing for a limited pool of credits. The purpose of obligation schemes is to harness competitive pressure and put downward pressure on costs. Low levels of competition risks the opposite effect.

Q20: Are these costs reasonable to impose on consumers?

Given the position of the bioenergy market currently, exchequer revenues appear to be a more appropriate way to fund supports for biogas and biomethane generation. Directly allocated grants or support payments funded from general taxation may be a better way of supporting anaerobic digester plants to develop. These options should be considered.

Were there to be ample supplies of biofuel stocks and sufficient competition in the market, then it may be reasonable to impose these costs on consumer bills. However, this should only be at the point where a fully competitive market is in place.

10.9 Penalties

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

The penalty regime should be developed on a fair and equitable basis and only used as a last resort. We believe this issue should be explored with Obligated Parties in future consultations should a RHO be introduced.

10.10 Energy Poverty

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?

It is critical that the potential impacts on energy poverty are considered when developing policies which may have an impact on consumer bills and the price of energy.

The most efficient way to minimise the impact on energy poverty is to ensure the market is in the position to support such an obligation, and that there is a ready supply there so that suppliers or the network operators can integrate such obligations into their purchasing portfolio at lowest cost.

As we have stressed in our submission, we are concerned that the market is not in the position to sustainably and competitively facilitate an Obligation Scheme. Exchequer funded supports or other options should be considered as an option particularly given the state of the bioenergy market and the potential impact this could have on bills. In addition, energy poverty must be seen in relative expenditure vs. income terms. If wholesale markets are low, then as a percentage of expenditure for a household, supply prices are also low. Where wholesale prices rise, then as a percentage of household expenditure so do energy bills. Therefore, the key factors that will determine whether obligations are difficult to maintain are the overall cost of supplying a customer and the overall cost of any obligation. Therefore, it is vital that a competitive market is first developed that facilitates obligated parties being able to procure at a competitive price.

Were a scheme to be introduced, social welfare supports should be kept under review to ensure they are targeted and set at an appropriate level. Energy efficiency and retrofit supports should continue to be rolled out so that consumers are able to reduce their energy consumption and bills. The ringfencing of carbon taxation revenues for these measures should also continue to support consumers with the transition to net zero.

10.11 Supporting new green fuels

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

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?

The EU has identified hydrogen as essential to support the EU's commitment to reach carbon neutrality by 2050 and for the global effort to implement the Paris Agreement while working towards zero pollution. In its strategic vision for a climate-neutral EU published in November 2018, the share of hydrogen in Europe's energy mix is projected to grow from the current less than 2% to 13-14% by 2050¹⁰.

As we have noted in our submission, further research on the role of hydrogen in decarbonising the built environment is needed. Given the potentially significant role it could play, we believe the allocation of multiple credits for hydrogen has merit and should be incorporated into any future scheme which may be introduced. If additional credits are to be allocated in the heat sector, we recommend the same approach be adopted in the transport sector in the Biofuel Obligation Scheme to ensure consistency.

CONCLUSION

Reducing energy consumption in the heat sector and transitioning away from fossil fuels will be key if Ireland is to meet its 51% emission reductions target by 2030 and net zero by 2050. Decarbonising the built environment will require a transformation of our residential and commercial/industrial building stock. Heating decarbonisation has made little progress in Ireland in comparison to electricity and transport. Policy measures brought forward in this area need to reflect that reality. As we outline our submission, alternative policy options should be assessed and considered as part of Ireland's compliance with Article 23 of the Renewable Energy Directive.

¹⁰ A hydrogen strategy for a climate-neutral Europe: https://ec.europa.eu/energy/sites/ener/files/hydrogen_strategy.pdf

We would welcome the opportunity to discuss our submission further should that be of use to the Department.