

18th September 2015

Errol Close
Decarbonisation Division
Department of Communications, Energy and Natural Resources
Adelaide Road
Dublin 2

Renewable Heat Incentive – Technology Review Consultation

Dear Errol,

On behalf of Ibec I would like to thank DCENR for this opportunity to comment on the emerging policy framework for the promotion of renewable heat use in Ireland. Ibec is the country's largest business representative organisation with over 7000 members, many of whom are large energy users, energy providers or technology suppliers. We wish to offer a number of observations on the overall approach, as well as on the fuels and technologies now under consideration.

Overall, the policy context is well set out and the investment challenges we face over the period to 2020 and beyond have been correctly identified. The approach being adopted by DCENR seems to be an appropriate response to the issues identified. We welcome the confirmation that the RHI scheme will be entirely exchequer funded and that it will support a range of technologies. The proposed timetable for implementation is ambitious, given the scope and novelty of feasible support mechanisms. It will be important to maintain momentum over the next six months.

The fuels and technologies initially being considered by DCENR closely match those eligible for the UK's non-domestic RHI scheme, which has been running successfully over the past four years. The UK Environment Agency is predicting that the RHI scheme will achieve emissions reductions of circa 44 million tCO₂e over the period 2011-20, with more than 80% of this being from projects in the non-ETS sector. It is also expecting that the scheme will deliver a substantial acceleration of GHG reductions in the period after 2020.

The DCENR's framework will likewise focus mainly on renewable energy installations in the non-ETS sector. This is understandable and appropriate, given that such investments will contribute to meeting our national greenhouse gas obligations as well as national RES targets. Ireland's EU-mandated emissions trajectory out to 2020 is very demanding. Any new national targets allocated to Ireland for the period to 2030 or beyond are certain to be even more so. Nevertheless, it would not be sensible or prudent to exclude the EU ETS sector from RHI eligibility; Ibec would not favour doing this as it could increase the risk of Ireland missing its legally binding 2020 RES target. In this regard, we note with concern a recent SEAI warning about the potential for very large financial liabilities in years to come. Cost penalties could arise from the imposition of EU fines or from the need to purchase scarce renewable energy credits from other member state governments.

The design options stage of the proposed framework will need to formulate a consistent methodology for calculating levelised deployment cost of each technology, and in particular the treatment of fuel prices. Incentives could then be designed to apply either at the point of energy production or at the point of consumption (such as a heating network).

The difference in marginal cost between a particular renewable energy source and the fossil fuel it displaces can vary over time in an unpredictable way. The market price of energy crops, for example, will depend partly on the prevailing value of the best alternative use of the land. Likewise, the cost differential will be directly affected by fluctuations in the international market price of the relevant fossil fuel. This uncertainty can create problems. In order for a renewable energy project to be bankable, it will be vital for investors to have reasonable confidence about their projected gross profit margins. Achieving this by means of a feed-in premium over a volatile market price, rather than a stable feed-in tariff, could prove very challenging.

It is highly likely that different levels of financial support will be justified for each approved technology, but less clear how these could emerge from a competitive bidding process. Fortunately, the EU's state aid guidelines on allocation are not (as yet) overly prescriptive for biofuels. Also, it is unclear how the DCENR will estimate a normal return on investment across technologies that carry a range of technology and market risks. The capital asset pricing model may or may not be an appropriate tool to determine this.

Ibec notes with approval that eligible technology investments completed and commissioned between 8th July 2014 and the start date of the RHI may qualify retrospectively. We would suggest that this flexibility could reasonably apply to EU ETS installations as well, provided that it does not constrain the funding for priority non-ETS projects.

We acknowledge that investment in renewables needs to go hand-in-hand with improved energy efficiency but we would caution against making the eligibility criteria overly restrictive. For example, SEAI's Triple-E register may not exhaustively list all of the capital equipment appropriate to a state-of-the-art renewables project. The RHI should also be able to incentivise mixed-fuel as well as dual-fuel systems. Bio-methane injected into the gas grid is one such example.

You will recall that at a workshop hosted by Ibec on 27th August, a compelling case was presented for amending the proposed eligibility criteria to include certain smaller-scale technologies such as domestic and commercial air-source or ground-source heat pumps. Similar arguments could also be made for smaller-scale anaerobic digesters, which not only produce clean energy from waste materials but can also displace artificial nitrogenous fertiliser. It will be worthwhile for DCENR to study the experiences of other EU member states where such technologies have made substantial national contributions. An enhanced scope of eligible technologies could apply from the outset of the scheme or (as in the UK) shortly thereafter.

We note DCENR's concern about the potential for double compensation of renewable CHP where other supports are already available. We believe this can be avoided fairly easily. In the UK, for example, sites have been given the opportunity to choose between schemes. Such flexibility may well be attractive to biomass CHP projects for which electricity exports to grid are small in comparison to the in-house heat load and electricity usage.

We hope that these comments are helpful. The members of Ibec's Energy Policy Committee look forward to engaging with you again at the next stage of the process.

Yours sincerely,

Neil Walker
Head of Infrastructure

Direct 01 605 1578
Mobile 087 969 0678
Email neil.walker@ibec.ie