Energy Efficiency Obligation Scheme Consultation

Electric Ireland Response

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Prepared by: [redacted]

Introduction

Electric Ireland welcomes the opportunity to participate in the consultation process for the 2021-2030 EEOS. The previous scheme has proven to be very successful and although difficult at times, it was manageable and greatly encouraged the uptake of energy efficiency measures; therefore, Electric Ireland would suggest that the 2021-2030 scheme keep as many aspects of the previous scheme as possible whilst adhering to the changes in Article 7 of the EED.

Decarbonising society will depend greatly on the Electricity industry in which Electric Ireland operates and electronification of transport and heat will drive many of these carbon reductions and Electric Ireland is committed to being at the heart of these transformations.

To date, substantial energy efficiency has been achieved by the state centrally and by placing an energy efficiency obligation on energy suppliers. In general, these obligations on suppliers have been achieved by encouraging measures at the lower end of the cost scale such as insulating attics, changing heating controls and moving to energy efficient lighting.

As we move to much more stretching targets for energy efficiency, the measures required will become more complex and ultimately more expensive. Energy suppliers' operating models are to provide energy and related services to customers and to build relationships with them. This model has been leveraged to deliver efficiency measures, but we would caution that this mechanism can only be leveraged so far.

Broader Policy Framework

Given the above, we would therefore highlight the importance of wider energy efficiency policy and supports in that they directly interact with the additional obligations proposed for suppliers. For example;

- The National Retrofit Programme needs to be finalised and launched. This will include details on standards, state supports and access to low cost finance.
- The Support Scheme for Renewable Heat requires a review to health check its operation against the additional climate targets now proposed.

If this new EEOS scheme is finalised ahead of the wider framework with new obligations on suppliers, it may be impossible for suppliers to meet the obligations in a fair and equitable manner which could ultimately undermine confidence in the scheme.

Phasing and Transition

We believe there to be a risk that this new EEOS scheme is being developed in isolation of wider Government measures. We are not suggesting that the new scheme be delayed but we do suggest that the targets in the new phase of the EEOS are phased and proportionate to the new policy measures from Government. Failure to do this could result in suppliers having an obligation that they can't meet in a reasonable, fair, and equitable manner which could in extreme undermine confidence in the scheme.

Summary of key responses

- Supportive of EEOS covering OPS across all main energy markets (including transport), market changes and maturation of electric transport need to be considered and flexibility needs to be core to the scheme to allow for such

- Questions arise around obligations regarding EV supply and the split of transport and networked obligations

- Split of Article 7 obligation should be kept at 50:50 as insufficient evidence to support a change at this point

- Transport may require sub-targets in transport and or fuel poor and residential to prevent full delivery of 40% of scheme in commercial similar to networked obligated parties.

- Delivery mechanism for residential – requires much more nuanced approach and further details need to be teased out in relation to the B2 Pathway approach

- Fuel poor definition may need to be addressed; narrows potentially qualifying homes and now places fabric of home as a qualifying measure, in contrast to best practice of using ability to pay energy bills

- Requirement of technical assessment has potential to increase cost to homeowner and further details on this is needed

- Overachievement and early delivery of targets should be rewarded

- Transparency required on calculations of buyouts and penalties

- Review should be carried out in 2023 of first year and every 2 years thereafter

- Provision of cost data may not be appropriate as market is competitive and as such data is sensitive

- Bill information not the best use of resources – propose more nuanced digital delivery of data

Individual Question Responses

Question 3.1:

Do you agree with our proposal that the EEOS should cover entities across all the main energy markets - electricity, natural gas, liquid fuel and solid fuel**?**

Yes – this continued approach ensures proportional representation of fuel providers in the Irish market. It will also ensure one fuel type does not benefit from obligations on another.

Question 3.2:

Do you agree with our proposal to obligate the above types of eligible parties within each market, should they be above a certain size, that is:

a) of the eligible parties in the liquid fuel market, only the liquid fuel importers operating in Ireland;

b) of the eligible parties in the solid fuel market, all entities, including all distributors and suppliers operating in Ireland;

c) of the eligible parties in the electricity and natural gas markets, only the retail energy supply companies operating in Ireland?

Yes – this approach has worked well in the previous scheme and should be retained.

Question 3.3:

Do you agree with our proposal to set the obligation threshold in terms of annual final energy sales volume (GWh)?

In principal, yes – however, clarity and discussion are needed regarding EV destination charging in the future. A scenario whereby a petrol station provides and profits from fast charging stations begs the question as to who is carrying the final energy sale volume; the energy providing the station or the station owner providing it to the end user? This could result in one obligated party supplying another to mark up and resell.

Question 3.4:

Do you agree with our proposal to set the obligation threshold level at final energy sales of 400 GWh per annum, combined with the introduction of a free allowance?

It is welcomed that the reduction to 400 GWh will result in an increase in the number of obligated parties in the solid fuel market.

The research noted that Ireland being a much smaller market would not sustain the level of participants seen in the UK, however, with the onset of digital only participants, there could be similar distortion in the Irish market with smaller entities taking a bigger and bigger share of the market; a mechanism to review the obligation threshold should be put in place as technical developments over the 9 years of the scheme could cause major disruption to the energy market.

It is accepted that to avoid a cliff edge an allowance is required. However, it would be more appropriate that this be a temporary measure to assist in the first 1 or 2 years of being obligated, it should not be in perpetuity. This allowance should be set below the 400GWh potentially around 200.

Furthermore, the ECA report makes assumptions on fixed and variable costs for such entrants, however, with the ability to buy credits in the market without investment in internal delivery mechanisms may make the 'cliff-edge' somewhat redundant.

Question 3.5:

Do you wish to provide any specific comments in relation to the above target setting approach?

It is agreed that the 10% approach to movement in market share should be retained. However, concerns arise from placing the requirement on the suppliers to ensure they declare if they are potentially obligated or not – this could have negative impact especially in the solid fuel market. It is understood that there is an administrative burden on the SEAI to own this process, but it should be taken on to ensure good governance.

Furthermore, the market may undergo much change in the coming years with digital only entrants to the market have a low cost to enter. Market share may change dramatically with many smaller entities holding a larger share of the market. This could then inadvertently punish larger retailers and possibly result in a smaller number of obligated parties, especially in the electricity market. It is suggested that the 10% rule and the obligation threshold be reviewed after year one of the scheme and every 2 years thereafter to ensure fairness of the target setting approach.

Question 4.1:

Do you agree with our proposal that 60% of Ireland's Article 7 obligation for 2021-30, equivalent to 36,424 GWh cumulative final energy savings, should be met by an Energy Efficiency Obligation Scheme?

At this time, Electric Ireland does not agree with the proposal that 60% of Article 7's obligation be met by the EEOS. This is mainly due to the level of uncertainty in the overall policy framework (retrofit, SSRH, etc). Until more certainty comes to the fore, we believe it prudent to maintain the 50%. Further to this the ECA report accompanying the consultation shows no evidence that to move from the previous 50:50 split to 60:40 is justified.

Several factors such as the move to Final Energy, Covid and new business model requirements for the new scheme exacerbate this increase and would make it more onerous than may be anticipated by the department. Electric Ireland would call for potential for additional Alternative Measures to be looked at between now and the start of the scheme and the 50:50 split be retained.

Question 4.2:

Do you agree with our proposal that the EEOS Target should be disaggregated, with a 40% target allocated to all transport energy suppliers and distributors (the Transport Sales Target), and a 60% target allocated to all non-transport energy suppliers and distributors (the Non-transport Sales Target)?

Although the inclusion of transport is welcomed, Electric Ireland disagrees with the proposed split of the target. According to the 2017 energy balance of Ireland quoted in the accompanying report, transport constituted 43% of final energy consumption. Rounding 3 percentage points to 40 in this scenario has a large impact on non-transport energy suppliers and is deemed an unfair proportional split. 57% should be the non-transport obligation.

Furthermore, the expected increase in electrification of transport in the future would suggest that the scheme will need to determine how it will deal with such increases in the future as it progresses.

Question 5.1:

Do you agree with our proposal that a certain proportion of obligated parties' energy savings must come from measures delivered in the residential sector (the Residential Delivery Sub-target)?

The proposed approach to sub-targets seems to be somewhat inequitable with networked suppliers set such targets and transport not. Allowing the transport OPs to deliver energy savings in any sector is unfair to networked OPs. Sub-targets should be set for the transport sector to deliver specifically in transport, but also specific fuel poor and residential targets should be set. Transport OPs could target the commercial sector and deliver all of their target at a much lower blended cost per energy credit than networked supplier OPS as residential and fuel poor are more costly to deliver – this inequality of targets needs to be addressed.

Question 5.2:

Do you agree that, of these residential savings, a certain proportion must also come from activity in energy poor homes (the Energy Poverty Delivery Sub-target)?

The consultation acknowledges that delivery of fuel poor targets is more costly to OPS that other sectorial targets. It also acknowledges that the new delivery requirements may result in an further increase in this cost to deliver fuel poor savings; it does not then make sense not to spread this cost across all OPs – as per 5.1, Electric Ireland suggest that there be a fuel poor sub-target for the transport sector also.

In effect, non-transport supplier's energy poverty target has increased from 5% to 8.25% as stated in the consultation paper. With considerable relative cost of complying with the energy poverty targets as well as the potential liability for non-compliance given energy poverty penalties are considerably higher, the proposed increase is substantial. While we are supportive of addressing energy poverty, we believe this should be a shared effort across the scheme

Question 5.3: Do you agree with our position not to specifically require that a portion of the EEOS Target must be met by obligated parties through savings from measures in the transport sector?

Electric Ireland believes that a transport measures sub-target is a potential option which should be considered. We believe it is important that transport plays a more active role in its own sector when it comes to energy efficiency measures. Allowing transport OPs to target any sector for their entire target may have an adverse effect on non-transport OPs.

We do not believe it is fair or equitable that the transport portion of the target can be delivered in any sector. This will inevitably result in those suppliers focussing on lower-cost commercial measures which will mean they are able to service their obligation at a much lower cost than networked electricity and gas suppliers. Residential and fuel poor targets should therefore be included.

Question 5.4:

Do you agree with our proposal that at least 15% of all EEOS savings, equivalent to 5,464 GWh cumulative final energy savings, must be delivered in the residential sector?

Electric Ireland has no issue with the whole residential target being 15% of all EEOS savings as this is a broadly similar target that was imposed on participants in the 2017-2020 phase of the EEOS. However, to ensure a level playing field for OPs, residential and energy poverty should be applied equally across all obligated parties under the EEOS, hence they should apply to transport also.

Question 5.5:

Do you agree that at least 5% of the EEOS Target (a third of the Residential Delivery Sub-target), equivalent to 1,821 GWh cumulative final energy savings, must be achieved through measures delivered in energy poor homes?

No. Due to finite level of works in this area (usually via BEC and LA works), pushing this target to effectively 8.25% is a large increase. Previous scheme has shown how difficult many OPs found it to deliver at the 5% level. Electric Ireland suggests that 20% not 33% be assigned to this target. This would ensure the % of sales targets remains at 20% for residential only and 5% for fuel poverty.

We would furthermore recommend consideration be given to disaggregating the transport target so that the responsibility and cost of delivering energy poverty measures is more evenly and equitably spread.

Question 5.6:

Taking account of the worked examples provided in Appendix 3, do you agree with our proposed approach in how the delivery sub-targets are allocated to obligated parties?

The transport portion of the EEOS target needs to be disaggregated and subject to sub-targets as is the non-transport element. A transport measures sub-target for the transport sector should also be considered as a way of addressing the inequity in the current proposal and directing transport industry to undertake measures in its own sector.

Question 6.1:

Do you agree with our proposed requirements for delivery under the Residential Delivery Sub-target (excluding the Energy Poverty Delivery Sub-target)?

Electric Ireland understands underlying position that Ireland must aim for high quality retrofits across the whole building stock between now and 2050. To this end, we support the 2030 retrofitting and heat pump penetration targets. We do believe there are some nuances in the policy that should be explored in the implementation of the new EEOS.

At this time, going straight to a B2 standard can represent a significant investment and building owners may be reluctant to do this due to reasons such as capital constraints or due to overall uncertainty with retrofitting policy.

We believe the "Pathway to B2" concept should be explored further and elaborated. It should be possible for building owners to implement single or a small number of measures once they are clearly shown to be compatible with the pathway to B2. By this we mean that if the measure can be completed now and will not be obsolete (or need more work) in a B2 upgrade then it should be allowed. This has advantages for Electric Ireland since it increases the pool of potential customers for energy efficiency measures and has advantages for the state in that future compatible energy efficacy measures are being completed which help meet Ireland's policy objectives.

Question 6.2:

Do you agree with our proposed requirements for delivery under the Energy Poverty Delivery Sub-target?

Again, Electric Ireland understands underlying position that Ireland must aim for high quality retrofits across the whole building stock between now and 2050, including the Energy Poverty space. However, we would suggest the fuel poor scheme at a minimum stays the same but should strive to bring more homeowners into the mix. The government has committed to expanding eligibility criteria for energy efficiency schemes to capture more people living in deprivation and to make greater use of community-led approaches to addressing energy poverty; as recommended by the EU – this narrowing of the criteria is in complete contravention to this commitment.

The approach laid out in this consultation takes the fabric of the home into account when deciding on fuel poverty. Fuel poverty is due to the homeowner's ability to pay energy bills, not the fabric of the building. International best practice that Ireland has used for many years' bases fuel poverty on disposable income spent on fuel.

A system to allow for private homeowners and landlords renting to low income renters needs to be addressed as a wider part of the fuel poverty plan.

It should be also noted, that the suggested model will not allow for a homeowner who received previous minor works to get to a D level for example, to qualify for further works – this anomaly needs to be addressed and it is suggested that the requirement of an E1 rating is removed and replaced with C or lower – this will ensure all fuel poor homes can qualify to get to a B2 or better.

It is suggested that, like the suggestion for residential homes, the credits are earned based on individual measures with a bonus credit for achieving B2 or better. It does not make sense to have a 'Pathway' process for residential but not for fuel poor homes.

Question 7.1:

Do you agree with our proposal to implement annual additive targets up to 2030, which obligated parties will be required to meet every year?

Electric Ireland does not in principle have issue with this approach however, we suggest that an option of additive or cumulative be given as many OPS will have to change business models based on the recommended changes to the scheme and may be better suited to cumulative targets. Furthermore, early delivery of targets should be rewarded, not just with carry over, but with some multiplier based on year of delivery.

Question 7.2:

Do you agree that each obligated party's 2021 delivery, rather than their 2021 targets, should be considered in the calculation of targets for the remaining nine years of the obligation period?

Electric Ireland suggest that any shortfall in 2021 delivery be applied over the 2022- 2030 period. Furthermore, considering the difficulties in obtaining credits due to the COVID-19 pandemic, DECC should consider waiving penalties for not reaching 95% of the target in 2021.

Question 7.3:

Do you agree that obligated parties should be allowed to count savings achieved on their behalf by third parties towards their targets?

Yes – it is agreed that DECC's intention to retain this flexibility mechanism for the 2021-30 obligation Period would be beneficial to all parties.

Question 7.4:

Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

No

Question 7.5:

Do you agree that a minimum achievement requirement should be put in place, which would mean that if an obligated party achieves at least 95% of its annual additive target, with the exception of the final year of the obligation period, they are deemed compliant?

Electric Ireland agrees with a minimum achievement set at 95%, however, DECC and SEAI will need to work with obligated parties where issues outside of their control such as Covid prevent them from achieving targets. Particular attention to potential to miss targets for 2021 and 2022 whereby special measures would be introduced would be suggested.

Question 7.6:

Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

No

Question 7.7:

Do you agree that obligated parties should be allowed to exchange validated credits bilaterally?

Yes, this has been a mechanism that most obligated parties have taken advantage of in the past and should remain.

Question 7.8:

Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

No

Question 7.9:

Do you think it could be beneficial to allow obligated parties to bilaterally trade

all or part of their targets?

Yes. This is an interesting flexibility mechanism and could be beneficial to smaller entities. It is a welcomed addition, but more detail of the mechanisms is required.

Question 7.10:

Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

No

Question 7.11:

Do you think there should be a buy-out mechanism in place for the 2021-30 EEOS, which would allow obligated parties to buy out a proportion of their EEOS targets by contributing to an Energy Efficiency National Fund?

Yes. Although not used by any OP in the previous scheme, the changes being implemented may be adverse and this safety net would be welcomed.

Question 7.12:

Do you think that the buy-out cap should be set at a maximum of 30% of targets?

Although this was the cap in the previous scheme, now is an opportune time to address some interesting discussion points.

As the buyout price is set at a higher rate this is enough of an incentive to avoid buyout, however, we would suggest that it not be limited to 30% but increased. The rationale for this is if the department can deliver the savings at a lower cost than OPs the ability to pay the buyout would result in EED being complied with at least cost to Ireland.

Question 7.13:

Do you wish to make any suggestions on how buy-out prices are set, which would ensure the State is not financially disadvantaged and the relevant requirements of the EED are taken into account?

Some clarity is required on how the department arrives at the values. Full transparency and publication of this would be welcomed.

Question 7.14:

Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

No

Question 7.15:

Do you agree with all, or part of, our proposed approach to non-compliance and penalties?

Agree with all but one part of the approach:

'in addition to the payment of any financial penalty, non-complying parties will be responsible for delivering the shortfall in their targets that led to the non-compliance determined based on the penalty framework in place, up to a maximum penalty amount'

This seems to double the penalty and could result in a spiral of missing targets each year after a shortfall. If the penalty is paid, like a buy-out, the delivery of those targets should not be required – the penalty will go to a fund to find those savings elsewhere.

Question 7.16:

In your opinion, how should penalties for non-compliance be determined, i.e. what factors should be considered as part of any calculation framework?

Mitigating factors should be considered in potentially lowering the penalties. Non-conformance may not be always in control of the OP – Covid_19 in point.

Question 7.17:

Do you wish to provide any suggestions or comments in relation to any aspect of this proposal?

No

Question 8.1:

Do you wish to raise any issues or make any suggestions on improvements that could potentially be made, in relation to the redesigned EEOS, beyond those discussed in this document?

No

Question 8.2:

In your opinion, how often should the scheme be reviewed, e.g. after three years; after four years; after five years?

It is suggested that due to the onboarding of new participants and vast changes in mechanisms, a review after year one should take place with biannual (every 2 years) after that.

Question 8.3:

Do you agree with our proposal to require obligated parties to report their EEOS cost data to SEAI?

No. This is highly sensitive data as in effect the energy credits market is a competitive space. It is preferred not to share this information. The case made is very weak for requiring such information.

Question 8.4:

Do you wish to make any suggestions on how such data is reported, e.g. the level of detail, format, and frequency of reporting?

If data is to be reported, it would be cumbersome and, in some cases, difficult to assign costs where existing mechanisms in the business are being used for delivery of the EEOS. Costs across OPs will be vastly different due to this issue. Cost per KWh can be provided much easier and this could be a much easier ask.

Question 8.5:

Do you agree that cost data should be published, provided all commercial confidentiality concerns are addressed?

No. The data released even if anonymised could have an adverse effect on the cost of operating the schemes. It may drive the cost of credits upwards.

Question 8.6:

Do you wish to make any suggestions on how such data is published, e.g. the level of detail, format, and frequency of publishing?

We suggest that an overall blended €/MWh for the scheme could be published.

Question 9.1:

Do you think there is a case for the provision of additional information to all consumers, via bills or otherwise, on their consumption and/or on potential energy savings?

With the onset of Smart Meters, this information will be provided via portals and apps soon. This is not seen as the most conductive use of time, money, or resources to get EE messaging to customers. Bills are not seen as good touch points for such information.

Question 9.2: How could the provision of such information be implemented cost effectively and in a way that benefits all consumers, whether on bills or otherwise?

Customer engagement with bills is minimal and other forms of delivery of information via digital channels should be supported.