DEPARTMENT OF COMMUNICATIONS, CLIMATE ACTION & ENVIRONMENT

SSE RESPONSE TO

PUBLIC CONSULTATION – ON THE DESIGN AND IMPLEMENTATION OF A RENEWABLE HEAT INCENTIVE IN IRELAND

3RD MARCH 2017
INTRODUCTION

SSE wishes to make the enclosed submission for consideration as part of the Department of Communications, Climate Action and Environment (DCCAE) consultation concerning the design and implementation of a renewable heat incentive (RHI) in Ireland.

SSE welcomes the publication of the Consultation Document and the work being done by DCCAE to produce a stable policy framework to support investment in renewable heat.

ABOUT SSE

At SSE we’re proud to make a difference. From small beginnings we’ve grown to become Ireland’s second largest energy provider, supplying greener electricity and natural gas to around 800,000 homes and businesses on the island, or 20 per cent of the total combined gas and electricity markets here.

We’re proud too to be making a difference to the future of Ireland’s energy supply. Since 2008, SSE has invested over €2 billion, or around €1 million a day, in growing our energy business here – creating jobs in Ireland, sustaining employment, driving competition and greening our economy.

In energy generation, we now own and operate 1836MW of generation capacity, of which almost 550MW is from 25 wind farms across Ireland. We’re also building the 174MW (SSE share 120MW) Galway Wind Park in partnership with Coillte – when completed in 2017 it will become Ireland’s largest wind farm.

We’ve commissioned Ireland’s newest and one of its cleanest power plants – the new 464MW Great Island CCGT unit (grid connection capacity set at 431MW) in Co. Wexford which can generate enough energy to power over half a million Irish homes. Coinciding with the retirement of the old 240MW heavy fuel oil unit at the same site, the transition to gas has improved the carbon intensity of SSE’s fleet and significantly decarbonises energy generation in Ireland. In addition, SSE estimates that Great Island will save Irish energy customers in excess of €50 million per year as one of Ireland’s most efficient power plants, and it will provide additional savings when full grid access is delivered.

SSE’s retail energy brand SSE Airtricity is Ireland’s largest provider of 100 per cent green energy. In 2015, all of the electricity we supplied to our home and business customers (5.3 TWh1) was from 100 per cent green energy sourced by SSE Airtricity, significantly abating over 2 million tonnes of harmful CO2 emissions on the island.

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1 Total GWh supplied to homes and businesses based on Electricity Market Share by MWh published by the Commission for Energy Regulation (CER) in Retail Market Reports for the periods 01-04 2015. Oulated CO2 emissions abated based on Average CO2 Emissions (MWh) in 2015 in the All Island Single Electricity Market, and published by the CER in its Fuel Mix Disclosure and CO2 Emissions for 2015, August 2016.
SSE adopts a responsible approach to managing its social, environmental and economic impacts to ensure the long-term viability of the business. In addition to being Ireland’s largest provider of 100 per cent green energy, SSE Airtricity is also the third largest financial contributor to charities and community groups in Ireland – in 2015, SSE Airtricity donated more than €1 million to local projects and good causes, as well as volunteering over 3,500 hours.

SSE was the first large corporate business in Ireland to become a Living Wage employer – from 1 January 2016 SSE guarantees all its employees a Living Wage of at least €11.50 an hour.

**SSE Considerations on the Guidance Documentation**

SSE strongly welcomes the publication of this Consultation Document and the work of the Department to develop a stable policy framework to support investment in renewable heat.

Ireland has a challenging outlook to achieve its ambition as outlined in the Government White Paper on Energy entitled “Ireland’s Transition to a Low Carbon Energy Future – 2015-2030” where it stated:

> ‘Our vision of a low carbon energy system means that greenhouse gas (GHG) emissions from the energy sector will be reduced by between 80% and 95%, compared to 1990 levels, by 2050, and will fall to zero or below by 2100.’

Furthermore, the 2020 EU Energy and Climate Framework includes a 20% reduction in GHG emissions by 2020 and a 16% renewable target for Ireland for 2020, which Ireland is seeking to meet through 40% renewable electricity, 12% renewable heat and 10% renewable transport.

In seeking to deliver its 16% target, Ireland has outlined an ambition to deliver 12% of final heat demand from renewable energy sources by 2020. While progress has been made in recent years on deployment of renewable heat technologies, under the current set of policies, Ireland is likely to fall short of the renewable heat (RES-H) target.

SSE welcomes the development of the RHI to address this policy ‘gap’ and believes the introduction of the scheme will help Ireland make steps towards reaching its targets.

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In October 2014, the EU Energy and Climate Framework was agreed which includes a 40% reduction in GHGs by 2030 and was the EU submission to the COP 21 discussions and subsequent global agreement in December. This is all set against an EU leaders' commitment to a reduction in the EU’s GHG emissions of 80-95% by 2050 compared to their 1990 levels. This position is continuing to develop through the Draft Effort Sharing Regulation published by the EU in 2016 which is being progressed towards a definitive target for Ireland for 2030.

Decarbonisation of the heat sector will therefore represent an ongoing challenge for Ireland.

In addition, we would also ask the Department to reassess the current calculation of energy efficiency savings by reference to an outdated Primary Energy Factor; we recommend that given the focus of climate and energy policy on reduction of GHG emissions that it would be more productive to measure savings by reference to carbon rather than by energy, and in doing so recognise the advances made in decarbonising electricity supply. By failing to recognise these advances, policy incentivises the lock in of fossil fuel technologies for another investment cycle. In particular, current standards in the Building Regulations are impeding the installation of promising electric storage heating solutions. We note that this option is open to Ireland under the Energy Efficiency Directive and we urge the Department to show leadership in this respect.

Finally, it will be also necessary to ensure that there is flexibility of ownership (the RHI applicant may not always be the owner of the facility) in order to incentivise investment.

Inclusion of the ETS Sector

While the preferred option of the DCCAE is that the focus of the RHI would remain on the non-ETS sector to ensure a double benefit to the taxpayer, and ensure a larger number of participants can avail of support. On the other hand, it is important that there is sufficient heat demand to meet the renewable heat target and that the administration of the scheme is not overly complex. What are the respondents' views on the inclusion or exclusion of the ETS sector?

The Consultation Document states that there may be merit in considering support for a smaller number of larger ETS renewable heat installations, so as to help meet the 2020 RES-H target, to help minimise the complexity of administering the Scheme, and to help support competitiveness. There may be merit in this approach, where cost effective. However, DCCAE will need to consider safeguards to ensure that these installations are not overly incentivised (through both the ETS and RHI). DCCAE will need to ensure that an appropriate tariff is set and that controls are put in place to reflect any changes in the carbon price under the ETS.
Grandfathering

Support schemes should be provided to incentivise future investment. SSE appreciates the need for DCCAE to consider a broader perspective given the delay to the introduction of the scheme. However, grandfathering has not been afforded in the past to electricity support schemes and would set a worrying precedent as an investor. DCCAE will need to ensure the scheme continues to incentivise investment after its introduction. There will be little incentive for investment in new projects, if too many projects are carried over.

Minimum Energy Efficiency Criteria

- Do respondents agree that energy efficiency standards should be included as part of the RHI?
- The preferred option of the DCCAE is that the Building Energy Rating (BER) scheme will apply to buildings in the commercial and public sector participating in the RHI.
- For smaller industrial and agricultural heat users, and those with no significant process heating, a minimum efficiency criterion based on the individual energy performance scheme will likely be needed.
- For industrial and agricultural heat users with significant process heat loads the EXEED programme may be used. Are there any other options to consider for this group?

SSE supports the proposal that energy efficiency standards should be included as part of the RHI. The inclusion of minimum energy efficiency criteria will help ensure that the RHI is used to incentivise uptake in renewable heating technologies and encourage improvements in energy efficiency, contributing to the Ireland’s obligations under the EU Energy Efficiency Directive.

SSE welcomes the proposal to use a minimum BER rating as the basis of a minimum energy efficiency criterion. Where the use of BER is not appropriate, SSE would recommend looking to globally adopted programmes such as BREEAM or LEED for guidance, rather than pilot stage programmes such as EXEED.

Minimum energy efficiency criteria would help align renewable heat policy with the requirements under the Energy Efficiency Directive, Ireland’s energy efficiency targets, and the RES-H target. SSE supports the appointment of the SEAI as the administrator of the RHI and would welcome an integrated approach with the energy efficiency schemes, currently under the SEAI’s remit. DCCAE should ensure that SEAI remains adequately resourced to undertake these new activities.
Minimum Technology Requirements

Do respondents agree with the requirement to ensure minimum technology standards for each technology should form part of the RHI?

SSE supports adopting technology specific minimum technology requirements, so to incentivise high quality installations that provide renewable heat in the most effective and efficient way. However, it will be necessary to balance the need for high standards with the cost of compliance.

Eligibility of Heat Use for the RHI

It is proposed that the RHI beneficiaries in Ireland will be required to show that heat is supplied to meet an economically justifiable heating requirement that would otherwise be met by an alternative form of heating such as a gas boiler. In addition, heat load should be an existing or new heating requirement, and not created artificially purely to claim the RHI.

SSE welcomes the proposals that the RHI beneficiaries will be required to show that heat is supplied to meet an economically justifiable heating requirement that would otherwise be met by an alternative form of heating. This encourages efficient use of heat and helps prevent misuse of the scheme. Eligibility of heat use should be assessed when evaluating the energy efficiency criteria, so as to support a streamlined and cost-effective process. In addition, SSE supports the proposal that heat load should be an existing or new heating requirement and not artificially created to claim the RHI.

Impact of Biomass Combustion on Air Quality and CO2

Given the difficulties of reducing carbon emissions in Ireland’s non-ETS sector and the impact of biomass combustion on air quality and CO2, SSE considers that the electrification of heat has a lot to recommend it in terms of realising Ireland’s decarbonisation potential. Emissions related to the power generation sector have halved since 1990. Furthermore, electric heat technologies have the potential to assist with renewables integration through demand side management and system services.

Biomass Sustainability Criteria

Sustainability criteria should be proportionate but also allay any concerns about non-sources of material. Sustainability criteria should be fully harmonised with EU legislation. EU Member States are encouraged to monitor the origin of all biomass consumed in the EU to ensure its sustainability and to devise appropriate schemes to support the development of local sustainable biomass supply chains. The adoption of a harmonised cost-effective sustainability approach would further encourage the mobilisation of private sector forestry and the establishment of sustainability.
Given that new integrated sustainability guidance and GHG savings thresholds are now proposed in the European Commission’s proposal for a revised Renewable Energy Directive, a more comprehensive approach to sustainability criteria would be welcomed.

**Differentiation of Tariff by Renewable Heat Technology**

The preferred option of the DCCAE is to introduce an RHI scheme with tariff differentiation by renewable technology. What are the views of respondents on the question of tariff differentiation by technology type?

SSE supports a tariff structure that is cost effective for consumers and that balances both investment and efficient operation. Given the number of technologies which will be supported under the scheme, tariff differentiation will ensure the different costs associated with each are accounted for. This will help support a cost-effective and efficient scheme and will help to diversify the technology mix. Clarity will be needed in relation to how the tariffs will operate in practice, so as to provide certainty for investors.

**Differentiation of Tariff by Installation Size or by Output**

The preferred option of the DCCAE is to introduce a tiering approach based on metered heat output (c/kWh). What are the views of respondents on this proposal?

SSE is supportive of DCCAE’s proposal to introduce a tiered approach to tariffs based on metered heat output (c/kWh). Tiered tariffs will help incentivise efficiency, support the use of appropriate system sizing, reduce the risk of over- or under-incentivisation of installations, and account for the tariff variation required with installation size.

**Age of Existing Fossil Fuel Heating Technologies Being Targeted for Replacement**

What are the views of the respondents on this matter?

In assessing the age of existing fossil fuel heating technologies being targeted for replacement it will be necessary not to limit the technologies being targeted for replacement to end of life. There may be economic and environmental benefits to earlier action to ensure a smoother more cost effective transition for consumers and for the Exchequer. DCCAE should consider providing for earlier replacement of fossil fuel technologies, but should do so in a way that maximises the benefit and minimises the cost to the exchequer.
Duration of Support and Profile of Payments to Scheme Participants

- The preferred option is that the RHI will be paid for a 15 year period. What are the views of respondents on a shorter or longer tariff payment period?
- The preferred option is that the RHI will comprise of ongoing payments over a period of years with no front loading. On balance, this decision would minimise the impact on the Exchequer while ensuring the RHI remains attractive for investment. What are the views of respondents on this approach?

Shorter pay-back periods are preferable from a commercial perspective and will give a greater level of surety to investors. However, given the cost to the Exchequer, SSE would be supportive of a 15 year payback period, as this would both support the renewable technologies and incentivise their on-going efficient use. Other renewable support schemes in operation such as REFIT have been structured over a 15 year period and have been successful in supporting investment.

Where, a pay-back period of 15 years is implemented, it would be beneficial for DCCAЕ to provide a frontloading of payments, such that the level of support is higher for an initial period e.g. first 5 years, and then falling to a lower level for the remaining level of support e.g. final 10 years. This would provide a balance between incentivising uptake and investment and would promote the efficient lifetime operation of the technologies.

Payment based on Metered Heat or Deemed Heat Use

What are views of respondents on the proposals for metering and deemed heat use as outlined?

It would be a preference that support schemes and payments are based on auditable and verifiable measurement of performance. This is best achieved by utilising a metering of a specified standard to meter both the source and use of heat.

However, SSE acknowledges that the ability to separately and cost effectively meter all heat sources and uses within a given installation can be difficult. A need to meter may in some instances even become a financial barrier to the conversion of a heat use to renewable heat. Therefore there may be occasions where using a ‘deemed heat’ approach is appropriate.

SSE would advocate that DCCAЕ should introduce strict guidelines around the use of deemed heat and only provides for it in circumstances where it can be shown that metering is not feasible or cost-effective.

Even in these circumstances, DCCAЕ should seek to identify a verifiable audit trail for the basis of both the calculation and payment on the basis of deemed heat.
Systematic Adjustment to Tariffs

The DCCAE preferred option is to index the RHI tariff to the Consumer Price Index. This is the case in the existing Renewable Energy Feed-In Tariff and has worked well. What are the views of the respondents the proposal?

As the prices of technologies and fuels change, the costs associated with both renewable and counterfactual technologies change. There will be two primary components to delivering a project under the RHI scheme, namely capital costs and operational costs. Many of the components of the capital costs may be appropriate to have a CPI type index applied – however the operational costs will largely be driven by the cost of fuel. SSE is not aware of a public index for fuels such as biomass and therefore DCCAE should exercise caution when setting an index for inflation.

SSE considers that DCCAE should undertake an exercise to consider a range of alternative indices, i.e. industry/technology/fuel prices, to determine whether the Consumer Price Index (CPI) is the most appropriate.

Budget Adjustment Mechanism / Cost Controls

The preferred approach of the DCCAE is to introduce a tariff degression and budget cap mechanism along the lines of the UK scheme. What are the views of the respondents on this proposal?

SSE agrees that effective budget mechanisms are vital to the success of the RHI scheme.

On the whole, SSE is supportive of tariff degression (either overall or on a technology basis). The degression should only apply to new applicants. Those who are already accepted into the scheme should continue to receive the RHI at the rate at the time they joined to ensure a stable investment environment. The design of the scheme should also provide clear guidance on when the RHI tariff level applicable to an applicant is set.

A key point to consider is the frequency of degression. A quarterly degression, for example, may require considerable resourcing and a longer term degression (e.g. annual) may therefore, be more appropriate.

SSE highlights that the degression in the UK RHI scheme drove considerable applications in the immediate timeframe before the degression point – this should be considered in relation to the Irish scheme and its administration requirements.

In addition, if grandfathering is to apply to the RHI scheme, it will be necessary to ensure that uptake does not immediately cross the threshold and force tariffs to decrease, removing the incentive for further investment.

SSE is also supportive of a budget cap (annual or overall). However, there will be a need for regulatory certainty at the point of investment, so as to ensure that there will be continued support for a project for the duration of its lifetime.
Allowed Rate of Return

SSE would support the adoption of a minimum 12% IRR, in line with GB.

There is a higher level of risk associated with RHI technologies in comparison to other renewable technologies. The IRR needs to reflect this risk in order to incentivise the uptake of renewable heating technologies, develop the market, and help build consumer confidence.

Implementation Options

SSE welcomes the appointment of the SEAI as the designated RHI administrator. As outlined in the Consultation Document, the administrative burden and associated costs of implementing an RHI scheme in Ireland will be significant. It will be necessary for DCCAE to ensure SEAI is provided with the adequate resources to administer the scheme in an effective and efficient manner.

Pre-Accreditation

What are the views of respondents on the question of pre-accreditation for larger, more complex installations?

SSE would argue that it is necessary to adopt pre-accreditation for all projects under the scheme. This would provide more certainty for project developers, especially where a budget cap has been imposed. Regardless of the size of the installation there is a need to provide developers with certainty in relation to their investment. Pre-accreditation would allow developers to submit the proposed project plan and effectively obtain confirmation of eligibility for the scheme. This process would provide a variety of efficiencies for the RHI scheme, as it would allow DCCAE to monitor projects with interest in the scheme and help ensure funds are allocated in an appropriate and proportionate manner.

Conclusion

The consultation on the design and implementation of the RHI in Ireland is a welcome development. We have made number of suggestions, which we believe will help support the design of the RHI and ensure the development of a cost-effective and efficient scheme.

SSE is available to discuss any aspect of this submission further and would like to thank DCCAE for the opportunity to respond to this consultation.