

Department of the Environment, Climate and Communications

29-31 Adelaide Rd

Dublin

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Strictly Private and Confidential

By Email Only

Re: DECC consultation on the redesign of Ireland's Energy Efficiency Obligation Scheme

Naturgy Limited ("Naturgy") welcomes the opportunity to provide its views on the Department of the Environment, Climate and Communications' ("DECC") consultation on the redesign of Ireland's Energy Efficiency Obligation Scheme ("EEOS"). This consultation has been long awaited and understandably the DECC would like to ensure that all stakeholders have an input into this process given the impact it will have on the wider energy sector over the next 10 years. It goes without saying that the measures proposed and the redesign of the overall structure of the EEOS ought to be fair and balanced.

Summary

Scope

Naturgy is in favour of widening the scope of the EEOS to ensure the burden on obligated parties is more evenly spread and places a proportionate burden on all participants. Our proposed amended structure is outlined in the answer to question 3.4 below and we believe that it will allow for a fair share of the burden to be borne by those currently in the EEOS as well as new entrants. The evidence is obvious that those without a significant retail demand portfolio will be impacted more if the allowance is not set appropriately.

As the market evolves in the coming years, the option to amend the structure of the EEOS must be in place. It would be very unwelcome in the market for a flawed system to be implemented and then to be stuck with it until the end of the scheme term.

Targets and sub-targets

In keeping with the overall theme of fairness, we do not support the proposed change that the redesigned EEOS would bear 60% of the Article 7 obligation. There has been no clear basis for such a move away from the current 50:50 share and indeed is widely acknowledged that achieving the targets in the new scheme is going to be a bigger challenge so to impose a 60% burden on participants in the EEOS is unfair and biased.

The paper notes that DECC's intends "that obligated parties would be allowed the freedom to decide where they deliver their eligible savings, giving them the opportunity to achieve their savings as economically as possible." We agree with this overall approach, but strongly disagree that this should then form the basis of ring-fencing and setting sub-targets. [REDACTED]

It is therefore worth recognising and indeed is noted in the paper that obligated parties, with a non-residential and a residential portfolio of customers may incur lower costs achieving the non-residential targets, "despite potentially passing some of the cost of this delivery on to their residential customers also". This effective cross-subsidisation is not available to all participants.

Delivery requirements

The DECC has taken the opportunity to combine a number of different objectives in relation to energy efficiency measures and retrofitting homes to force energy suppliers to take on a role that, we believe, would be more appropriate for the State and be included under Alternative Measures. [REDACTED]

Nature of Targets and Compliance

Whilst we do not strongly disagree with the proposal to have a mechanism in place to amend annual additive targets, we believe that the existing cumulative structure can be kept in place and allow obligated parties chose their preferred option.

[REDACTED]

The proposed penalty regime appears to be structured to ensure obligated parties are hugely incentivised to ensure they meet or exceed targets. The basis of the penalties should be directly linked to the cost of the schemes, which should be published to encourage transparency on how penalties are set.

New Scheme Opportunities and Cost Information

We note the proposal that would require obligated parties to report their delivery and administrative costs to SEAI. However, no uniform calculations are suggested, which leaves it open to significant interpretation. In our view, the associated administrative costs of managing the scheme should be recoverable as this is implementation of policy, similar to how the administration of the PSO levy is operated.

Information on Bills

We don't believe that invoices are the best way to providing information to end-users. Invoices already contain significant amounts of information, including consumption. In our view, there are more effective ways of communicating information on energy efficiency measures.



Outlined below are answers to specific questions of interest to Naturgy.

Section 3: Obligated Parties

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?

Naturgy agrees with DECC's proposal to set the obligation threshold level at final energy sales of 400 GWh. However, we would like to propose a different approach to the introduction of a free allowance. The proposed free allowance is designed to support smaller entities and ensure the economic burden of the target is shared equally. While the size of the free allowance has little to no impact on larger obligated parties ("OPs"), it is a much-needed support for smaller entities. However, this leaves mid-tier OPs bearing an unfair burden.

[REDACTED]

Question 3.5

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

Naturgy agrees that the target should be based on final sales and with the "10% approach" to market share changes.

Section 4: The 2021-30 EEOS Target

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?

Naturgy does not agree with this split and firmly believe the previous 50:50 approach should be retained. Increasing the proportion of the EEOS to 60% would inevitably mean an increase in the target for OPs. This would have a great impact on the pressure put on OPs, especially after the transition from primary to final energy.

The ECA estimates that 55% of the total 2014-2020 target will have been achieved by the EEOS. Therefore 60% seems like an unnecessary increase, considering the new scheme’s larger targets and switch to final energy. The EEOS cannot be expected to carry more weight than it had previously, especially when challenges to support and implement measures are increasing. The areas where a significant level of savings have been made to date such as lighting will reduce quickly (primary to final) and then disappear.

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)?

The transport portion of final energy use in 2019 was 42% and that level is expected to increase in the coming years. Therefore, Naturgy believes the proportion of transport should be increased to 45% at the outset and then carry out regular reviews on the split.

Section 5: EEOS Delivery Sub-targets

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?

Naturgy agrees with this approach.



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?

[Redacted]

Section 7: Nature of Targets and Compliance

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?

Naturgy does not agree with the above minimum requirement.

Question 7.6 Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

Naturgy believes the minimum requirement should start at a lower percentage and be incremental over the years, in a similar manner as the previous scheme. This would allow OPs to adapt to the new scheme which has many new restrictions.

Question 7.7: Do you agree that obligated parties should be allowed to exchange validated credits bilaterally?

Naturgy agrees that bilateral trading by OPs of validated credits should be allowed.

Question 7.8 Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

[Redacted]

Question 7.9 Do you think it could be beneficial to allow obligated parties to bilaterally trade all or part of their targets?

[Redacted]

Question 7.10 Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

[REDACTED]

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?

Naturgy agrees that there should be a buy-out mechanism in place.

Question 7.12 Do you think that the buy-out cap should be set at a maximum of 30% of targets?

Naturgy disagrees with this proposal and instead believes there should be full flexibility to deliver savings at the lowest cost possible. Naturgy believes there should be no buy-out cap.

Section 8: New Scheme Opportunities and Cost Information

Question 8.2 In your opinion, how often should the scheme be reviewed, e.g. after three years; after four years; after five years?

Naturgy would like to see the scheme reviewed in 2023 to assess the 2022 performance and see how it has been impacted by new regulations. Since the energy market will be evolving rapidly in the next 10 years, Naturgy would see fit a review of the scheme every 2 or 3 years after that.

Question 8.3 Do you agree with our proposal to require obligated parties to report their EEOS cost data to SEAI?

The reporting and publication of data is a big threat to commercial confidentiality and therefore Naturgy does not believe it should be enforced.

Question 8.5 Do you agree that cost data should be published, provided all commercial confidentiality concerns are addressed?

Naturgy does not agree with the above proposal, as we do not see how the commercial confidentiality could be protected when publishing such data unless it is done on an aggregated basis.



Section 9: Information on Bills

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?

Naturgy disagrees with this proposal and does not believe that the scheme should enforce communications with customers through bills.
