

Renewable Heat Obligation Consultation
Business Energy Gas Policy Division
Department of the Environment, Climate and Communications
29-31 Adelaide Road
Dublin 2
D02 X285

By email: (RenewableHeat@decc.gov.ie)

29 October 2021

Re: Consultation on the Introduction of a Renewable Heat Obligation

Dear Sir/Madam,

Ibec, the group that represents Irish business, welcomes the opportunity to present its views on the [proposed introduction of a Renewable Heat Obligation](#). Ibec is the largest business representative organisation in Ireland. We speak for businesses across a range of industrial, commercial, and non-profit sectors. The organisation and its sector associations strive for business conditions that enable sustainable economic growth.

Climate change is the single greatest challenge facing mankind today. Ireland must urgently transition away from a reliance on fossil fuels and build a more secure and sustainable energy system. The longer we delay the more disruptive and costlier the transition will be on everybody. In this regard, Ibec supports the national ambition to deliver net zero by 2050.

Ireland's heat challenge

Over the last decade decarbonisation has focused almost exclusively on our power sector. And yet, electricity only accounts for one-fifth of our emissions. Our heat sectors remain heavily reliant on imported fossil fuels. Ireland is highly oil dependent, making us an outlier in Europe. Oil is used in 37% of Irish homes and 69% of rural homes. The dispersed nature of Irish housing makes this extremely challenging to resolve. Irish buildings are also on average extremely inefficient. The average Irish house is D rated on the BER scale and there are big energy savings to be made in the commercial and industrial sectors. Meanwhile large high temperature heat users have limited abatement options with no commercial alternative to gas and oil readily available.

The scale of this problem is daunting, and addressing it will require mass behavioural change, a major expansion in public and private investment, nationwide energy

efficiency improvements, planning reforms, and the timely arrival of new and emerging technologies.

General views

Heat decarbonisation policy interventions to date have been limited, unsuccessful, and not of the scale needed to decarbonise the sector in time to meet climate targets. The Support Scheme for Renewable offered enormous potential when first proposed, but the restrictions on eligibility and support rates have failed to drive substantial fuel switching in the economy. Now with the introduction of restrictive carbon budgets and sectoral emissions ceilings, the Department's consideration of a new renewable heat obligation is sensible, as clearly new measures are needed to decarbonise the sector at scale. New measures are especially needed to support renewable gas and hydrogen. Ibec sees merit in the idea. Obligation schemes, while not always efficient, have proven successful in Ireland¹. However, the exploration of the RHO option should form part of a wider appraisal of other policy options and the expansion/refinancing of the SSRH and other state supports towards the development of new national heat decarbonisation strategy. The different policy interventions should be assessed on cost, consumer impact, and mitigation potential.

The proposed scheme lacks a clear policy context

The Department is right to develop policy interventions to support renewable gas technologies like hydrogen, bio-LPG and biomethane. It is clear in all the energy system modelling to date that energy efficiency and electrification alone cannot deliver net zero for the island of Ireland. Meanwhile the production of green hydrogen on the island of Ireland offers immense export potential. However, Ibec believes that the proposal lacks a clear policy context in that Government has provided mixed messaging on the future role of biofuels and hydrogen in the Irish energy system. A national strategy for hydrogen is not due Ibec until late 2022 according to the [interim Climate Actions 2021](#). **The timeline for completion of these strategies should be brought forward.** For a renewable heat obligations scheme to be successful, Government must provide clear investment signals on the future role of biogas and hydrogen. Climate Action Plan 2022 is an opportunity to provide such certainty and give added weight to the proposed scheme.

Alternatives must be considered

¹ Not all obligation schemes are alike. There are critical differences between the proposed obligation scheme and the existing Energy Efficiency Obligation Scheme (EEOS), under which obligated parties have considerable control in meeting their targets by carrying out energy efficiency works themselves and/or through partners.

Ibec believes this consultation should form the first part of a wider appraisal of options to help develop a comprehensive heat strategy. The responses to the question on alternative policy options should provide constructive feedback to this work. Ibec believes there is merit in considering a more centralised approach, like that used to support the decarbonisation of the electricity system. This approach affords great control over the distribution of costs of the scheme. Such a scheme could be exchequer financed like a reformed SSRH, a PSO for gas grid decarbonisation, or a blend of both. In advance of the next more detailed consultation, the Department should carry out a thorough analysis of these options along with the proposed scheme.

More detailed market analysis and data needed

Ibec recognises that the current consultation is only the first part in this process, with more detailed analysis and design considerations to be provided in the coming months. This is critical as the market analysis, cost projections, mitigation potential, and impacts on fuel poverty and affordability are not sufficiently robust in this paper to make any meaningful contributions. Without greater understanding of the market and supply chains there is a risk that the scheme could be introduced before the market is sufficiently liquid to meet demand. Should a scarcity premium develop for key technologies, the market could overheat, causing considerable energy affordability and competitiveness issues. The scheme would also be a misuse of valuable resources in addressing climate change. A more comprehensive analysis of the market should also assess the projected supply of sustainable bioenergy in light of the new bioenergy sustainability criteria in the revised Renewable Energy Directive.

Comments on scheme design

It is difficult to comment/respond to the specific questions on scheme design at this stage given the additional information and analysis needed. It is our view that the start date, timelines, obligation rates, and appropriate energy sources/fuels should be determined after a more thorough analysis of the market and consultation with prospective obligated parties. The overall contribution the scheme should make in helping Ireland meet REDII and national decarbonisation targets should also be determined only after a comprehensive analysis of all policy and technology options rooted in a least cost approach. This will ensure time and resources are used wisely and efficiently in addressing climate change. However, if an obligation scheme is to be developed it would be critical that the design

- Apply to all non-renewable fuels to ensure a fair and complete coverage of the market
- Exempt electricity to ensure no additional disincentives for users to switch to electricity

- Not penalise businesses who were incentivised to make significant capital investments in combined heat and power technology
- Keep obligation rates low, and commitment periods to 2-3 years, until supply chains are developed, and the market becomes sufficiently liquid
- Include flexibilities for obligated parties to carry over credits from one period to the next to ensure a least cost approach.

In the design of any such scheme, it is critical that the primary aim be heat decarbonisation at least cost, not technology diversity. For this very reason, it is vital that the scheme only be considered as part of a wider suite of measures, and as part of a more expansive heat decarbonisation strategy.

If you have any questions or require more information, please feel free to contact me directly.

Yours sincerely,

Conor Minogue

Senior Executive, Energy Policy