



Renewable Heat Obligation,
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By email

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To: RenewableHeat@decc.gov.ie

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IrBEA Response to Introduction of a Renewable Heat Obligation Consultation

Dear Sir / Madam,

Thank you for the opportunity to contribute to this “Introduction of a Renewable Heat Obligation Scheme” consultation on behalf of our members. IrBEA as the representative organisation for the bioenergy sector, strongly advocates for the timely introduction of an ambitious Renewable Heat Obligation (RHO) Scheme in Ireland. In terms of renewable heat, Ireland is starting from a very low base. The introduction of a heat obligation scheme represents an important step to mobilise the renewable heating sector. We have answered the specific consultation questions below, but would like to make some general points on the consultation document and proposals including:

- The threshold level of 400 GWh for those who will be subject to the obligation is too high. The 400 GWh threshold, which equates to the heating requirements of over 33,000 homes, will mean that most home heating oil and fossil fuel suppliers will not be subject to the obligation thus limiting the overall potential of the scheme, deployment of renewable heat and displacement of fossil fuels.
- DECC needs to clarify its position regarding the proposed double counting of hydrogen and generation of hydrogen from electricity. Renewable electricity is already supported by the electricity consumer through the PSO Levy. We would like

clarification how this obligation scheme interacts with various electricity support schemes in the context of hydrogen production in terms of emissions accounting and funding.

- We believe that the 3% target represents a very low ambition and IrBEA favours a more ambitious target of 10% by 2030.
- We would like the Department to clarify how they are going to ensure that the proposed obligation support indigenously generated renewable fuels rather than imported fuels.
- The certification of off-Grid Renewable Gas needs to be addressed and counted in the obligation.

Meeting current energy and climate change targets, and the increased ambition to 2030 proposed in the EU Commission Fit for 55 package, presents significant challenges. As outlined in the Renewable Energy Ireland *40by30 – A 40% Renewable Heat Vision by 2030*¹ Report, a range of renewable heating technologies and fuels will be required to meet ambitious renewable heat target. Bioenergy has a very strong part to play including solid biomass, liquid biofuels, and biogas. This market driven obligation scheme presents an opportunity for the further development of the indigenous Bioenergy sector.

As industry representatives, we look forward to meeting and engaging with the Department to discuss the various aspects of our submission and the role for bioenergy in the proposed Renewable Heat Obligation Scheme. We believe active engagement can be beneficial to all sides as the process of design and development of the obligation scheme takes place.

Yours sincerely,

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¹ https://renewableenergyireland.ie/wp-content/uploads/2021/05/Renewable-Energy-Ireland_Renewable-Heat-Plan_-Final.pdf

IrBEA Response to the specific consultation questions.

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

IrBEA Response: The RHO, if properly designed and implemented, is an appropriate measure to increase the use of renewable heat. However, lessons need to be learned from the implementation of the biofuel obligation scheme (BOS). Due to the design of the BOS, almost all production was driven abroad and indigenous production was effectively eliminated. The RHO scheme needs to introduce an open market facility for obligation certificates. The design of the scheme needs to ensure that control of the measure does not lie in the hands of the fossil fuel suppliers, but that free market forces ensure that both suppliers of renewable energy and the fossil fuel suppliers have equal impact on the market.

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

IrBEA Response: Direct policy measures to encourage and stimulate the renewable heat market are also required. Policy support measures such as the Support Scheme for Renewable Heat (SSRH) need to continue in parallel with an obligation scheme until such time as there is significant penetration of renewable heat in the market. Longer term, it does not make sense to base the promotion of renewables based on fossil fuel measures, for example having an obligation requirement of above 50% would not make sense. The Renewable Energy Ireland (REI) "40By30" report² outlines a number of important measures that in addition to a Renewable Heat Obligation would increase the use of renewable energy in the heat sector. Some specific measures include:

- Updating the building regulations and BER assessment methodology to accurately reflect decarbonisation benefits of all renewable heat sources.
- Simplify administrative & regulatory requirements barriers, particularly in relation to financial incentives for renewable heat technologies, to increase uptake and reduce compliance costs.
- Set Green Procurement targets for the public sector at a minimum of a 20% annual increase in renewable heat and mandate that all new or replacement heating systems to be 100% renewable.
- Widen the support for renewable heat in the Home Energy Grants and in the Support Scheme for Renewable Heat (SSRH), and seek ways to incentivise large heat users to adopt renewable heat solutions.

² https://renewableenergyireland.ie/wp-content/uploads/2021/05/Renewable-Energy-Ireland_Renewable-Heat-Plan_-Final.pdf

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

IrBEA Response: Yes, the obligation should apply to all non-renewable fossil fuels.

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?

IrBEA Response: We agree that all renewable and waste heat should be exempt.

In terms of electricity used for heating, on the assumption that the electricity suppliers will be the obligated party, then the exemption should only apply to renewable electricity. Electricity suppliers already report the percentage of renewable electricity in their energy mix.

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?

IrBEA Response: Yes, the heat generated from fossil fuel input used in CHP plants should be obliged to meet the RHO obligation. Otherwise, CHP systems could be installed purely to avoid the RHO and would result in an increase in emissions. However, all the heat from renewable fuelled CHP plants should qualify as renewable heat.

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

IrBEA Response: Question 6 and 7 are linked in identifying who is the obligated party. IrBEA feel that the RHO obligation should be on the energy supplier, and that this should be defined as the supplier of heating fuel to the final customer or retail outlet. Please see our response below regarding the threshold limit.

The proposal to obligate the suppliers needs more detailed discussion, the success or failure of this measure largely depends on what the supplier's threshold limit is set at. The 400GWh limit is equivalent to supplying more than 33,000 homes with heat (Ref: based on dwelling heating figure in the consultation document). Many kerosene / heating oil and coal suppliers would be exempt, as would many smaller gas suppliers.

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

IrBEA Response: The 400 GWh limit is far too high. 400 GWh is sufficient to supply over 33,000 homes with heat. This would mean that most suppliers of fossil fuels including heating oil, coal etc would be exempt from the RHO, as would some of the smaller gas supply companies. This 400GWh limit would likely leave the RHO meaningless for most of the heating market, thus reducing its impact in terms of increasing the deployment of renewable heat.

IrBEA feels that a threshold measured in GWh is the wrong metric - there are far too many small suppliers of heating fuels to be captured with such a threshold. Instead IrBEA consider that the RHO should be imposed on virtually all fuel suppliers - with the only exception those trading at such a small level that it would be administratively cumbersome to include them. IrBEA consider that either option a or b below are used for determining who is an obligated party.

- a. Any fuel supplier that is VAT registered should be required to comply with the RHO.
- b. Set the obligation level for suppliers at 40 GWh to capture the majority of the fuel market.

Note: We assume that the consultation rationale for using a 400GWh threshold is based on the fact that this is the same level proposed in the updated Energy Efficiency Obligation Scheme (page 9 of the consultation). However, for the Energy Efficiency Obligation Scheme, a significant quantity of energy is supplied by a small number of obligated parties. For example, only retail energy suppliers of electricity and natural gas qualify as obligated parties - and these retail energy suppliers must be licenced by the CRU. The barrier to entry is therefore very high and only a small number of companies qualify (for the Energy Efficiency Obligation Scheme). The heating market is vastly different and has a much larger number of small suppliers. Using a high GWh threshold (such as 400GWh) is likely to result in a significantly higher quantity of heat not having to participate in the scheme.

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

IrBEA Response: Yes, the obligation needs to start as soon as possible to make the greatest possible impact to our 2030 targets. Certainty needs to be given to the market to encourage investment and project planning regarding the introduction of a RHO as soon as possible with the design of the RHO following shortly after.

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

IrBEA Response: An initial level of obligation of 0.5% lacks ambition and does not reflect the scale of the heat decarbonisation challenge. Considering that 6.3% of our heating is renewable and that some of this will be considered eligible for the RHO. We suggest the starting rate should be much higher.

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?

IrBEA Response: 10% should be a minimum target for 2030. We consider that a more ambitious target would be more in line with Ireland's commitments under the Climate Action and Low Carbon Act 2021, under the NECP, under RED II (25% renewable heating by 2030) and under 'Fit for 55'.

The Renewable Energy Ireland (REI) "40By30" report³ details that Ireland has the renewable resources to meet more than the entire Irish heating demand. This report outlines that 40% renewable heat is achievable by 2030, therefore the proposed 3%, 5% and 10% obligation levels in the RHO consultation lack ambition and should be maximised.

The RHO offers the opportunity to replace fossil fuels at zero cost to the Irish exchequer. Building on the success of the Biofuels Obligation Scheme (BOS) in the transport sector, where over the course of a decade, 7% was reached in a technically difficult market. The heat market is different in that there are a wider range of renewable heating technology options to replace fossil fuels and we can be confident that much higher ambition can be realised in meeting our 2030 targets. The RHO could be a central pillar in meeting, or indeed exceeding our 2030 targets.

The RHO can be one of a number of Government heat policy programmes to reach a renewable heat rate of 25% by 2030 with much potential to exceed this as demonstrated in the REI '40by30' report.

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

IrBEA Response: A three year period may be overly long. Obligated parties may delay reacting to the requirements and will not be encouraged to act at a pace that is required to meet the higher targets approaching 2030.

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

IrBEA Response: Yes

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

IrBEA Response: Yes – we could only agree to the RHO with this as a central pillar of its operation. However, lessons learned following the implementation of the BOS need to be considered and addressed. Following introduction of the BOS almost all production was driven abroad and indigenous production was effectively eliminated. To ensure indigenous generation, trade credits recognised by the RHO need to be generated in the Republic of Ireland.

³ https://renewableenergyireland.ie/wp-content/uploads/2021/05/Renewable-Energy-Ireland_Renewable-Heat-Plan_Final.pdf

We fully support that the RHO can only be met with renewable fuels which comply with the revised Renewable Energy Directive (2018/2001/EU). This is an excellent opportunity to help indigenous rural Irish businesses to sell sustainable renewable fuels for heating.

Most of the 6.3% renewable heat currently deployed in Ireland does not receive any government support or grant which means that it will be eligible to generate RHO trade credits. If the RHO obligation is initially set at 0.5%, the value of the trade credits will be minimal with an oversupply of credits on the market. There is a considerable gap between the volumes of renewable heat currently used and the proposed starting rate of 0.5%. This should be considered in the ambition shown in the RHO.

IrBEA notes that the Support Scheme for Renewable Heat (SSRH) recipients receive a tariff from the SEAI for the applicant to produce renewable heat and the device that produces the heat. DECC need to clarify if the renewable fuel used to generate the heat would also be eligible to generate RHO trade credits.

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

IrBEA Response: Yes we 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?

IrBEA Response: According to the Renewable Energy Ireland '40by30' report there is sufficient indigenous renewable heat resources to generate more than 100% of the entire heat demand in Ireland. The sustainable energy sources likely to meet the obligation are indigenous solid biomass & energy crops, biogas/biomethane and other renewable heat resources including solar thermal, geothermal etc.

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

IrBEA Response: We refer you to the Renewable Energy Ireland '40by30' report which gives an extensive description and quantification of the renewable heat resources available in Ireland. The report details 66.7 TWh available to meet Ireland's 58 TWh annual heating demand. Ireland has ample resources to meet more than 100% of its heating demand from renewable sources.

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

IrBEA Response: We agree that fuel delivered directly to a consumer is to be the point of supply but would add that a delivery to a retailer would also be the point of supply. Retailer's as obligated parties would add complication and considerable administrative burden.

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 is traced to the end consumer. For renewable gas, this would work similar to other fuels with individual customers being supplied the gas (verified by a certification system). This would allow consumers who value the 'greenness' more to pay slightly more and thus reduce the cost for other consumers. However, it could lead to some gas consumers funding the obligation but being credited with no 'greenness'.
- Option B: Renewable energy is equally proportioned to all of the supplier's consumers. For a supplier of natural gas, the same proportion of renewable gas would be deemed to be supplied to its consumers in the heat sector.

IrBEA Response: Option B

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

IrBEA Response: Given the considerable rise in fossil gas prices in the past 12 months it is likely that the cost of replacement will be similar to or less than what proposed.

Q20: Are these costs reasonable to impose on consumers?

IrBEA Response: Yes, the rates offer a certain level of "push factor" for fossil fuel users to move to renewable fuels, with incremental increases over the timescale up to 2030. We consider that higher levels could be tolerated given the climate emergency and the need to rapidly decarbonise our economy.

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

IrBEA Response: Our 10 years of experience with the Biofuel Obligation Scheme has proven that a sufficient penalty will ensure high levels of compliance. We understand that the BOS has been 100% complied with since 2010. Therefore, we encourage a high level of penalty. There may be a case for the penalty level to be increased beyond what is proposed.

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

IrBEA Response: No. Energy poverty measures need to be implemented as below.

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

IrBEA Response: Energy poverty can continue to be alleviated through measures undertaken by the Department of Social Protection and at an increased level if required. Energy poverty cannot be used as a reason to neglect our climate impact responsibilities and can be alleviated by social welfare supports.

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

IrBEA Response: Considerable care should be taken for any proposal that may over incentivise any particular technology however additional support are justified to develop certain technologies.

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?

IrBEA Response: On the basis that Green Hydrogen is only that hydrogen produced by new renewables i.e. electricity that is currently supported by a REFIT/RESS contract and is then used to produce hydrogen does not qualify as Green Hydrogen for the purposes of the RHO.

In reality the amount of Hydrogen production capacity built by 2030 will be very small.

There is potential for green hydrogen to decarbonise parts of Ireland's economy. Ireland currently does not have a hydrogen economy, but has benefits that could make one work. In addition, Ireland's position at the edge of Europe means we are at the end of the gas pipeline and have limited other options.

Some renewable sectors have received support (often for decades) to help them become established. We note the suggestion to provide multiple credits to hydrogen, provided that the power to produce the hydrogen is not also supported through the REFIT or RESS schemes.

Incentives for Hydrogen through RHO should not divert renewable electricity from the grid thus impacting the renewable electricity target. Separate transport decarbonisation measures may include incentives to utilise green hydrogen as a fuel. Calculations of the costs across both sectors and uses need to be established by DECC to ensure that the use of hydrogen for heating is not favoured over transport. Transport is the most difficult sector of society to decarbonise, therefore should have priority for renewable fuel sources such as renewable gases.