



## **Western Development Commission** Response to consultation on the Renewable Heat Incentive- Technology Review Consultation

Submitted to: Department of Communications, Climate Action and Environment

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### **Introduction**

The Western Development Commission (WDC) is a statutory body promoting economic and social development in the Western Region of Ireland (the counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare). The WDC<sup>1</sup> is involved in policy analysis and development, the promotion of regional initiatives and the operation of the Western Investment Fund.

The WDC has been actively involved in the renewable energy sector since 2003, and specifically involved in the bioenergy heat market since 2006 delivering a range of development projects and policy analysis. The WDC was a member of the National Bioenergy Working Group under the Department of the Communications, Energy and Natural Resources (2008 – 2010) and served on the Supply Chain and Market Development Sub-groups. The WDC is also a member of the Irish Bioenergy Association (IrBEA) Renewable Heat Incentive Group and has provided input into the IrBEA report “Delivering a Renewable Heat Incentive for the Republic of Ireland”.

The WDC was lead partner of the EU funded bioenergy project BioPAD (Bioenergy Proliferation and Deployment) 2012-2014, which targeted the Northern Periphery of Europe and was funded under the EU’s Northern Periphery Programme (NPP). It promoted the wider use of bioenergy and increased awareness of the opportunities it provides. The project helped the development of bioenergy and improved understanding of the links between supply and demand by looking at supply chains for a variety of bioenergy fuels and different ways of converting these fuels into sustainable energy. The WDC was also lead partner on RASLRES (Regional Approaches to Simulating Renewable Energy Solutions). RASLRES<sup>2</sup> a €2.8 million EU bioenergy project (2010-2012) funded under the Northern Periphery Programme aimed to increase the deployment of biomass fuels in rural communities and grow the number of local businesses involved in the bioenergy sector.

The WDC is interested in the development of the renewable heat sector in the Western Region and nationally as it makes use of abundant natural resources (particularly wood biomass and energy crops, as well as fuel from anaerobic digestion) and provides local jobs in the energy sector. It also

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<sup>1</sup> See [www.wdc.ie](http://www.wdc.ie) for more information

<sup>2</sup> See [www.raslres.eu](http://www.raslres.eu) for more information and for project publications

contributes to security of supply, and sustainability in the region and enables a move to a low carbon regional economy.

Given our experience in renewable and bioenergy the WDC welcomes the opportunity to submit a response to the consultation on the Renewable Heat Incentive. We first highlight some general issues of relevance to a Renewable Heat Incentive (RHI) and then address some of the questions outlined in the consultation document.

While a key objective is to incentivise renewable heat so that we can meet targets for renewable energy the potential employment and the opportunity to use local resources should also be considered. Renewable heat from local resources (biomass produced locally, AD, and biogas from waste) can all provide significant benefits to a local economy. The OECD report “Linking Renewable Energy to Rural Development”<sup>3</sup> contains a very useful examination of policy options and actions in fifteen OECD regions. It highlights what makes effective renewable energy policy and shows how bioenergy in the Heat market can provide greater local and national economic benefits than other renewable energies.

The WDC believes that the RHI scheme should aim to have as broad an uptake as possible and should focus on installations of all sizes. It should be designed in such a way as to ensure that the use of local fuels is incentivised. This is likely to be achieved through a wider spread of smaller installations than through a small number of very large installations. It is likely that many of the installations will be at a smaller scale (under 200kW) the median installation under the Reheat scheme (2007-2011) was 165kW.

## **Response to a selection of Suggested Questions**

### **What are respondents’ views on the inclusion or exclusion of the ETS sector?**

The ETS sector should be excluded. As discussed in the consultation document the inclusion of a smaller number of larger ETS renewable heat installations could have the effect of reducing the market potential for the number of medium and small size installations that can avail of RHI support. In addition given the geographical concentration of the ETS sector this would mean that fewer installations in the West and North West (where enterprises tend to be smaller) would have the opportunity to avail of the RHI.

In addition from a policy perspective, the ETS sector is already covered by a policy (ETS) which is focused on reducing emissions and therefore increasing the use of renewable energy. It would be inefficient to make this sector the focus of an additional policy with similar goals.

While meeting the RE heat Target is an urgent obligation, the policy goal should also take a longer term view and be aiming for a more efficient, widespread and longer term transition to RE heat use.

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<sup>3</sup> OECD, 2012, *Linking Renewable Energy to Rural Development*, OECD Green Growth Studies, OECD publishing. <http://dx.doi.org/10.1787/9789264180444-en>

### Do respondents agree that energy efficiency standards should be included as part of the RHI?

Energy efficiency standards must be a key part of the RHI. In all policies it is important that increased use of RE should be achieved in tandem with reduced energy use associated with greater energy efficiency.

### For industrial and agricultural heat users with significant process heat loads the EXCEED programme may be used. Are there any other options to consider for this group?

The BER scheme is probably the most appropriate scheme for the commercial and public sector, being already operational, although there should be some recognition of the difficulties of older buildings to receive a higher rating within the scheme.

Other heat users which do not use process heat should be required to undertake a designated energy efficiency assessment and to implement the recommendations of the assessment.

Finally, the EXCEED programme is probably the most appropriate standard for those with significant process heat use. However this programme is in its pilot stage and it is important that it is streamlined and simplified into a more user friendly format as it is currently quite a complex model. Otherwise it will impose excessive bureaucracy on the applicant.

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

Minimum technology requirements should be an essential part of the scheme in terms of the actual equipment installed. These standards should be set by the SEAI and updated regularly to take account of developments in equipment available. In addition the design of the system should be completed or verified by a person or organisation with appropriate qualifications, as an inefficient design will significantly management, use and benefits of the switch to RE use.

### 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.

The WDC agrees that the scheme should only support the production heat which would otherwise be required.

### The preferred option of DCCAE is that the WFQA is a mandatory requirement for participation in the RHI scheme for the purpose of fuel quality assurance. What are the views of respondents to this proposal?

It is agreed that the WFQA is the appropriate standard for the purpose of wood fuel quality assurances. Other fuel should also meet appropriate standards where applicable.

The DCCAE is minded to adopt minimum standards for PM and NO<sub>x</sub> emissions in line with the U.K., which is implemented through an Emissions Certificate and on-site emission testing where necessary for biomass appliances. What are the views of respondents to this proposal?

It is important that the RHI sets high standards for emission controls. The UK standard would appear to be appropriate but other European standards should also be investigated as in the long term synchronisation with EU standards is to be preferred

- Should the same criteria apply for domestic and imported biomass?

Yes

- Should the same standards apply to both forestry and energy crop based biomass?

It would seem that the same sustainability should be applied to both unless there are significant practical or policy reasons for not doing so.

- The preferred position of the DCCAE is to ensure a robust set of environmental sustainability standards for imported biomass. Should the E.U., U.K. or other sustainability criteria apply?

For the longer term EU sustainability criteria are probably more appropriate as they could be the standards incorporated into any relevant EU regulations.

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?

The aim of the RHI is to increase use of RE Heat in the most efficient manner possible. It would therefore seem most efficient to have one single rate ensuring that the most commercially efficient technology is supported. In different situations and enterprises different technologies will be more appropriate and more cost effective. It is likely that over time costs will vary among the technologies and this will mean that technologies used will vary over time as well as by industry type. Furthermore having a single rate will ensure that excessive price increases which may arise as a result of the market stimulation provided by the RHI will be controlled by cost competition from other technologies. If one of the goals is to have a range of different RE heat technologies this should be addressed by a different policy.

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?

A tiering approach based on the metered heat output should be introduced with highest payments for lower levels of heat use and payment reductions thereafter as more heat is used. This will incentivise smaller users but will ensure larger users do not continued to get paid these high levels. In addition it does not provide an incentive to design heating systems according to artificial size criteria based on different tariff levels.

RHI should not be limited to end-of-life replacement of the incumbent system as this would likely restrict the scheme and its effectiveness too much  
 What are the views of respondents on this?

The RHI should aim to encourage installation of RE before end of life of the incumbent system. Otherwise there will be a more limited demand for the RHI if only targeting those who are already planning to replace their system. By incentivising others with fossil fuel installations which are not in immediate need of replacement the scheme will be more efficient in achieving its targets and encourage more switchover to RE. This will require a higher tariff to encourage this shift.

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?

A longer period of payment will provide an incentive for the continued use of RE heat into the future, and reduces the likelihood of abandonment of the RE heat after a shorter period of RHI payment. It seems that 15 years is an appropriate period and one which spreads the costs for the exchequer.

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?

Front loading of the payment is not likely to be required (for each participant). A long term guaranteed income source for the RHI should allow the enterprise to access funds for the initial investment. However, as discussed below, there is a case for setting higher rates for the RHI for an initial limited period to encourage early applications for the scheme. These can then be reduced when a certain target number of installations or heat demand has been met.

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

Payments should be made on the basis of metered heat use rather than deemed. The installation of heat meters allows smaller users to be more aware of their heat use and management of it and in the longer term could increase efficiency of operation.

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 respondents on this proposal?

The CPI should not be used.

It is not the most appropriate index to use for the RHI as it contains goods that are not relevant to commercial users and does not take account of commercial fuel prices. It could therefore mean that in situations where fuel costs change substantially (either increase or decrease) and the extent of the change would not be reflected to any significant extent by the CPI.

An index which is wholly or largely based on prices for fuel or energy products paid for by industry or commercial users should be used.

Consideration should be given to using the CSO's Wholesale Price Index (WPI)<sup>45</sup>, or one its constituent index such as that for Energy Products (i.e. Fuels purchased by Manufacturing Industry).

The CSO collects information on **Energy Purchased by Manufacturing Industry and** creates wholesale price indices for electricity and petroleum fuels purchased by manufacturing industry. Wholesale prices for the bulk supply of different categories of petroleum fuels are obtained from the major fuel suppliers.

The electricity index for this series (2010=100) is based on data which is sourced from the Single Electricity Market Operator's (SEMO) website <http://www.sem-o.com>. This overall index is compiled using weights based on the costs of different types of fuels purchased by industrial establishments. The use of this index should be discussed with the CSO.

Alternatively, if the WPI index is not to be used it is suggested that an index developed from SEAI Commercial Fuel Cost Comparison data is used.

If uptake as a whole means that the total payment for the scheme will exceed the overall budget cap, the scheme could be closed to new participants. If an overall budget cap is exceeded, the scheme might be closed permanently.

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

It is agreed that a budget cap should be in place and that degression should apply. There is a strong case for setting relatively high rates for the RHI for an initial limited period to encourage early applications for the scheme. These can then be reduced when a certain target number of installations or heat demand has been met.

In the U.K. RHI, pre-accreditation is available only for large and complex installations, including geothermal installations, biogas installations and solid biomass installations above 200 kWth in size. What are the views of respondents on the question of pre-accreditation for larger more complex installations?

Pre accreditation should be considered but it is necessary to consider how pre accreditation will operate in relation to degression or any tariff reduction and what tariff rate should them apply. The time period between pre accreditation and commissioning of an installation should be limited.

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<sup>4</sup> <http://www.cso.ie/en/media/csoie/releasespublications/documents/prices/2013/wpiintro10.pdf>

<sup>5</sup> <http://www.cso.ie/en/releasesandpublications/er/wpi/wholesalepriceindexmay2015/>

## Conclusion

The WDC welcomes the development of a Renewable Heat Incentive and the opportunity to input into this consultation.

While the focus of this consultation is on the development of an RHI, it is important that this is accompanied by other policies which will support the development of renewable heat and which will result in a better uptake of the RHI. High level targets such as those for renewable heat must be translated into a regional and local context if they are to drive delivery of market growth rates.

The WDC believes that the renewable heat market has the potential to create considerable levels of employment across the Western Region and to provide long-term stable markets for low value wood fuels which can compete with fossil fuels and so reduce and provide stability for end users. Local wood biomass resources are finite, however, and as demand for biomass increases in a variety of markets, a greater understanding of the available resources at both a county and regional level is required. Policy should be designed in such a way as to incentivise the use of local renewable fuels rather than imported fuels.

For further information or discussion of any points raised, or to find out more about WDC work on renewable energy please contact [helenmchenry@wdc.ie](mailto:helenmchenry@wdc.ie)

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