Rialtas na hÉireann
Government of Ireland

Consultation on the redesign of Ireland’s Energy Efficiency Obligation Scheme

March 2021

Prepared by the Department of
the Environment, Climate and Communications
gov.ie

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1 Information on this Consultation

1.1 Purpose of this paper

Under Article 7 of the Energy Efficiency Directive 2012/27, as amended by Directive 2018/2002 (EED)[1][2], Ireland is required to make a defined amount of energy savings that meet specific criteria, by 2030. A portion of these savings, required over the period 2021-2030, is to be met through an energy efficiency obligation scheme (EEOS), placing an obligation on energy suppliers and distributors.

The purpose of this paper is to seek views from interested parties on proposals relating to the design of a new EEOS, to be implemented from 1 January 2022[3]. The Department of Environment, Climate and Communications (DECC) is committed to engaging with stakeholders in a clear, open and transparent manner.

With your input, DECC hopes to design an EEOS that will not only achieve a share of the Article 7 target, which is of primary importance, but will also support the delivery of Ireland's broader energy and climate ambition and targets. In implementing an EEOS for the 2021-30 obligation period, the Government intends to design a scheme that will strengthen the links between our national legislation and the EED. By more closely aligning with the commitments of the Programme for Government, it is anticipated that the redesigned EEOS will better support the achievement of Ireland's overall energy efficiency targets and ambitions as detailed in the National Energy and Climate Plan, the Long Term Renovation Strategy and the Climate Action Plan (CAP). Energy efficiency policy represents a major pillar of the CAP, and Ireland's policy response to Article 7, including the EEOS, needs to align with and support the CAP objectives and actions. Greater policy alignment also benefits obligated parties, as an EEOS that is designed to be as synergetic as possible with other national policies will present more supports, incentives and opportunities for obligated parties to leverage in delivering their targets.

DECC asks respondents to consider our proposals and a series of questions in relation to the following areas on the design of the scheme:

- Obligated parties

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[1] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC Text with EEA relevance (europa.eu)

[2] Directive (EU) 2018/ 2002 of The European Parliament and of the Council - Of 11 December 2018 - amending Directive 2012/ 27/ EU on energy efficiency (europa.eu)

[3] A transition scheme will operate during 2021, the first year of the new obligation period, while the new scheme is being designed and developed.

- The EEOS Target
- Delivery sub-targets
- Delivery requirements
- Nature of the target and compliance
- Scheme improvements and cost information
- Information on bills

The proposals included in this paper have been informed by:

- Analysis of the changes to relevant requirements in the revised EED
- Experience of what has worked in the 2014-2020 period in Ireland
- Information on what has worked in the 2014-2020 period in other Member States
- Workshops with current obligated parties to gather initial views
- Independent analysis of the potential contribution of an EEOS to Ireland's Article 7 target
- Independent impact and cost benefit analysis of design options for an EEOS

Supporting document to this consultation document

The independent analysis referred to above was carried out by Economic Consulting Associates Ltd (ECA), a specialised economic consultancy with significant experience in economics, policy and regulatory analysis. ECA were procured on behalf of DECC to support the development of policy for compliance with Article 7 and the design proposals included in this document. Alongside this consultation document, the following supporting document produced by ECA has been published:

- **Economic and policy analysis in support of a revised EEOS for Ireland 2021-2030** (referred to throughout this document as the **'ECA Report').** This report looks at how Ireland may meet its requirements under the revised Article 7, the policy measures which could be used to elicit sufficient eligible savings, and specific scheme design options for a new EEOS, including detailed analysis of the estimated costs to obligated parties under the various options. ***Annex A3*** of the report also includes an **Overview of costs and benefits of EEOS design options.** This overview looks at the broader impact of the design options for society and contains a high-level cost-benefit analysis of these options.

This report should be read in conjunction with this consultation document and relevant sections are referenced throughout the document.

All numbers presented in the ECA Report relating to policy design are used for demonstration purposes to estimate the implications of various policy design options. Unless otherwise stated, they do not reflect agreed policy decisions nor ECA's recommendations. Furthermore, analysis has required input from a large array of pre-existing data sets, together with assumptions and approximations drawn from ECA's extensive experience in the energy efficiency field. Limitations inherent in the available data, as well as the extent of original analysis that could be undertaken lend uncertainty to the results presented. Key areas of uncertainty are discussed where appropriate throughout the ECA Report, noting that such uncertainty is generally considered to be greater when referring to absolute values rather than the relative results between scenarios.

1.2 How to Respond

The public consultation process will run until **Monday, 19 April 2021**. Responses must be received in full by the Department of the Environment, Climate and Communications (DECC) no later than 5pm on that date.

Responding to questions

Anyone wishing to make a submission should complete the online survey. If you cannot access the survey for any reason please contact the team by email at energy.efficiency@decc.gov.ie

Respondents should consider the questions included in the survey when submitting a response, but it is not necessary to provide responses to all questions. Respondents are asked:

- To follow the survey guidance provided
- Where relevant, to supplement your response with information, evidence and/or analysis

The full list of all consultation questions contained in this document is included in Appendix 1.

Confidentiality and data protection

By responding to the consultation, respondents consent to their name being published online with the submission. DECC will redact personal details prior to publication. The Department would draw your attention to DECC's privacy statement:

The Department of Environment, Climate and Communications requires respondents to provide certain personal data in order to provide services and carry out the functions of the Department. Your personal data may be exchanged with other Government Departments and Agencies in certain circumstances, where lawful. Full details can be found in our Data Privacy Notice which is available here or in hard copy on request.

Responses to this consultation are subject to the provisions of the Freedom of Information (FOI) Act 2014 and Access to Information on the Environment Regulations 2007-2014. Confidential or commercially sensitive information should be clearly identified in your submission. However, parties should also note that any or all responses to the consultation are subject in their entirety to the provisions of the FOI Acts and are likely to be published on the DECC website.

1.3 Next Steps

This consultation

During the six-week consultation period, DECC intends to hold an online consultation event where the proposals included in this document will be explained. This event will offer an opportunity to potential respondents to seek clarifications on any of the proposals being made and discuss certain policy areas further. Details on registering for these events will be published on DECC's website.

Following this consultation, DECC will consider all responses received and make a submission to the Minister. The Minister will then decide on the approach for the design of the scheme, which will be published on DECC's website. The new scheme will be implemented from 1 January 2022.

Further consultation

Given the technical, very specific nature of some of the EED requirements, particularly in relation to Annex V[4], a series of focused consultation workshops will be held, which obligated parties, and any registered interested parties, will be invited to participate in. These consultation sessions are expected to be held during Q2 of 2021 (once policy decisions, on the items included in this consultation document, have been finalised and communicated). Given the relevance of these requirements for the implementation of the scheme, these sessions will be hosted by the EEOS administrator, the Sustainable Energy Authority of Ireland (SEAI). DECC will also attend all such technical workshops.

DECC and the SEAI also intend to hold similar focused workshops with relevant parties as a follow up on the implementation of the high-level delivery requirements being proposed in Section 6, and specific items more suited to this means of consultation. This latter engagement will also take place during Q2 2021.

The outputs from these workshops will be used to inform the approach on administering the scheme from January 2022.

[4] Annex V to the EED sets out the energy savings calculation methods and principles to be used under Article 7

2 Background

2.1 The Revised Energy Efficiency Directive and Article 7

The European Commission's Clean Energy Package, launched in November 2016, sets out the Commission's vision for energy efficiency, stating that energy efficiency should be the "first principle" of any future energy policies. This is an opportunity to further drive efficiencies across all sectors. One of the core components of the Clean Energy Package is a revised Energy Efficiency Directive (EED), which was published in 2018.

The revised Directive commits the EU to a headline energy efficiency target of 32.5% by 2030, which means reducing energy use by at least 32.5% compared to projections of the expected energy use in 2030[5]. The EED places a requirement on each Member State to specify their contribution to this reduction, and the measures to be taken to achieve that contribution, in a National Energy and Climate Plan (NECP). In the latest modelling to inform Ireland's NECP, this contribution will be equal to a 38.9% improvement for Ireland[6]. A further review of the EED is now underway in line with the increased climate ambition set out in the European Green Deal[7]. However, it is not yet clear whether this review will also extend to Article 7 and the other articles revised in 2018.

As mentioned above, under Article 7 of the EED, Ireland is required to make a defined amount of energy savings that meet specific criteria, by 2030. For the forthcoming obligation period (2021-30), Article 7 requires Member States to make new annual energy savings equivalent to 0.8% of their total final energy consumption each year to meet a cumulative target by 2030.

While the headline EU energy efficiency target is not legally binding for Member States[8], the target for Article 7 of the revised EED[9] is, and thus it importantly guarantees a minimum level of energy savings towards the headline EED target, likely more than half of the overall savings required[10]. Savings to meet a Member State's Article 7 target must be the result of national policy measures, which exceed EU-mandated measures and are additional to what would

[5] This headline energy efficiency target may increase to take account of more ambitious climate targets to be introduced.
[6] Table 11, p.46 in the National Energy and Climate Plan 2021-2030
[7] Energy Efficiency Directive | Energy (europa.eu)
[8] Article 3 of the EED
[9] Article 7, para 1 of the EED
[10] Part 1, page 18, Impact assessment accompanying the document proposal for a directive of the European Parliament and of the Council amending directive 2012/27/EU on energy efficiency

have happened in the absence of such measures[11]. In complying with the Directive, Member States must decide on which policy measures they will use and whether to opt for:

- an obligation scheme on energy suppliers and distributors;
- alternative policy measures; or
- a combination of both.

Following a public consultation in late 2019, the Minister decided that Ireland would use a combination of an obligation scheme and alternative measures in meeting our Article 7 target, similar to the previous obligation period. This was one of three key high-level decisions made by the Minister following the first phase of consultation on our transposition of Article 7[12]. It was also decided following this consultation that Ireland would:

- follow the Commission's direct calculation methodology for calculating the Article 7 target; and
- set the metric for the obligation scheme to be used in final energy.

In continuing to implement Article 7 of the EED, DECC must now design and develop the energy efficiency obligation scheme that Ireland will use for the obligation period up to 2030.

2.2 The Energy Efficiency Obligation Scheme

An obligation scheme is a regulatory requirement on energy suppliers and distributors to help energy users save energy. This can be achieved by supporting the energy user (financially or otherwise) to implement energy saving practices or to carry out energy upgrades in their property. Ireland decided to use an energy efficiency obligation scheme (EEOS) for the previous obligation period (2014-20), to meet our Article 7 target. The success of that scheme in part influenced the decision to use an obligation scheme again for the forthcoming obligation period. It also helped to inform many of the proposals included in this document, taking account of lessons learned.

2014-20 obligation period

For the previous obligation period, Ireland opted to combine an energy efficiency obligation scheme and other alternative policy measures in implementing Article 7 of the 2012 EED. The obligation scheme was transposed into Irish legislation by S.I. 131 of 2014, which was amended in 2016 by S.I. 634. These Regulations gave the Minister the authority to create an obligation scheme and to issue energy efficiency notices to certain energy suppliers and

[11] That is, how the situation would have evolved in the absence of the Government intervention.
[12] All documents and reports relating to this consultation are available on gov.ie

distributors, known as obligated parties. Obligated parties were required to achieve energy savings by supporting energy users in the residential, commercial or public sector. In doing so, obligated parties could deliver the savings they were required to make through their own programmes and/or by working with the existing Government-funded energy efficiency support schemes offered through SEAI. To date, the 2014-20 EEOS has successfully resulted in final energy savings of over 3,450 GWh[13], supporting energy efficiency actions in over 290,000 dwellings and 3,000 businesses. More information on the 2014-20 EEOS is available in the EEOS Guidance Document.

2021-30 obligation period

In implementing an EEOS for the 2021-30 obligation period, the Government intends to design a scheme that will achieve a share of the Article 7 target and also strengthen the links between our national legislation and the EED. By more closely aligning with the commitments of the Programme for Government, it is anticipated that the redesigned EEOS will better support the achievement of Ireland's overall energy efficiency targets and ambitions as detailed in the National Energy and Climate Plan, the Long Term Renovation Strategy and the Climate Action Plan.

The redesigned EEOS will commence at the start of 2022. In the interim, the Minister has decided to implement a transition scheme for 2021, underpinned by the current legislation. The transition scheme approach allows energy saving activity to continue to be supported in 2021; minimises disruption for the obligated parties and stakeholders involved; and also ensures compliance with the revised EED and Ministerial decisions already made. The transitionary 2021 period ensures that delivery against Ireland's Article 7 target commences as planned from 1 January 2021. Similarly, it enables all targets and delivery in 2021 to be included in the design of the 2022-30 EEOS, aiding a seamless transition for all involved. The Department does not intend to make any changes in relation to the administrator, with the SEAI remaining as scheme administrator for the duration of the 2021-30 obligation period.

The following sections set out our proposals on the relevant design aspects of the new EEOS, to be implemented from January 2022.

[13] This final energy figure is calculated based on primary energy savings of 4,600 GWh, updated end of January 2021.

3 Obligated Parties

This section outlines DECC's proposals on which entities should be obligated under the Energy Efficiency Obligation Scheme (EEOS) and how.

Please refer to Section 3 of the ECA Report for further information on the analysis referred to in this section.

3.1 Eligible parties

The entities that are obligated to achieve energy savings under the EEOS are known as 'obligated parties'. Article 7 of the EED notes that, where an obligation scheme is used, Member States are required to designate obligated parties on an objective and non-discriminatory basis amongst the following groups:

- Energy distributors
- Retail energy sales companies
- Transport fuel distributors or retailers

For the purpose of this document, the above groups will be referred to collectively as 'eligible parties'. At a more detailed level, eligible parties include:

- All distributors, including distribution system operators that are responsible for transporting energy, including transport fuel, with a view to its delivery to final customers or to distribution stations that sell energy to final customers. Importers are also considered a distributor under this definition as they also transport energy with a view to its delivery to final customers or to distribution stations that sell energy to final customers.
- All retail sales companies that sell energy, including transport fuels, to final customers.

All eligible parties, by definition, are involved in some way, either directly or indirectly, in the sale of energy for end-use consumption by final customers. The EED does not distinguish between renewable energy and other forms of energy, with 'energy' defined as *all* forms of energy products, combustible fuels, heat, renewable energy, electricity, or any other form of energy[14][15].

[14] Article 2 of the EED
[15] This is 'any other form of energy' as referenced in Article 2 of the EED, and as defined in Article 2(d) of Regulation (EC) No 1099/2008 of the European Parliament and of the Council of 22 October 2008 on energy statistics (1)

3.2 Designating obligated parties

Member States are free to choose which eligible parties to obligate, including whether only certain subcategories of those considered eligible should be obligated, provided there is a sufficient basis to do so[16]. This is recognition by the EU Commission that the structure of energy sectors varies across Member States and these differences influence the optimal format of an EEOS.

In designating the obligated parties, DECC must consider a number of factors: practical considerations such as minimising administrative burden, the proportionality of the impacts on entities within the sector and minimising any distortionary impacts to competition and finally the impacts on prices and the related economic impacts.

3.3 Market coverage

Under the 2014-2020 EEOS entities in all of the main energy markets, including electricity, natural gas, liquid fuel and solid fuel, were obligated. There are multiple justifications for continuing to do so. Ireland's obligation under Article 7 is calculated relative to total final energy consumption, averaged over the years 2016-2018[17]. Spreading the cost impact across providers benefitting from the sale of all energy is proportional. This ensures that any distortionary impacts within the energy sector are minimised by restricting the potential energy substitution impacts which could be caused by placing an obligation on entities in one energy market and not another. It also recognises the cross sectoral nature of energy efficiency and results in greater competition and innovation in delivering measures. Therefore, DECC is proposing that the 2021-30 EEOS continues to obligate eligible parties in the electricity, natural gas, liquid fuel and solid fuel markets.

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?

3.4 Irish energy markets

In Ireland, each energy market operates in a different manner and is made up of different types of eligible parties. Given these different market structures it may not always be appropriate to obligate parties at the same point in the supply chain across all markets. Further to this, the scheme must have regard to ease of administration and the availability of sufficient data when determining obligated parties. Therefore, each market structure has been examined separately to determine which eligible parties should be obligated.

[16] Article 7a, para 2 of the EED
[17] Article 7, para 1 of the EED

Liquid fuel

Liquid fuel accounted for almost 60% of total final energy consumption in Ireland in 2019[18]; three quarters of which related to transport. The liquid fuel market is relatively complex and there are numerous eligible parties involved in buying, selling and distributing the product. The market is most concentrated upstream in the supply chain, where liquid fuel is imported into the country. There are a limited number of companies that import liquid fuel into Ireland. Further downstream the market is much more fragmented than at the point at which the product enters the country.

It is very difficult to establish market share data for many parts of the liquid fuel market. DECC is proposing that, **of the eligible parties in the liquid fuel market, only the liquid fuel importers operating in Ireland, above a certain size, should be obligated.** This is administratively optimal as the information availability downstream in the supply chain for liquid fuel is poor, with little data available on the volumes being purchased and sold. In contrast, there is sufficient information upstream from import to the point at which the NORA and Biofuel levies are paid.

Solid Fuel

Solid fuel (encompassing coal, peat and biomass) accounted for approximately 5% of total final energy consumption in Ireland in 2019[19], with coal and peat use projected to fall by around half by 2030 due to the changing nature of Ireland's energy mix[20]. The solid fuel market has few barriers to entry and products are easily transported and stored. This market is subject to low levels of regulation.

DECC is proposing that **all eligible parties operating in the solid fuel market in Ireland, including those importing, distributing and/or supplying solid fuel, *above a certain size*, should be obligated.**

Networked Energy - Electricity and Natural Gas

Combined, electricity and natural gas accounted for over 35% of Ireland's final energy consumption in 2019[21]. The structure of the networked energy markets is quite different to that of liquid and solid fuel in that while consumers are free to choose amongst licensed electricity and natural gas suppliers, access to the electricity and natural gas distribution networks in

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[18] This high-level figure relates to total final consumption and includes both energy sold and energy produced for own end-use, Energy in Ireland - 2020 Report.
[19] This high-level figure relates to total final consumption and includes both energy sold and energy produced for own end-use, Energy in Ireland - 2020 Report. Solid fuel produced for own end-use (mainly relating to biomass) likely account for about 30% of total solid fuel final consumption.
[20] As referenced in the ECA Report based on Annex 1, Part 2 of the NECP
[21] This high-level figure relates to total final consumption and includes both energy sold and energy produced for own end-use, Energy in Ireland - 2020 Report.

Ireland is provided exclusively by two regulated distribution system operators (DSOs), ESB Networks (ESBN) and Gas Networks Ireland (GNI) respectively. Retailers of electricity and natural gas are relatively concentrated and there is sufficient data on sales volume levels. DECC is proposing that, **of the eligible parties in the electricity and natural gas markets, only the retail energy supply companies, above a certain size, should be obligated.**

Despite being an eligible party, it is not proposed to obligate DSOs at this time. There are a number of reasons for this. As natural monopolies owned by the State and regulated by the Commission for Regulation of Utilities (CRU), the DSOs occupy a unique position in the energy market. They are required to operate in a neutral and non-discriminatory manner, with their network tariffs set by the CRU to ensure they only recover the necessary costs for the efficient operation of the network.

Placing an obligation on the DSOs would mean a broadening of their remit, which may compromise their ability to comply with the regulatory and legal requirements placed upon them as DSOs. For example, engaging in non-core, competitive activities has the potential to conflict with their role as a neutral market facilitator and the unbundling requirements under Directive 2009/72/EC and Directive 2009/73/EC[22]. In addition, introducing an energy savings obligation on the DSOs would mean that these markets would be obligated at two points in the supply chain, given DECC is also proposing that retail energy supply companies are obligated. Therefore, this could potentially result in more costs relating to the EEOS being passed on to electricity and natural gas end users, while other competing fuels would not face the same burden. Finally, obligating parties in a competitive market results in energy efficiency measures being delivered in a least cost manner. These competitive forces do not exist where an entity is operating as a monopoly. Therefore, DECC is of the view that requiring the DSOs to deliver energy saving measures under the EEOS similar to other obligated parties would not be appropriate.

Question 3.2: Do you agree with our proposal to obligate the above types of eligible parties within each market, <u>should they be above a certain size</u> (discussed below), 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;

[22] Article 26 of Directive 2009/72/EC and Directive 2009/73/EC

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

3.5 The obligation threshold

Above, the Department has set out the parties in each energy market that the Government thinks should be obligated (conditional on size). Below, our proposals regarding the point at which they should become obligated (the obligation threshold) and the structure of the threshold are set out.

An obligation threshold is the point at which parties will become obligated. The purpose of including a threshold, rather than obligating parties of all sizes, is to ensure the associated costs of implementing an EEOS (particularly the fixed administrative costs) do not present an unreasonable barrier to entry for new firms, reducing market competitiveness. While important for protecting smaller entities, it is also necessary to ensure that the threshold level isn't set too high, giving smaller entities a competitive advantage over the parties that are obligated, particularly within their own (or main) energy market. It also avoids unnecessary administrative complexity and cost arising from managing obligations for many small parties.

The threshold metric

Depending on what is most appropriate, obligation thresholds may be set in terms of either volume of energy supplied or number of customers. For the 2014-20 EEOS, Ireland set a threshold based on annual energy sales volumes (GWh). This is an objective, fair and transparent methodology, and is also applicable to all the proposed obligated parties. Therefore, it is proposed that the same metric is employed for the obligation threshold for the 2021-30 EEOS, based on final energy sales and expressed in final energy, in line with the targets for the EEOS[23].

Question 3.3: Do you agree with our proposal to set the obligation threshold in terms of annual final energy sales volume (GWh)?

The threshold level

As mentioned above, choosing an appropriate obligation threshold is influenced by the desire to keep barriers to entry to the market low, whilst also being cognisant of the potential for Government policy to distort the energy market by imposing additional costs on certain energy suppliers and distributors and not others. For this reason, it is DECC's desire to cover a significant majority of the market.

[23] All documents and reports relating to this consultation are available on gov.ie

The 2014-2020 EEOS operated with a 600 GWh minimum energy sales volume threshold. However, based on this threshold, the coverage of the solid fuel market was weak. Despite solid fuel sales accounting for only approximately 3.5% of final energy consumption in 2019[24], broadening the scope of the obligation within this market is considered fair and DECC is of the view that there may be value in lowering the threshold. On this basis, ECA analysed the impacts of lowering the threshold level to either 400 GWh or 200 GWh. **Please refer to Section 3.2 of the ECA Report for the full details and results of this analysis.**

This analysis[25] indicated that only approximately 18% of solid fuel final energy consumption (mainly relating to sales of coal and peat) is covered with the threshold remaining at 600 GWh sales volume. However, lowering the threshold level to 400 GWh or 200 GWh increases coverage in this market substantially[26]. Given the relative size of the solid fuel market, greater coverage of solid fuel suppliers would have a limited impact on the size of other obligated parties' obligations.

In contrast, for liquid fuel, all entities included in the analysis have sales volumes in excess of the current threshold of 600 GWh per annum. Similarly, in the electricity and natural gas markets a significant majority of market sales are covered by the EEOS regardless of whether the threshold level is at 600GWh, 400GWh, or 200GWh. Therefore, lowering the threshold is likely to have a negligible effect on who is obligated in these markets.

In addition, lowering the threshold could ensure the scheme is safeguarded against any upheaval in the electricity and natural gas markets. At present, multiple entities have annual sales between 50 and 200 GWh. Consequently, it is possible the number of entities within the 200 to 600 GWh sales range could grow, which, if the threshold were to remain at 600 GWh would have repercussions for the share of obligated parties and final sales covered by the EEOS.

The threshold structure

In its current format the cost impact of the scheme relative to overall energy sales is lower for large entities, due to economies of scale. If the threshold were lowered without the introduction of any compensatory measures this would exacerbate the disparity and would burden smaller entities to a greater degree. Recognising these indirect impacts of lowering the threshold, ECA also examined the impact of introducing a 'free allowance' for all parties (**also included in Section 3.2 of the ECA Report**). The provision of a free allowance means only marginal sales

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[24] This figure relates to energy sales and does not include solid fuel produced for own end-use.
[25] Comprehensive sales data for solid fuels were unavailable for the analysis.
[26] Increasing to 31% and 38% of final energy consumption respectively.

above the obligation threshold would be considered when allocating targets i.e. obligated parties' targets will be based on the annual sales volume of each obligated party, net of the free allowance.

A lack of free allowance creates a "cliff edge" and can act as a disincentive to growth for firms just below the obligation threshold. If the threshold remained at 600 GWh and a free allowance was introduced, smaller entities (or those just over the obligation threshold) would see a lower cost impact per GWh sold than those with larger annual sales. At the 400 GWh threshold, however, the impact across entities of different sizes is more balanced. This shows that the free allowance mechanism enables the obligation threshold to be lowered without loading disproportionate unit costs onto smaller entities. In summary, the free allowance mechanism supports smaller entities in achieving their obligation while the lower threshold also brings more parties in to the EEOS and provides greater market coverage. Therefore, it is proposed that the obligation threshold is set at annual final energy sales of 400 GWh, with a free allowance structure.

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?

3.6 Information requirements and the target setting process

Above, DECC has set out which eligible parties it is of the view should be obligated and outlined a proposed free allowance structure which should increase fairness when setting targets. The Sustainable Energy Authority of Ireland (SEAI), as scheme administrator, will be responsible for:

- confirming whether an entity is or is not obligated, and
- setting all obligated parties' targets.

In this regard, DECC intends to require that all obligated parties, or eligible parties that will potentially be newly obligated, provide, on request, annual final energy sales information to SEAI, and any other information that SEAI may deem necessary to perform and monitor the above processes[27].

All energy suppliers and distributors will be responsible for determining if they meet, or may meet, the definition of an obligated party, and if not previously obligated, contacting SEAI to

[27] For practical purposes, targets will be based on sales with a lag.

discuss their requirements. The onus is on the obligated party to contact SEAI if they think they could be obligated. Should SEAI consider that an energy supplier or distributor may meet the definition of an obligated party, they will also be able to request the relevant information. This approach will ensure that the burden of the obligation is carried by all obligated parties as intended and will allow for a more comprehensive and robust target setting process.

It is important to note that, should an eligible party supply energy in more than one energy market, their combined final energy sales in each market will be taken into account in determining whether they are above the obligation threshold, with any subsequent targets also set having regard for their total overall final energy sales.

In relation to market share changes, under the 2014-20 EEOS, SEAI took a pragmatic '10%' approach to reduce disruption to obligated parties. Broadly, this meant market changes did not alter obligated parties' targets unless one, or more, obligated party experienced a consistent change in market sales volumes of greater than 10%. Similarly, no changes were made to who was obligated unless the relevant party moved to exceed or fall below the obligation threshold by more than 10% in one year, or by less than 10% over two consecutive years[28]. It is expected that a similar, pragmatic approach would be taken for the 2021-30 EEOS, to avoid unnecessary administrative burden and disruption.

Question 3.5: Do you wish to provide any specific comments in relation to the above target setting approach?

[28] https://www.seai.ie/publications/EEOS-Guidance-Document.pdf

4 The 2021-30 EEOS Target

This section outlines the proposed total EEOS target for the 2021-30 obligation period and proposals on how transport energy should be treated as part of this target.

Please refer to the ECA Report for further information on the analysis referred to in this section.

4.1 Article 7 Obligation

Under Article 7 of the EED, Member States must achieve cumulative end-use energy savings at least equivalent to new savings each year from 1 January 2021 to 31 December 2030 of 0.8% of annual final energy consumption, averaged over the most recent three-year period prior to 1 January 2019[29]. For this baseline calculation, final energy consumption must include both energy sold for consumption and energy generated for own end-use (e.g. electricity generated by photovoltaic systems or on-site heat generated by biomass boilers). Ireland's Article 7 obligation, calculated based on average final consumption across all sectors over the 2016-18 period[30], is 60,707 GWh cumulative final energy savings, the equivalent of an average of 1,104 GWh of annual new savings[31], and represents a major component in delivering Ireland's broader climate ambition and targets.

It has already been decided by the Minister that Ireland will achieve its Article 7 obligation using a combination of alternative measures to deliver a proportion of the required energy savings, with the remainder to be delivered through an energy efficiency obligation scheme (EEOS)[32]. This combined approach was used successfully for the 2014-20 period; offers the greatest flexibility to Ireland in meeting this binding target; and allows the cost of compliance to be divided between the Exchequer and obligated parties.

In deciding what proportion of the target should be met by alternative measures and what proportion should be met by the EEOS, consideration must be given to many factors, for example, the level of Article 7-eligible savings that can realistically be achieved through either channel; the potential cost to the state, obligated parties and energy consumers of meeting

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[29] Article 7, para 1 of the EED
[30] Final energy consumption for the three most recent years available prior to January 2019: https://ec.europa.eu/eurostat/web/products-datasets/-/t2020_34
[31] The cumulative savings figure (60,707 GWh) for the 10-year obligation period is the annual new savings figure (1,104 GWh) multiplied by 55 (i.e. (year 1 = 1104x10) + (year 2 =1104x9) + (year 3 =1104x8)…(year 10 = 1104x1)). This is also illustrated in Table 4 in Section 7.1.
[32] High Level Decision on implementation of Article 7, June 2020

the overall target; and the complementarity of the measures in contributing to the achievement of all relevant policy objectives.

It should be reiterated that the primary objective is to identify how Ireland can meet 100% of its obligation and ensure compliance specifically in relation to Article 7. The delivery of this obligation, through a combination of alternative measures and an EEOS, will bring much broader benefits for Ireland, such as reducing CO_2 emissions, stimulating the energy efficiency market and lessening the need for transmission and distribution upgrades, however, Ireland's main concern in relation to a binding target of this size, must be ensuring that the combined contribution of our alternative measures and EEOS can and will deliver sufficient Article 7-eligible savings.

4.2 Alternative Measures

In helping to establish what the appropriate contribution balance should be, ECA carried out a comprehensive review of ongoing or planned policy measures in Ireland, how they may meet the energy savings requirements of Article 7, and their potential contribution as eligible alternative measures towards meeting the Article 7 obligation. **Full details and results of this review are included in Section 2 of the ECA Report**.

In summary:

- The review considered any policy measures that are already in place that could result in end-use energy savings in line with the very specific additionality and materiality criteria set out in Annex V of the EED, as well as being, or having the potential to be, sufficiently measurable and verifiable.
- In estimating the level of potential savings that could be achieved over the obligation period from each of these eligible alternative measures, it was necessary to make certain assumptions, including how measures supported by both an alternative measure and an obligated party would be treated. Under the 2014-20 EEOS the full energy savings credit was attributed to the obligated party for measures which were 'co-funded', for example where a home received an SEAI retrofit grant but was also funded by an obligated party. This arrangement helped to lessen the financial burden on obligated parties in delivering their targets, while at the same time increasing the reach and efficacy of the Government's energy efficiency programmes. Only counting the relevant derived energy savings under the EEOS also ensured double counting was avoided. It was assumed for the analysis that this approach would continue for the 2021-30 obligation period, and therefore only savings from measures expected to be independent of the EEOS were considered in the alternative measure estimates.

- Based on this comprehensive review, independently acting alternative measures are therefore estimated to be able to contribute approximately 40% of Ireland's Article 7 obligation for 2021-30. That means, from the policy measures already in place in Ireland and on track to deliver energy savings over the next 10 years, Ireland should be able to report Article 7- eligible energy savings that equate to approximately 40% of our total obligation.

Given the ambitious objectives of the Climate Action Plan and the Programme for Government, and the relevance of many of those key targets for energy efficiency and Article 7, it is very possible that additional alternative measures and/or a greater volume of savings from existing alternative measures may become available during the 2021-2030 period, which may present opportunities to revise the above estimates upwards. However, leaving a gap to target at this stage would present a significant risk to the State in meeting our overall Article 7 obligation. Also, noting the policy and calculation uncertainties in estimating the contribution of alternative measures for the entire obligation period, as outlined in the ECA Report, it would be imprudent, at this point, to rely on independently delivered alternative measures for a greater contribution towards Ireland's Article 7 obligation than 40%.

4.3 The EEOS Target

While the alternative measure analysis indicates some uncertainty regarding the extent of the target necessary for the EEOS, DECC is not proposing a target higher than 60%. As noted earlier, our primary objective is to identify how Ireland can meet 100% of its Article 7 obligation and ensure compliance. Given that it is Article 7 that allows for the implementation of the EEOS to achieve Ireland's obligation, and it is estimated that existing policy measures should deliver enough new savings to meet at least 40% of this obligation, it would not be appropriate to propose an EEOS target higher than 60%. As part of ECA's analysis, cost curves were developed for energy efficiency measures under a range of scenarios (as the basis for our proposals in subsequent sections), with all scenarios assuming an EEOS target equivalent to 60%. While costs varied across scenarios, the analysis indicated that in all cases, sufficient savings opportunities were available for obligated parties to achieve an EEOS target of this size. Therefore, to ensure the balance of eligible savings required to meet Ireland's Article 7 obligation is achieved, DECC is proposing that the overall target for the EEOS ('the EEOS Target') for 2021-30 is set at 36,424 GWh cumulative final energy savings, the equivalent of 60% of the Article 7 obligation. See target summary included in Table 1 below. If viewed linearly[33], this target equates to an average of approximately 660 GWh new savings each year[34].

While the proposed EEOS target is set in line with the full 60% balance of savings, it is intended that co-funded measures can continue to be counted by obligated parties towards their targets, thus the subsidy support to energy consumers needed to meet the 60% target will be split between obligated parties through the EEOS and the State through alternative measures[35]. As outlined above, in addition to lessening the financial burden on obligated parties, this is also intended to increase the take up of the Government's energy efficiency supports. Added to this, many other state-funded policy measures, planned or in place, will support, and likely further reduce the cost of, the delivery of savings by obligated parties by enabling and facilitating energy-saving actions. For example, BER advisory reports, information/promotional campaigns, training of professionals and trades, and establishment of service infrastructure such as one stop shops.

Table 1: The EEOS Target, relative to the overall Article 7 obligation for Ireland

Target/mechanism	Delivery	% of Art 7 Target	Cumulative final energy savings
Article 7 obligation	Alternative measures and EEOS	100%	60,707 GWh
Alternative measures	Independently delivered	40%	24,283 GWh
EEOS Target	**Including co-funded measures**	**60%**	**36,424 GWh**

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?

4.4 Recognising transport in the EEOS Target

For the 2021-30 obligation period, the transport sector has increased relevance in Article 7. DECC is of the view that this should be reflected under the EEOS, particularly in how it is recognised in the EEOS Target.

33 And assuming all measures have a lifetime of at least 10 years

34 The figures in this consultation document differ slightly from those presented in the ECA Report. As explained in Section 1, figures included in the ECA Report have been used for demonstration purposes to estimate the implications of various policy design options. Figures included in this document should be taken as correct and final when considering any proposals.

35 Such eligibility does not automatically apply to grant schemes developed or significantly redesigned during the timeframe of the EEOS.

For the 2014-20 obligation period, Member States were given the option of excluding final energy consumption within transport from the calculation of their national Article 7 obligation. Most Member States, including Ireland, decided to avail of this option, and this allowed us to reduce our overall Article 7 obligation significantly.

Despite excluding transport, suppliers of energy used in transport still received obligations under Ireland's 2014-20 EEOS and all obligated parties could choose to deliver transport measures for the achievement of savings. In addition, it was decided that a small proportion of the overall EEOS target (5%) would be allocated specifically to suppliers or distributors of energy used in transport, with the remaining 95% of the target allocated to all energy suppliers or distributors of energy not used in transport. This essentially disaggregated the EEOS target into two targets - one for energy suppliers or distributors of energy used in transport and one for energy suppliers or distributors of energy to all other sectors[36]. The transport energy target, ensured that transport energy suppliers or distributors had some form of specific target to deliver, but the 5% level, recognising that transport consumption had been excluded from the calculation of Ireland's Article 7 obligation, acted as an 'artificial cap' on the size of target they received. This resulted in the suppliers or distributors of energy used in transport receiving a much lower target than had it been allocated relative to the proportion of energy consumption that the transport sector was responsible for.

Transport is very relevant for the 2021-30 EEOS, because for this obligation period, the Commission is no longer allowing Ireland to discount transport to reduce our overall Article 7 obligation. In addition, Ireland decided not to use any flexibilities in our target calculation approach[37], and therefore, transport energy consumption has been included explicitly in the calculation of our 2021-30 Article 7 obligation. Given this new and significant relevance, it is therefore deemed fully appropriate that suppliers and distributors of energy used in transport should be responsible for achieving a share of the obligation that truly reflects the proportion of final consumption that transport accounts for.

Therefore, it is proposed that a proportion of the EEOS Target continues to be allocated specifically to these suppliers and distributors, but that the size of this target is more appropriately aligned with consumption. Over the 2016-18 period[38], transport accounted for approximately 40% of Ireland's final energy consumption[39], and therefore it is proposed that

[36] Within each disaggregated group, the target would then be allocated in proportion to the eligible sales volume of each obligated party.
[37] High Level Decision on implementation of Article 7, June 2020
[38] The period included in the baseline calculation for the Article 7 obligation
[39] This is also in line with latest final consumption figures for Ireland (2019), showing transport accounting for over 42%.

40% of the EEOS Target is allocated specifically to the suppliers and distributors of energy sold for use in transport ('the Transport Sales Target'), with the remaining 60% of the EEOS Target allocated to all other non-transport energy suppliers and distributors, relative to non-transport energy sales ('the Non-transport Sales Target'). See target summary included in Table 2 below.

As for the previous obligation period, within each disaggregated group (i.e. the transport energy suppliers and distributors and the non-transport energy suppliers and distributors), the relevant target would then be apportioned relative to the eligible sales volume of each obligated party[40]. For the 2021-30 EEOS, sales will relate to final energy sales, in line with the targets for the EEOS[41]. Largely similar to the target-setting process for the 2014-20 EEOS, in cases where an obligated party has both transport and non-transport energy sales, their overall EEOS Target will be based on their relative portion of the Transport Sales Target and the Non-transport Sales Target. See Appendix 2, which contains a worked example on this proposal to assist respondent's understanding.

Despite the Transport Sales Target being allocated to transport energy suppliers and distributors, DECC does not intend to specifically require savings to meet this target to be delivered through transport measures. The reasons for this are discussed in more detail in the next section (Section 5).

Table 2: The EEOS Target as a Transport Sales Target and a Non-transport Sales Target

Target	Basis for calculation	EEOS Target %	Cumulative final energy savings
EEOS Target	All final energy sales	100%	36,424 GWh
Transport Sales Target	All final energy sales for transport	40%	14,570 GWh
Non-transport Sales Target	All other (non-transport) final energy sales	60%	21,854 GWh

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

[40] The 'eligible sales volume' refers to the relevant sales considered in target setting, which may be total sales (as for the 2014-20 EEOS) or, as proposed in Section 3, total sales net a free allowance. For practical purposes, targets will be based on sales with a lag.
[41] Based on the high level decision on the implementation of Article 7, published in June 2020 and available here: https://assets.gov.ie/77866/026aac3f-3a30-43d0-b12f-cb788c4e94e4.pdf

distributors (the Transport Sales Target), and a 60% target allocated to all non-transport energy suppliers and distributors (the Non-transport Sales Target)?

5 EEOS Delivery Sub-targets

This section outlines our proposals on what sub-targets should be put in place, what level of savings should be required under each and how these sub-targets should be allocated.

Please also refer to the ECA Report for further information on the analysis referred to in this section.

5.1 Ring-fencing

The Government recognises that the EEOS Target is significant, and that meeting this target in line with the specific requirements of Article 7 and Annex V of the EED will be challenging. Therefore, in the main, it is intended 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. However, where relevant and beneficial, Ireland must also ensure that our policy response to Article 7, and in turn the design of the EEOS, aligns with and supports Ireland's overall targets and ambitions as set out in the Climate Action Plan, the Programme for Government and the National Energy and Climate Plan. To tie the overall EEOS Target more firmly to these broader objectives, DECC is proposing to 'ring-fence' a proportion of the target that must be met through savings delivered in particular sectors and in line with certain delivery requirements (the proposed delivery requirements are discussed in detail in Section 6). These sectoral targets are referred to as "delivery sub-targets".

5.2 Delivery sub-targets

Non-residential sectors

In general, non-residential energy savings are substantially cheaper for an obligated party to deliver than other energy savings, possibly two to three times cheaper than savings in the residential sector. This is due in part to the higher leverage of consumer investment that can be achieved in this sector. Therefore, without any sectoral ring-fencing, it is to be expected that obligated parties would focus most of their delivery efforts towards non-residential, likely the industrial and commercial sectors, to achieve their targets at minimum cost (despite potentially passing some of the cost of this delivery on to their residential customers also). While cheaper to deliver, this does not diminish the importance of the efforts made by obligated parties in this sector and the substantial contribution non-residential savings supported by the EEOS have made, and can make for the 2021-30 obligation period, in helping Ireland to meet its Article 7 obligation. Furthermore, with almost a third of Ireland's final energy consumption in 2019 in the industrial, commercial and public sectors[42], there is still a very large savings potential to be reaped by obligated parties in these sectors during the next obligation period. Therefore, like the 2014-2020 EEOS, DECC expects, and intends to allow, that most savings under the EEOS will come from non-residential measures.

Residential sector

At the same time, the residential sector accounts for almost a quarter of Ireland's final energy consumption[43] and substantial, albeit relatively more expensive (to an obligated party), saving opportunities also exist in this sector. Given the well-known barriers to energy efficiency investment that exist in this sector[44], and the heavy emphasis on the residential sector in the Government's policy objectives, at least some level of activity through the EEOS must also be directed here. Targeting only non-residential sectors through the EEOS would not be strategically effective in making progress towards the Government's broader climate targets. In addition, given that residential customers could potentially subsidise the cost of obligated parties' EEOS delivery to some extent, DECC wishes to ensure that a portion of the cost saving benefits are also directly passed through to these customers. Therefore, it is proposed that, similar to the 2014-2020 obligation period, a specific delivery sub-target that can only be met through savings delivered in the residential sector is introduced for the 2021-2030 EEOS ('the Residential Delivery Sub-target').

Recognising the challenge of alleviating energy poverty, Article 7 requires Member States to deliver a share of the energy efficiency measures under their EEOS as a priority among vulnerable households, including those affected by energy poverty[45]. In addition, the European Commission's Governance Regulation requires Member States to implement a national indicative objective to reduce energy poverty and report on the impact of their policies in alleviating its prevalence. Taking these requirements into account, and to support the other policy measures the Government already has in place to tackle energy poverty in Ireland, DECC is also proposing that a distinct portion of the Residential Delivery Sub-target must be met through measures delivered in energy poor homes ('the Energy Poverty Delivery Sub-target').

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)?

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[42] Energy in Ireland - 2020 report
[43] Energy in Ireland - 2020 report
[44] SEAI_Synthesis_Report_p1-24_aw.indd
[45] Article 7, para 11 of the EED

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)?

Transport sector

Another sector of significance is the transport sector, which accounted for over 40% of Ireland's final energy consumption in 2019. This is also a key area of focus for the Government with several ambitious targets set out in the Climate Action Plan. As discussed in Section 4, given transport energy use can no longer be discounted from our Article 7 obligation, the sector has also become even more relevant for the EEOS.

Therefore, consideration was also given in ECA's analysis to ring-fencing a portion of the target under a *transport delivery sub-target* **(See Section 3.3.3 of the ECA Report).** Unlike our proposal outlined in the previous section on introducing a *Transport Sales Target*, which is intended as a target (relative to transport energy sales) that transport energy suppliers and distributors would be fully responsible for delivering but which they would not be required to meet with savings delivered specifically through transport measures; a ring-fenced transport delivery sub-target would instead require that a certain portion of the EEOS Target could *only* be met with savings specifically from transport measures. In considering this, ECA developed a design option which included a transport delivery sub-target of 40%, roughly proportionate to the sector's share of final energy consumption.

In summary, a small number of transport measures were considered as part of ECA's review, such as electric vehicle (EV) incentives, eco-driving training and fuel additive deployment. Other measures, such as modal shift, were discounted due to challenges in estimation and verification of their savings, and for the avoidance of double-counting with related alternative measures. Delivery of a 40% transport sub-target would likely need to be met largely by EV incentives due to the short lifetimes of eco-driving and fuel additives. Given the uncertain, and potentially high, costs associated with delivering this transport measure (due to having to offer higher incentives for EV take-up), overall EEOS delivery costs would be expected to increase markedly. However, even leaving aside the potentially significant cost impact on the EEOS, which by itself could be reduced with a smaller delivery sub-target, the analysis highlights that given the particular uncertainties, challenges and complications associated with transport measures, in the context of Article 7, it would be unreasonable to specifically obligate their delivery and preferable to instead have obligated parties retain the flexibility to decide how to best meet non-residential sector targets.

Therefore, rather than specifically require that a portion of the EEOS Target is met by all obligated parties through savings in the transport sector, DECC is satisfied that a more suitable and proportionate approach for holding the transport sector to account is to require, as set out in Section 4, that transport energy suppliers and distributors are responsible for the delivery of a substantial, and distinct, share of the EEOS Target. In parallel, and as set out in the Climate Action Plan, the Government will continue to work with relevant bodies and experts to further explore opportunities to tackle emissions from transport consumption. As part of this work, consideration will also be given to how obligated party support, particularly from the obligated transport energy suppliers and distributors, could help make these opportunities realisable and how savings could be measured, verified and claimed under Article 7. This work should help to increase the inclusion of transport measures by obligated parties under the EEOS and will also help to identify further alternative measure opportunities.

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?

5.3 The size of the delivery sub-targets

In considering what percentage of the overall EEOS Target should be achieved within the residential sector, under the Residential Delivery Sub-target, and in energy poor homes, under the Energy Poverty Delivery Sub-target, ECA developed and analysed a range of scheme design options. These included variations in terms of the sectors ring-fenced; the size of the ring-fenced sectors; and the delivery requirements relating to each ring-fenced sector (discussed separately in Section 6)[46].

For each scheme design option, results were generated to show:

- Savings by sector (GWh)
- Obligated party subsidy necessary (€M), taking account of:
    - Expected level of subsidy covered by alternative measures, such as SEAI grants, local authority funding
    - Expected level of cost contributions from the energy users
- Cost of delivery, per kWh saved (€)
- Cost of delivery, as a proportion of total energy sales (€/kWh)
- Eligible savings available (GWh)
- Measure type and mix required

[46] The EEOS target was set at approximately 60% of the Article 7 Obligation in all scenarios.

- Minimum number of properties required

The full results of this analysis, supporting the proposals below, are included in Section 3 of the ECA Report. Please also refer to Annex A3 of the ECA Report, which contains the high-level cost-benefit analysis of the main design options, including our proposed combined option.

Residential Delivery Sub-target

Based on the results of this analysis, DECC is proposing that *at least* 15% of the overall EEOS Target must be met through savings delivered in the residential sector, which would mean an overall Residential Delivery Sub-target of 5,464 GWh of cumulative final energy savings. If viewed linearly[47], this equates to an average of just under 100 GWh of new savings each year. DECC is of the view that safeguarding this level of residential savings from the EEOS strikes the right balance. It ensures the EEOS will play a very real and meaningful role in the achievement of the Government's challenging residential policy objectives over the next ten years, while at the same time, expecting a level of savings from obligated parties that is proportionate and realistic. As a 15% share of the overall EEOS Target, and taking account of the share of measure costs expected to be covered by both alternative measures and the customer, it is anticipated that a delivery sub-target of this size would have a very limited cost impact for obligated parties relative to their total energy sales, even when factoring in higher Annex V requirements and all other proposals[48].

Setting the proposed Residential Delivery Sub-target at 15% acknowledges that much more ambitious delivery requirements are also being proposed for the residential sector (including those in energy poverty), discussed in the next section; these requirements are to ensure that the EEOS for the coming decade is better aligned with the ambitions and direction of our national residential retrofit policies. While not the primary objective of the EEOS, the Government's commitment to move Ireland away from shallow retrofits must be reflected in an important policy measure such as the EEOS, requiring a much deeper, and likely less cost-effective, approach to retrofitting for the scheme.

Combined with these proposed delivery requirements, a target of 15% is expected to deliver approximately 1,000 GWh of new savings by 2030, which, while not possible to directly compare against the CAP (given EEOS targets are in energy, rather than CO_2 emission, savings), is likely to contribute approximately 20% towards Ireland's main residential targets.

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[47] And assuming all measures have a lifetime of at least 10 years

[48] As shown in Table 29 in Section 3.3.4 of the ECA Report

This represents a significant contribution, and when combined with the other market benefits it is expected the obligated parties will bring, in terms of capacity, diversity and stimulus, DECC is of the view that it is a sufficiently ambitious but fair target.

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?

Energy Poverty Delivery Sub-target

Of the above residential savings, it is proposed that at least a third, 1,821 GWh of cumulative final energy savings (an annual average of approximately 33 GWh of new final energy savings), must be achieved through measures delivered in energy poor homes. This represents 5% of all savings required under the EEOS, a similar proportion of savings as was required under the 2014-20 EEOS. The Government is committed to ensuring that the EEOS continues to deliver measures to those most at risk of energy poverty, as per the previous obligation period. In consideration of the increased requirements from Europe, and Ireland's own energy poverty priorities, in all scheme design options the ring-fenced energy poverty target was held constant at 5% of overall savings, to ensure that at least this level of savings was protected.

DECC is mindful that delivery to energy poor homes can be less cost-effective for obligated parties than other delivery options[49], even when taking account of the substantial co-funding of measures provided through alternative measures (from local authorities, public housing bodies and SEAI grants). It is also appreciated that the cost to obligated parties for this delivery is expected to increase further when taking account of the new delivery requirements being proposed for the EEOS (discussed in Section 6). However, as shown by ECA's analysis, the small share of the proposed Energy Poverty Delivery Sub-target relative to the overall EEOS Target ensures that sufficient savings opportunities will be available and the overall cost impact for obligated parties, while still notable, is largely muted.

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?

[49] Despite this, for the 2014-20 EEOS, obligated parties will likely deliver over 120% of their overall Energy Poverty target

5.4 Allocation of the delivery sub-targets

This section has set out our proposals regarding delivery sub-targets for the 2021-30 EEOS, which would see a Residential Delivery Sub-target set at the equivalent of 15% of all EEOS savings, and within this, an Energy Poverty Delivery Sub-target set at the equivalent of 5% of all EEOS savings (a third of the Residential Delivery Sub-target). Here, the proposed approach on how these delivery sub-targets would be allocated amongst obligated parties is outlined.

To achieve the required residential savings in the most appropriate way, and taking account of the distinction between transport and non-transport in allocating the overall EEOS Target (proposed in Section 4), it is proposed that 25% of the Non-Transport Sales Target is set as the Residential Delivery Sub-Target. At 25% of a 60% target[50], this would equate to the total 15% of EEOS savings (5,464 GWh cumulative savings) required under the Residential Delivery Sub-target. This means that 25% of each obligated parties' Non-transport Sales Target must be met through savings delivered in the residential sector, with a third of these residential savings (1,821 GWh cumulative savings) to be delivered in energy poor homes (the Energy Poverty Delivery Sub-target). Table 3 below provides a summary of the various targets, relative to each other and the overall EEOS Target. To support our proposal, and assist respondents' understanding, three worked examples are also provided in Appendix 3.

In addition, to ensure that no less than 15% of the EEOS Target is delivered in the residential sector, DECC is proposing that sub-targets are set as a fixed share of each obligated party's Non-transport Sales Target. That means, any obligated party that has a Non-transport Sales Target, regardless of their own residential/non-residential market share (i.e. what percentage of their overall sales are to non-residential customers or to residential customers), will be required to deliver the same percentage of savings in the residential sector – 25% of their Non-transport Sales Target. This approach results in an allocation of cost to obligated parties that is proportional to their total non-transport energy GWh sales, regardless of where these sales come from. This approach, while introducing a change from the 2014-20 EEOS, is deemed to be the most effective in achieving our proposed objective (of delivering residential savings of at least 5,464 GWh of cumulative final energy savings). It is also deemed to be the fairest across all obligated parties, in terms of cost of delivery, particularly when taking account of the various flexibility mechanisms that would be available to obligated parties, including the flexibility to deliver all or part of their targets through experienced third party providers (see Section 7 for full details on flexibility mechanisms).

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[50] As proposed in Section 4, the EEOS Target would 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).

Table 3: Proposed Delivery Sub-targets, relative to the Sales Targets and overall EEOS Target

Target	% of EEOS Target	% of Sales Targets	% of Delivery Sub-targets	Cumulative final energy savings
EEOS Target	100%			36,424 GWh
Transport Sales Target	**40%**	**100%**		**14,570 GWh**
Delivery in any sector	40%	100%		14,570 GWh
Non-transport Sales Target	**60%**	**100%**		**21,854 GWh**
Delivery in any sector	45%	75%		16,390 GWh
Delivery in residential sector only	15%	25%	100%	5,464 GWh
Residential delivery - energy poor only	*5%*	*8.25%*	*33%*	*1,821 GWh*
Residential delivery - any	*10%*	*16.75%*	*67%*	*3,643 GWh*

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?

6 Delivery Requirements

This section sets out DECC's proposals regarding certain delivery requirements to be met under the Residential Delivery Sub-target and the Energy Poverty Delivery Sub-target, in order to ensure that the EEOS is better aligned with our national retrofit objectives and can meet all relevant European requirements.

Please also refer to the ECA Report for further information on the analysis referred to in this section.

BOX 1 - Note:

Given the technical, very specific nature of some of the EED requirements, particularly in relation to Annex V, a series of focused consultation workshops will be held, which obligated parties, and any registered interested parties, will be invited to participate in. These consultation sessions are expected to be held during Q2 of 2021 (once policy decisions, on the items included in this consultation document, have been finalised and communicated). Given the relevance of these requirements for the implementation of the scheme, these sessions will be hosted by the EEOS administrator, the Sustainable Energy Authority of Ireland (SEAI). DECC will also attend all such technical workshops.

DECC and the SEAI also intend to hold similar focused workshops with relevant parties as a follow up on the implementation of the high-level delivery requirements being proposed in this section, Section 6, and specific items more suited to this means of consultation. This latter engagement will also take place during Q2 2021.

6.1 Residential delivery

For the residential sector, the 2014-20 EEOS has largely been used to deliver relatively low-cost, individual energy efficiency measures. Nonetheless, the contribution of savings from these measures has been substantial. However, with changing retrofit objectives and priorities, both at a national and EU level, the residential delivery approach supported by the EEOS must also follow suit. The primary objective for obligated parties is to meet their EEOS targets as cost effectively as they can, through the delivery of Article 7-eligible savings. However, energy efficiency policy represents a major pillar of the Climate Action Plan (CAP), and therefore Ireland's policy response to Article 7, including the EEOS, needs to align with and support the CAP objectives and actions. Greater policy alignment also benefits obligated parties, as an EEOS that is designed to be as synergetic as possible with other national policies will present more supports and incentives for obligated parties to leverage in delivering their targets.

Of particular relevance for Article 7 and the EEOS are the Government's headline residential policy objectives for 2030: to focus on deep retrofits and upgrade 500,000 homes to a B2 BER level; and to phase out fossil-fuel heating systems and install 400,000 retrofit heat pumps[51]. Aligning residential delivery under the 2021-30 EEOS with these objectives is a priority, and one which will require a move away from individual, shallow measures and fossil-fuel boilers, towards deeper delivery and electrified heating systems.

In considering what requirements should be introduced to best drive EEOS delivery in this direction, ECA modelled and compared several scheme design options, in alignment with the above CAP objectives. In comparing all scenarios, careful consideration was given to the potential savings opportunities available; the cost and complexity of implementation; and the potential impact on energy consumers. **Please refer to Section 3 of the ECA Report (particularly Section 3.3.1) for the full details and results of this analysis.** This analysis shows that, under the 'pathway scenarios'[52], the scenarios most aligned with the CAP, there are enough opportunities available to obligated parties to achieve the necessary Article 7-eligible savings to meet their Residential Delivery Sub-targets (excluding the Energy Poverty Delivery Sub-target, which is dealt with separately below) while also aligning their delivery with the CAP objectives. While quite a significant change in delivery approach and ambition would be required, sufficient scope was still shown to be available to allow obligated parties to choose their own specific delivery approach. In addition, and also shown by the analysis, even with new CAP-aligned delivery requirements, imposing this requirement on obligated parties should have a very limited cost impact for them relative to their total energy sales.

While taking the above into account, it is fully recognised that given the scale of such a change for the EEOS, an immediate shift to requiring all homes to be upgraded to B2 BER levels with packages of measures including heat pumps, would represent a very significant challenge. Therefore, to ensure that the achievement of Ireland's Article 7 obligation is not jeopardised in any way, while at the same time ensuring that the EEOS does not negatively impact on the CAP aims, DECC is proposing that all homes, if not achieving a B2 BER level, must at least be put on a 'B2 pathway'. That means, that measures supported, if not bringing the home to a B2, would at least move the home closer to achieving a B2 rating in the future and form part of a longer-term plan to maximise the energy efficiency potential of that home. In summary, it is proposed that:

[51] https://www.gov.ie/en/publication/ccb2e0-the-climate-action-plan-2019/
[52] These scenarios are illustrated in Figure 10 in Section 3.3.1 of the ECA Report

Savings from measures will be eligible under the Residential Delivery Sub-target (excluding the Energy Poverty Delivery Sub-target) where:

1. the post-works BER reaches a B2 energy rating or better (i.e. < 100 kWh /m2/yr),

OR

2. the property is put on a 'B2 pathway', meaning that the energy efficiency measures delivered have moved the property closer to achieving a B2 energy rating AND a technical B2 achievement plan/ advisory report has been developed and provided for the property following works.

DECC is of the view that the above high-level proposal strikes the right balance of aligning the EEOS with the CAP objectives and targets, while supporting a smoother, lower-risk transition for obligated parties and the market to full deep retrofit delivery. While aiming to offer a reasonable level of flexibility, it is also DECC's intention to design an EEOS that is as effective and impactful as possible, and incentivises residential delivery that is ambitious and most closely aligned with the CAP. Therefore, to better guide and inform our policy decisions, when providing your views and feedback in response to **Question 6.1** below, respondents are asked to also consider, in relation to the above proposed requirements, whether they would support:

- introducing minimum requirements to ensure a certain level of savings per home;
- introducing some form of additional scoring incentive/ disincentive to encourage more ambitious, deeper retrofit delivery;
- reducing the flexibility of the requirements over time to narrow focus on B2 delivery, and/or
- specifically disallowing the installation of high efficiency fossil-fuel heating systems in any circumstances.

As noted in Box 1 above, DECC and SEAI intend to hold focused workshops with relevant parties as a follow up on the implementation of the high-level delivery requirements proposed above (in green box). That engagement will take place during Q2 2021, once policy decisions on the items included in this consultation document, have been finalised and communicated.

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)?

Where you do not agree with any aspects of the above proposal, please be as specific as possible in your response, including any suggestions you wish to make, taking account of the broad policy intent and the additional points included above for consideration.

6.2 Energy poverty delivery

Building on the obligations in place for the 2014-20 period, the EED requires Ireland to take account of the need to alleviate energy poverty in the policy measures it uses to achieve the Article 7 obligation, including the EEOS. In line with this requirement, DECC is of the view, as set out in Section 5, that it is appropriate to require that at least 5% of all EEOS savings are delivered through energy poor homes. Strengthening the requirements of Article 7(11), and reflecting the increased level of priority that the EU Commission wishes to place on energy poverty, for this obligation period the Governance Regulation also requires that Ireland implements a national indicative objective to reduce the number of households in energy poverty, and report on specific progress against this objective.

Therefore, in establishing the criteria required under Article 7(11), DECC must take account of not only helping to alleviate energy poverty, but actually *reducing* energy poverty. To do this, the criteria established must take better account of how energy poverty is targeted, addressed and measured. At the same time, the Government is improving its current energy poverty programmes, in line with Action 173 of the Climate Action Plan, in terms of how they also target those most in need, the level of intervention they offer, and the scope of their delivery.

While there is no standard EU-wide definition for energy poverty, it is widely acknowledged that it is a function of three factors: income of the household, the energy performance/thermal condition of the home and energy prices[53]. Under the 2014-20 EEOS, only the income factor was considered for eligibility[54]. While low income alone may be sufficient to result in energy poverty, the presence of two or more energy poverty contributing factors would certainly compound the risk. Therefore, targeting those who are not only in receipt of welfare payments, but who are also living in the most inefficient and hard to heat homes, increases the likelihood that those receiving interventions are in energy poverty. Equally, by raising the standard of the home to a better BER level, and thus fully removing one of the key contributing factors, the probability of the occupants being out of energy poverty is markedly increased.

Taking account of the above points, DECC is of the view that tighter residential delivery requirements must be put in place for the achievement of savings under the Energy Poverty Delivery Sub-target[55], to ensure better alignment with the strengthened European requirements which require Ireland to reduce energy poverty. Therefore, it is proposed that

53 A Strategy to Combat Energy Poverty 2016-2019
54 Requiring that occupants were in receipt of certain welfare payments, in line with the Warmer Homes Scheme
55 In addition to any criteria implemented in order to meet the requirements of the EED

measures will only be eligible for the achievement of savings under this sub-target where they have been delivered in an 'eligible energy poor home' and have resulted in the achievement of a BER of B2 or better. For the purpose of the EEOS, it is proposed that an 'eligible energy poor home' is a property that has a pre-works BER of E1 or worse and, similar to the 2014-20 EEOS, is occupied by a person in receipt of a Warmer Homes-eligible welfare payment, such as the Fuel Allowance[56].

Savings from measures will be eligible under the Energy Poverty Delivery Sub-target where:

1. the measures have been delivered in an 'eligible energy poor home', which is a property:

   a. with a pre-works BER of an E1 rating or worse (i.e. > 300 kWh /m^2/yr); and
   b. which is occupied by a person in receipt of a Warmer Homes-eligible welfare payment

AND

2. the post-works BER reaches a B2 rating or better (i.e. < 100 kWh /m2/yr).

While the delivery requirements proposed above are challenging, it is still expected that sufficient saving opportunities will be available to meet a sub-target equivalent to 5% of all EEOS savings (as shown in the ECA analysis and noted in the previous section). In addition, the overall increased cost of delivering these ambitious measures will be heavily subsidised (co-funded) by Government supports as part of its socially progressive national retrofitting programme, which has a particular emphasis on social and low-income tenancies. Funding allocations have already been committed, with €3.7 billion allocated under Project Ireland, and €5 billion allocated from carbon tax revenues.

As noted in Box 1 above, DECC and SEAI intend to hold focused workshops with relevant parties as a follow up on the implementation of the high-level delivery requirements proposed above (in green box). That engagement will take place during Q2 2021, once policy decisions on the items included in this consultation document, have been finalised and communicated.

Question 6.2: Do you agree with our proposed requirements for delivery under the Energy Poverty Delivery Sub-target?

[56] As listed on SEAI's Warmer Homes Scheme webpage

Where you do not agree with any aspects of our proposal, please be as specific as possible in your response, including any suggestions you wish to make, taking account of the broad policy intent.

6.3 Delivery for remainder of target

The remainder of the target, which DECC is proposing is equivalent to 85% of all savings required under the EEOS, can be met through end-use final energy savings delivered in any sector. DECC is not proposing any additional requirements in relation to the delivery of these savings, other than those which apply to all savings in meeting the requirements of EED, including Annex V (see Box 1 at the start of this section).

To refer to this portion of the target as the 'Non-residential target' makes an assumption on the delivery strategies obligated parties will employ in meeting their EEOS Targets, which should be avoided. While the lower cost of savings (to obligated parties) found in non-residential sectors, particularly the industrial and commercial sectors, increases the likelihood that obligated parties will choose to deliver the majority of their savings in those sectors, eligible savings from measures in the transport sector, public sector and residential sector (beyond those required to meet delivery sub-targets) will be equally accepted and welcome. It is therefore more appropriate to refer to this portion of the target as 'the Cross-sector Target'.

It is also possible that, with the Cross-sector Target being significantly larger than before, at 85%, and certain non-residential measures being less attractive or no longer eligible under Article 7, it may be necessary for some obligated parties to deliver their Cross-sector Targets across a broader range of sectors than typically seen under the 2014-20 EEOS. As shown by ECA's analysis, at 85% of the EEOS Target, the cost of non-residential delivery may increase somewhat should the market for cheaper measures become exhausted, requiring any shortfall in savings available in commercial buildings or processes to be substituted by more expensive measures such as incentives for EV purchase or further residential delivery. Further details and the results of this analysis, including modelled cost curves for all sectors, **can be found in Section 3.3.3 of the ECA Report.**

7 Nature of Targets and Compliance

This section outlines our proposal on the nature of the targets to be put in place for the 2021-30 obligation period and how DECC proposes to both support compliance and manage potential non-compliance by obligated parties.

7.1 Nature of targets

As set out in Section 4, Ireland's cumulative final energy saving obligation under Article 7 for the period 2021-2030 is 60,707 GWh. This has been calculated based on average annual new savings over the ten-year obligation period of 1,104Wh. Table 4 below shows how the cumulative figure (60,707 GWh) relates to the annual new savings figure (1,104 GWh).

Table 4: Ireland's Article 7 Obligation

Year implemented											Sum
2021(x10)	**1,104**	1,104	1,104	1,104	1,104	1,104	1,104	1,104	1,104	1,104	11,030
2022 (x9)		**1,104**	1,104	1,104	1,104	1,104	1,104	1,104	1,104	1,104	9,927
2023 (x8)			**1,104**	1,104	1,104	1,104	1,104	1,104	1,104	1,104	8,824
2024 (x7)				**1,104**	1,104	1,104	1,104	1,104	1,104	1,104	7,721
2025 (x6)					**1,104**	1,104	1,104	1,104	1,104	1,104	6,618
2026 (x5)						**1,104**	1,104	1,104	1,104	1,104	5,515
2027 (x4)							**1,104**	1,104	1,104	1,104	4,412
2028 (x3)								**1,104**	1,104	1,104	3,309
2029 (x2)									**1,104**	1,104	2,206
2030 (x1)										**1,104**	1,104
Cumulative											**60,707***

*60,707 GWh is the cumulative figure relating to 1,103.636 GWh annual savings, which has been rounded to 1,104 GWh

As long as the required total cumulative savings are achieved by the end of the obligation period (31 December 2030), Ireland can decide how to phase the required new savings over the ten years.

Due to the cumulative nature of the target, early action is particularly beneficial, for example a measure[57] implemented in 2023 contributes a lot more cumulative energy savings (new savings x 8) than the same measure implemented in 2027 (new savings x 4). Equally, slow progress in the delivery of savings in the earlier years can leave a lot of ground to be made up in the latter years, requiring more effort and investment by Member States. Therefore, careful consideration must be given not only in estimating what level of Article 7-eligible savings can realistically be delivered through our alternative measures and our EEOS,

[57] With a 10-year lifetime

independently or in combination, but also when these savings can and must be delivered. Given the size of the obligation, DECC must ensure that at least a minimum level of savings is being delivered consistently each year to avoid over-relying on delivery in the latter years of the obligation period, which would present a significant risk of non-compliance for Ireland, but also for obligated parties.

In line with this approach, it is proposed that 'annual additive targets' are put in place for the EEOS for the ten years of the obligation period. By 'annual additive targets', it means new final energy savings targets which must be met every year, but which grow as the obligation period progresses. Table 5 below illustrates how an annual additive target works where 100 GWh of new savings are required each year of the 10-year obligation period. For example, based on the below, the annual additive target for 2026 is 600 GWh new final energy savings; which means that by the end of that year, an obligated party would need to have delivered at least 600 GWh of new final energy savings in order to be compliant.

Table 5: Annual additive targets, based on 100 GWh annual new savings requirement*

Target by Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
2021	**100**									
2022		**200**								
2023			**300**							
2024				**400**						
2025					**500**					
2026						**600**				
2027							**700**			
2028								**800**		
2029									**900**	
2030										**1,000**

*The figures included in this table are for illustrative purposes only.

The implementation of annual additive targets is intended to reduce risk for obligated parties and provide greater certainty regarding the level of delivery required over the obligation period. While early activity is not rewarded in the same way under annual additive targets as it would be under a cumulative target, neither is it constrained. As for the 2014-20 EEOS, it is intended that obligated parties will be free to exceed their annual additive targets, with total savings achieved rolling over to count against the next year's annual additive target. The annual additive targets approach being proposed does remove a certain degree of delivery flexibility from obligated parties and limits the reward for early activity, however, offering such flexibility to all obligated parties in delivering what is likely to be a challenging EEOS Target over a long obligation period presented too great a risk of non-compliance for Ireland and required a more controlled and steady delivery approach.

The above should help to provide obligated parties and the market with greater predictability, thus supporting longer term planning and more cost-effective delivery. It is intended that energy efficiency notices (EENs), or an equivalent, will be issued to all obligated parties at the start of 2022 setting out each party's annual additive targets for the nine years to the end of the obligation period, based on the overall targets in place. Should any changes to these annual additive targets be necessary, updated notices will be reissued.

As discussed in Section 2, while a transition scheme will be in operation for the duration of 2021, the 10-year obligation period, for Ireland and obligated parties, commenced on 1 January 2021. Therefore, the design of the new scheme, including the nature and setting of targets, must also take account of targets and delivery during the transitionary 2021 period. It is intended that in 2022, in calculating each obligated party's annual additive targets for the remaining nine years of the obligation period (2022-30), each obligated party's delivery in 2021, rather than their issued targets, will be taken into consideration. This means that delivery in 2021, which can exceed the 2021 targets issued, will influence, to an extent, the size of each obligated party's overall EEOS Target, to be delivered over the full obligation period (based on the overall scheme targets in place).

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?

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?

7.2 Compliance

In line with Article 13 of the EED[58], Ireland must lay down rules on the penalties that will apply in the case of non-compliance by obligated parties with their EEOS targets, and ensure that, if required, these rules are implemented. As noted above, DECC is keen to reduce the risk of non-compliance for obligated parties, thus avoiding a situation where penalties are required, and is of the view that putting annual additive targets in place will help to do this. DECC recognises that the primary objective of the EEOS is for obligated parties to achieve their energy savings targets and, while it must be ensured that our policy objectives are met and Ireland is fully compliant with all EED requirements, DECC also intends to take advantage of

[58] Article 13 of the EED

the compliance flexibility mechanisms that can be offered, to help assist obligated parties in meeting their targets. Therefore, it is proposed that the mechanisms that were available to obligated parties for the 2014-20 obligation period are largely retained for the 2021-30 period, subject to certain updates and improvements. Details on each are provided below, with full details regarding the current implementation of each mechanism under the 2014-20 EEOS also available in SEAI's EEOS Guidance.

Compliance flexibility mechanisms

Third party delivery

Under the 2014-20 EEOS, obligated parties could choose to achieve their energy savings independently or choose to form partnerships with third party service providers to market and/or deliver energy savings on their behalf. Partnering with a third party can help to increase the cost-effectiveness of delivery for an obligated party, given that a third party may be able to achieve cost savings that the obligated party couldn't on their own. Specialising in energy efficiency measures, a third party will have the advantage of economies of scale in the provision of services as well as having better information on cost-saving opportunities for projects. In addition, competitive tendering and performance incentives associated with the selection and contracting process can further reduce third party costs for obligated parties. Partnering with a third party may be particularly attractive where an obligated party is newly obligated, relatively small or wishes to enhance the scope of their customer connections.

The business models employed by obligated parties for the 2014-20 EEOS have varied substantially, including one approved arrangement where several obligated parties collectively engaged a third party for it to deliver their targets. It seems clear that in terms of a preferred delivery approach, there is no 'one size fits all'. Based on their individual situation an obligated party may prefer to opt for one delivery option over another, or possibly a mixture of both. Therefore, it is DECC's intention to retain this flexibility mechanism for the 2021-30 obligation period.

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?

Question 7.4: Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

Minimum achievement versus target

As outlined above, DECC is proposing that annual additive targets are put in place for the EEOS for the duration of the obligation period, similar to the 2014-20 obligation period. Under the 2014-20 EEOS, minimum achievement requirements were also put in place against obligated parties' targets. Since 2017, the minimum achievement requirement was set at 95%, meaning that obligated parties were given the flexibility to underdeliver against their annual targets for a given year by up to 5%. As long as the minimum achievement requirement was met, an obligated party was deemed compliant.

DECC is of the view that allowing this level of target flexibility, without penalty, is fair but still ensures that obligated parties' delivery is kept on track. Therefore, it is our intention that a similar level of target flexibility would be allowed for the 2021-30 obligation period, with the exception of 2030, the final year of the obligation period, when 100% of the 2030 annual additive target must be met. Table 6 below illustrates how a minimum achievement requirement of 95% works in relation to annual additive targets[59], where 100 GWh of new savings are required each year of the 10-year obligation period.

Table 6: Minimum achievement requirement of 95%, based on 100 GWh annual new savings*

Target by Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
2021	**95**									
2022		**190**								
2023			**285**							
2024				**380**						
2025					**475**					
2026						**570**				
2027							**665**			
2028								**760**		
2029									**855**	
2030										**1,000**

*The figures included in this table are for illustrative purposes only.

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?

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

Exchange of credits

Under the 2014-20 EEOS, obligated parties were allowed to bilaterally exchange validated savings, or 'energy credits', subject to certain conditions. Such a mechanism allows obligated

59 Except for the final year of the obligation period

parties who have potentially over-delivered against their targets to recoup their excess delivery costs, while at the same time offering other obligated parties, who may be at risk of underachievement, the opportunity to benefit from that over-delivery. Similarly, it enables obligated parties, who may have strong ties in one sector (e.g. non-residential), to exchange credits with obligated parties who have stronger ties in a different sector (e.g. residential), and so balances the market. DECC is of the view that allowing obligated parties to exchange credits bilaterally broadens the opportunities available for achieving targets, and therefore intends to retain this flexibility mechanism for the 2021-30 obligation period. While expected to facilitate the process and approve the exchange of credits, it is intended that SEAI, as administrator, would not be involved in the agreement of any commercial terms of an exchange between two obligated parties, similar to the 2014-20 EEOS.

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

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

Trading of targets

While not included under the 2014-20 EEOS, another flexibility mechanism that could be offered is the trading of targets between obligated parties. Trading of targets (or obligations) allows one obligated party to pay another to take on liability for all or part of its obligation (i.e. to deliver all or part of its targets), and in so doing accept any risks associated with delivery and enforcement. Unlike the exchange of credits, trading of targets offers obligated parties the flexibility to make upfront decisions on how they will manage and deliver their targets, before any energy savings are achieved. DECC is of the view that this mechanism could potentially increase the cost-effectiveness of delivery for obligated parties, if the market allows, and may be an attractive option for some. Similar to the exchange of credits, there is an important role for SEAI, as administrator of the scheme, in facilitating the process and ensuring that risks of non-compliance are mitigated, but without being involved in, or having visibility of, the agreement of any commercial terms.

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

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

Buy-out mechanism

Under the EED, Member States can choose to allow obligated parties to meet all or part of their EEOS targets by contributing to an Energy Efficiency National Fund[60]. Ireland chose to offer this flexibility to obligated parties under the 2014-20 EEOS, but capped the level of contribution or 'buy-out' at 30% of their targets. This cap reflects the fact that Ireland was keen to offer the flexibility to obligated parties, as another mechanism to support compliance (and help them avoid exposure to penalties). At the same time, the State did not wish to allow obligated parties to meet all of their targets in this way, given the other market benefits brought by obligated parties' direct involvement in the EEOS, in terms of capacity, diversity and stimulus.

To facilitate the mechanism for the 2014-20 EEOS, buy-out prices for each sub-target were set (€/kWh) and published in the Iris Oifigiúil[61]. These prices, which were set in 2014, reflected the costs which Ireland would incur through its grant schemes in delivering savings equivalent to those 'bought out' by obligated parties, plus any administrative costs associated with this delivery. These prices were set at a level which ensures that Ireland is not financially disadvantaged should an obligated party choose (or be required) to avail of this mechanism, and are not expected or intended to be in line with market costs. Anecdotally, it has been indicated that setting and publishing buy-out prices (and penalties) for the scheme has increased the pressure on obligated parties to pay more than they normally would to third parties, who are aware of the higher price level of the buy-out and penalty. Given buy-out prices are calculated based on the potential investment required by the State, rather than the market, to deliver any bought-out targets, it is to be expected that buy-out prices will be higher. Rather than being viewed on an equal footing with other compliance routes, it may be more appropriate, at least for most obligated parties, to view the option of buy-out as a 'compliance last resort', which can be relied on, should the situation arise, as a possible way to avoid enforcement action and potentially substantial penalties.

To date, no obligated party has chosen to avail of this flexibility mechanism, which suggests they have been incentivised, and able, to deliver savings to achieve their targets at costs below the fixed buy-out prices. Given the lack of take-up under the 2014-20 EEOS, feedback would be welcomed from obligated parties regarding the merits of retaining this mechanism. If such a mechanism is retained, to allow obligated parties to buy out a certain proportion of their targets, DECC intends to set the buy-out cap at a maximum of 30% of targets, for the reasons outlined above in relation to the 2014-20 EEOS. For the 2021-30 obligation period, new buy-

[60] As set out in Article 7a, para 1 and Article 20, para 6 of the EED
[61] For the 2014-20 obligation period, prices were set at €0.06/kWh, €0.204/kWh and €0.88/kWh for the Non-Residential, Residential (excluding Energy Poverty) and Energy Poverty sectors respectively

out prices would need to be set and published, likely more than once, reflecting the current cost to the State of delivering the equivalent savings.

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?

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

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?

Question 7.14: Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

Non-compliance and penalties

As noted above, under Article 13 of the EED Ireland must outline our rules on the penalties that will apply in the case of non-compliance by obligated parties with their EEOS targets, ensuring that the penalty mechanism is 'effective, proportionate and dissuasive'.

Under the 2014-20 EEOS, if an obligated party failed to achieve its minimum achievement requirement (95% of its target[62]), having used any flexibility mechanisms available (e.g. exchange or buy-out of savings), then a penalty was imposed. The penalty price was set relative to the buy-out price, at 1.25 times that price (€/kWh), with the penalty levied on any portion of the relevant target not achieved. The penalty therefore took account of the extent of non-compliance and also the potential cost to the State of delivering the equivalent savings. On payment of the required penalty, the relevant compliance deficit was considered 'met'. Similar to the buy-out mechanism, any penalties paid would contribute to the Energy Efficiency National Fund. To date, no penalties have been imposed under the 2014-20 EEOS, which may partly indicate that the penalty price is set at an appropriate level to dissuade non-compliance.

Entering into a new, longer and more demanding obligation period, for both Ireland and obligated parties, DECC is keen to use the opportunity to reconsider the approach to non-compliance and the penalty regime. While any approach taken must continue to be effective, proportionate and dissuasive, DECC is of the view that there could be benefit in adopting a

[62] The equivalent of what is termed in this document as an 'annual additive target'

different approach for the 2021-30 obligation period, and welcome input from relevant parties. In line with the requirements of Article 13, it is intended that any penalty approach taken would:

- firmly incentivise compliance
- avoid risk of under-delivery for Ireland and obligated parties
- be robust
- be fair and consistent
- take account of effort and commitment
- be clear and transparent
- be pragmatic
- avoid unnecessary administrative burden
- benefit, rather than distort the market, and
- remain, or should remain, appropriate for the full duration of the obligation period

On this basis, it is proposed that:

1. penalties will relate to annual additive targets (and the associated minimum achievement requirements)
2. a defined framework will be put in place, which will transparently detail how and when penalties, up to a fixed maximum penalty amount, will be determined and issued
3. 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
4. financial penalties imposed will contribute to a fund which will be used for the installation of additional energy efficiency measures, separate to the EEOS
5. penalties will be determined such that the cost of incurring a financial penalty and delivering a target shortfall will always be higher than the cost of compliance, including buy-out
6. if deemed necessary, a non-complying party may be requested to 'buy out' rather than deliver their target shortfall, in addition to incurring the relevant penalty for non-compliance

Question 7.15: Do you agree with all, <u>or part of,</u> our proposed approach to non-compliance and penalties?

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?

Question 7.17: Do you wish to provide any suggestions or comments in relation to any aspect of this proposal?

8 New Scheme Opportunities and Cost Information

8.1 Improvement areas and periodic reviews

Developing a new EEOS presents the opportunity to make changes to any aspects of the scheme that may need improvement. Therefore, DECC is seeking input on what specific improvements could potentially be made to the design of the new EEOS to facilitate administration and delivery.

DECC also invites views on how often the scheme should be reviewed. Such reviews offer the opportunity to make changes to the design or operation of the scheme, following appropriate consultation.

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?

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

8.2 Obligated party cost information

Having a clear understanding of obligated parties' costs is important for evaluating the impact of the EEOS on energy consumers and for modelling proposals for future schemes. Cost transparency also helps competition in the market and access for new entrants.

Under the 2014-20 EEOS, obligated parties were not required to report cost information and therefore, with the exception of a cost report published by the Commission for Regulation of Utilities (CRU) in 2017[63], no robust cost data is available on the EEOS. Given the value of collecting, and potentially publishing, this data, DECC is proposing that, from 2022, all obligated parties will be required to report their delivery and administrative costs to SEAI. While the reporting of cost information to SEAI would be required at individual obligated party level, it is our intention that any published cost information would be at aggregate-level.

DECC appreciates that obligated parties may have some concerns on the reporting and publication of such data, particularly regarding commercial confidentiality. For that reason, and also to help minimise administrative burden, views are sought on how such information should be reported and published.

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[63] Energy Supply Costs Information Report (CRU, 2017)

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

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?

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

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?

9 Information on Bills

Electricity and natural gas bills are the means by which household customers are informed on consumption and costs. The regular provision of accurate billing information based on actual electricity and natural gas consumption, facilitated in future by smart meter deployment, is important for helping customers to control their electricity and natural gas consumption and costs. They can also convey other information that helps households to compare their current arrangements with other offers enabling households to regulate their energy consumption, to provide detail on energy use and potential energy savings, compare offers and switch supplier.

Details of billing for energy use (electricity and natural gas) are matters for energy suppliers and are independently regulated by the CRU under the Suppliers' Handbook[64] and specifically within the Code of Practice on billing provisions in the handbook. Suppliers already provide information to consumers on their bills on energy use, where to access information on energy efficiency measures and on energy consumption benchmarks, in line with these existing CRU requirements. Smart meter deployment is already set to facilitate the provision of better and more consumption information to customers in a cost efficient and user-friendly manner using new technology. Under smart bill deployment, which is being rolled out in parallel with smart meters, the CRU has already determined that better comparison information is to be provided in bills. There may be a case for providing additional information to all consumers, via bills or otherwise, on consumption and/or energy savings, including whether such information would result in actions being taken by consumers that increase energy efficiency and reduce emissions.

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?

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?

[64] CRU19138 Electricity and Gas Suppliers' Handbook 2019

10 Appendices

Appendix 1: Consultation Questions

Section 3: Obligated Parties

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?

Question 3.2: Do you agree with our proposal to obligate the above types of eligible parties within each market, <u>should they be above a certain size</u>, 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?

Question 3.3: Do you agree with our proposal to set the obligation threshold in terms of annual final energy sales volume (GWh)?

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?

Question 3.5: Do you wish to provide any specific comments in relation to the above target setting approach?

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?

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)?

Section 5: EEOS Delivery Sub-targets

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)?

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)?

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?

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?

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?

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?

Section 6: Delivery Requirements

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)?

Question 6.2: Do you agree with our proposed requirements for delivery under the Energy Poverty Delivery Sub-target?

Section 7: Nature of Targets and Compliance

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?

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?

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?

Question 7.4: Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

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?

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

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

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

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

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

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?

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

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?

Question 7.14: Do you wish to provide any suggestions or comments in relation to this flexibility mechanism?

Question 7.15: Do you agree with all, or part of, our proposed approach to non-compliance and penalties?

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?

Question 7.17: Do you wish to provide any suggestions or comments in relation to any aspect of this proposal?

Section 8: New Scheme Opportunities and Cost Information

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?

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

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

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?

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

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?

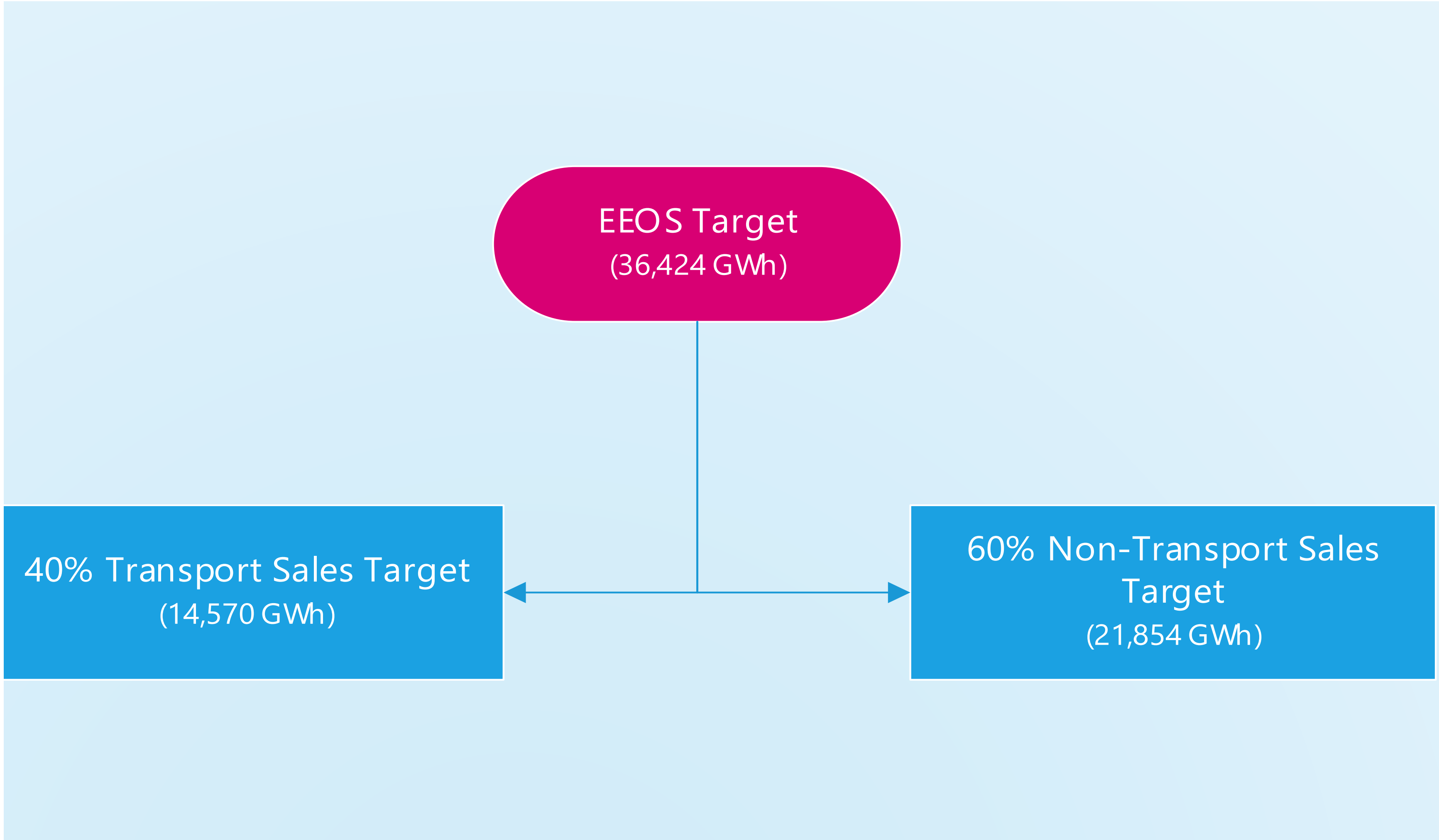
Section 9: Information on Bills

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?

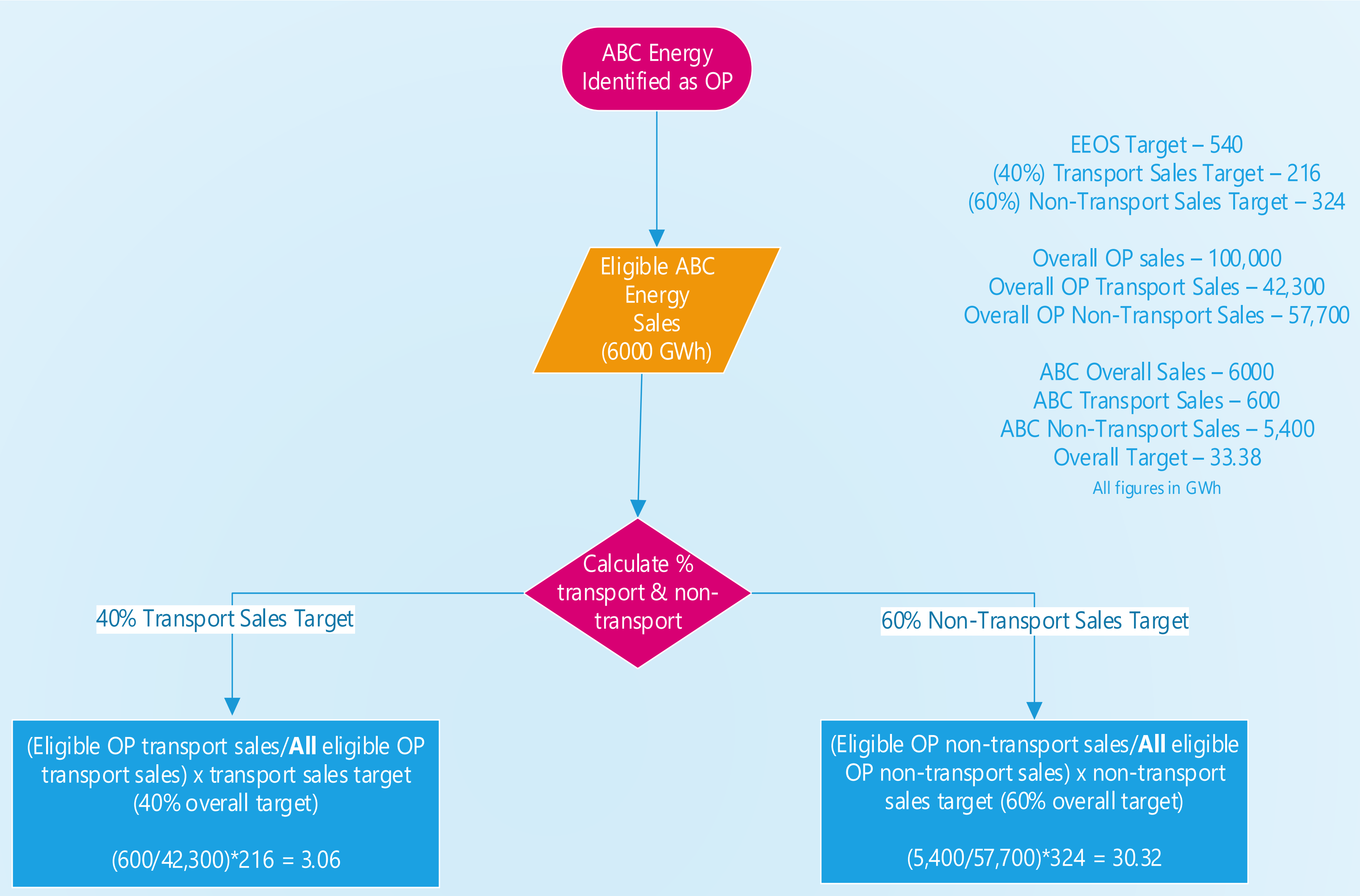
Question 9.2: How could the provision of such information be implemented cost effectively and in a way that benefits all consumers, whether on bills or otherwise?

Appendix 2: Worked example re EEOS Target and Sales Targets

The EEOS Target Split



Transport Sales Target and Non-transport Sales Target: Example



Appendix 3: Worked examples re EEOS Target, Sales Targets, Delivery Sub-targets

Sub-sector Delivery Targets

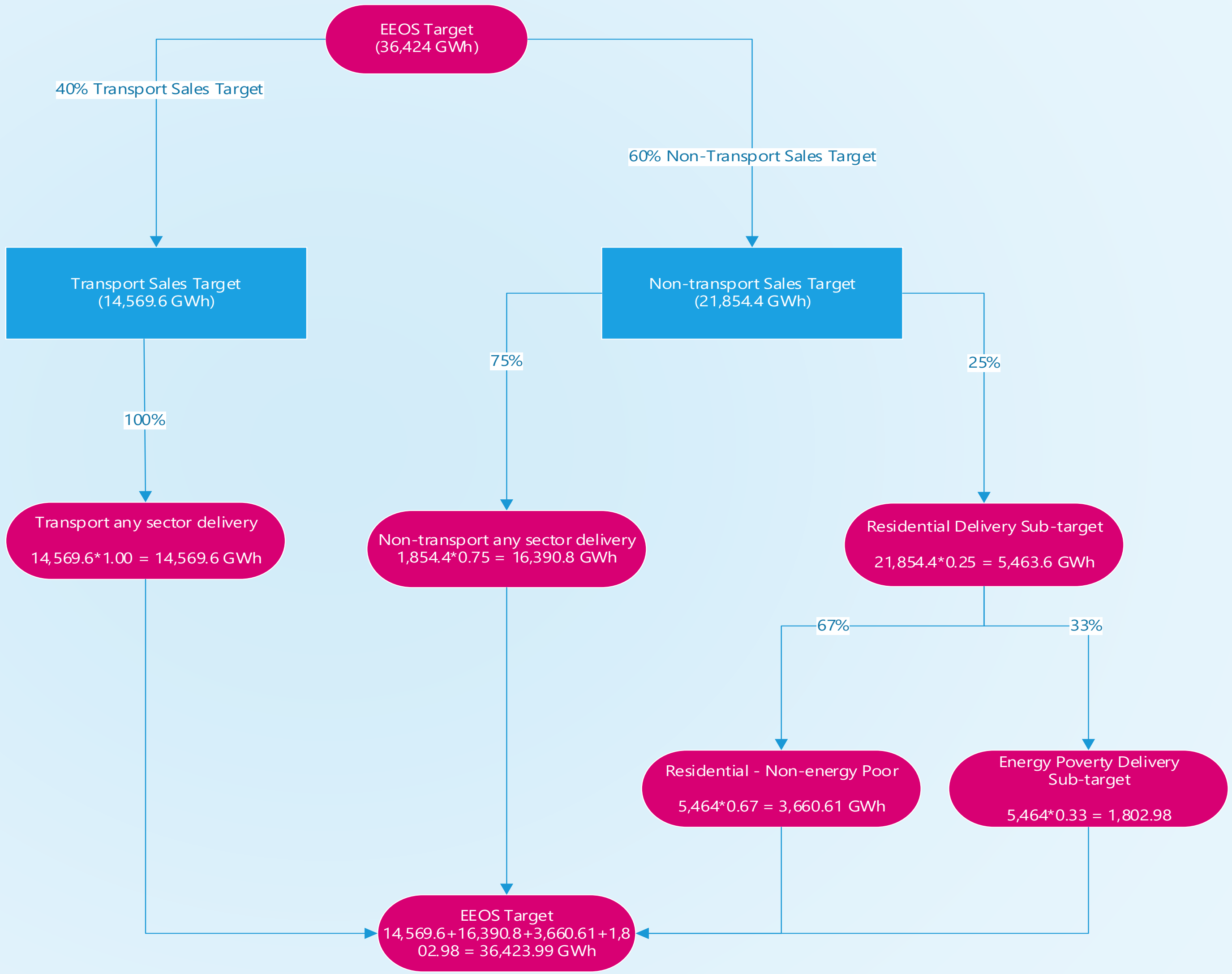
EEOS Target – 36,424
(40%) Transport Sales Target – 14,569.6
(60%) Non-Transport Sales Target – 21,854.4

Transport Sales Target:
Any Sector Delivery – 14,569.6

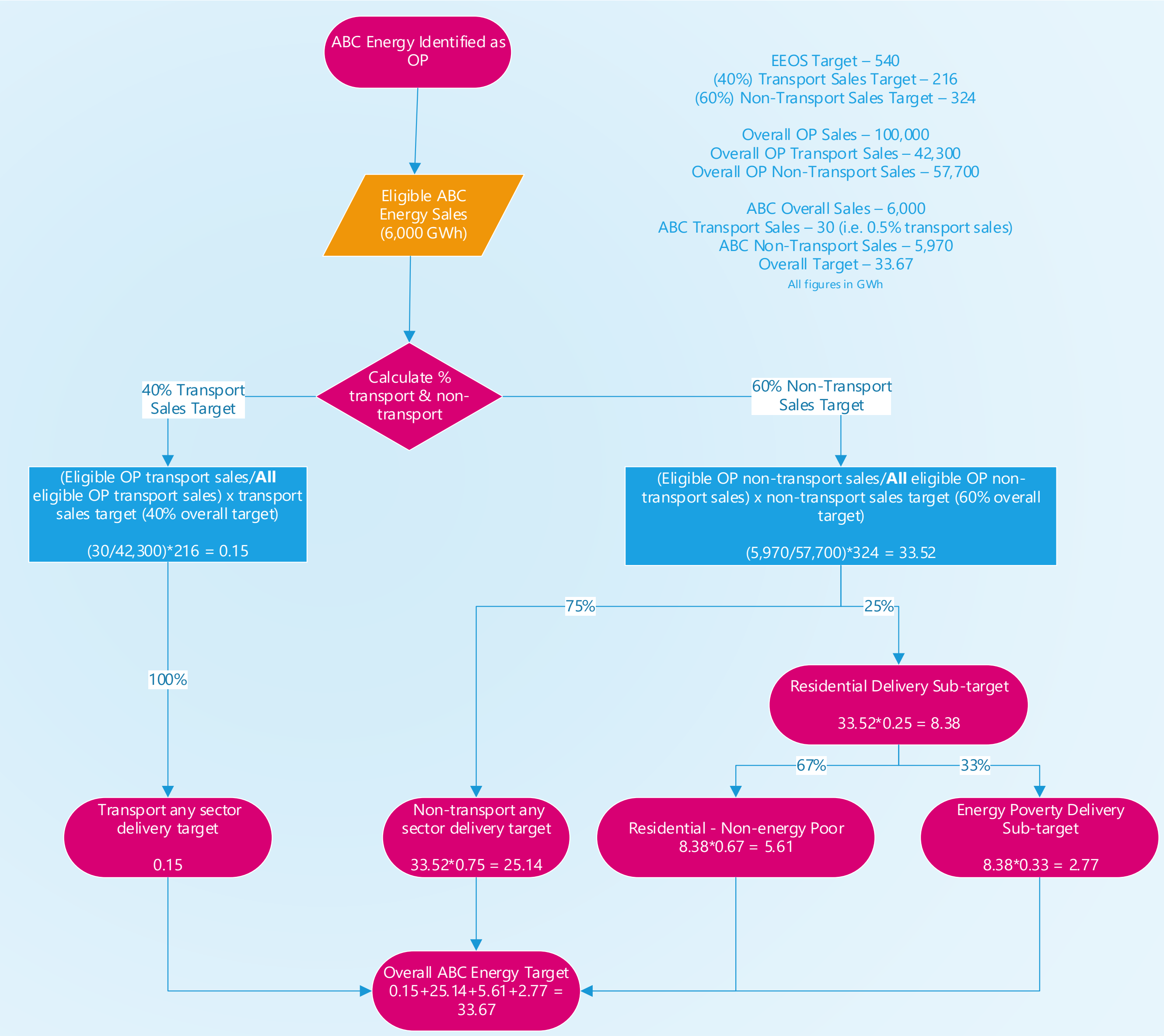
Non-Transport Sales Target:
Any Sector Delivery – 16,390.8
Residential Delivery Sub-target – 5,463.6

Residential Delivery Sub-Target:
Residential - Non-energy Poor – 3,660.61
Energy Poverty Delivery Sub-target – 1,802.98

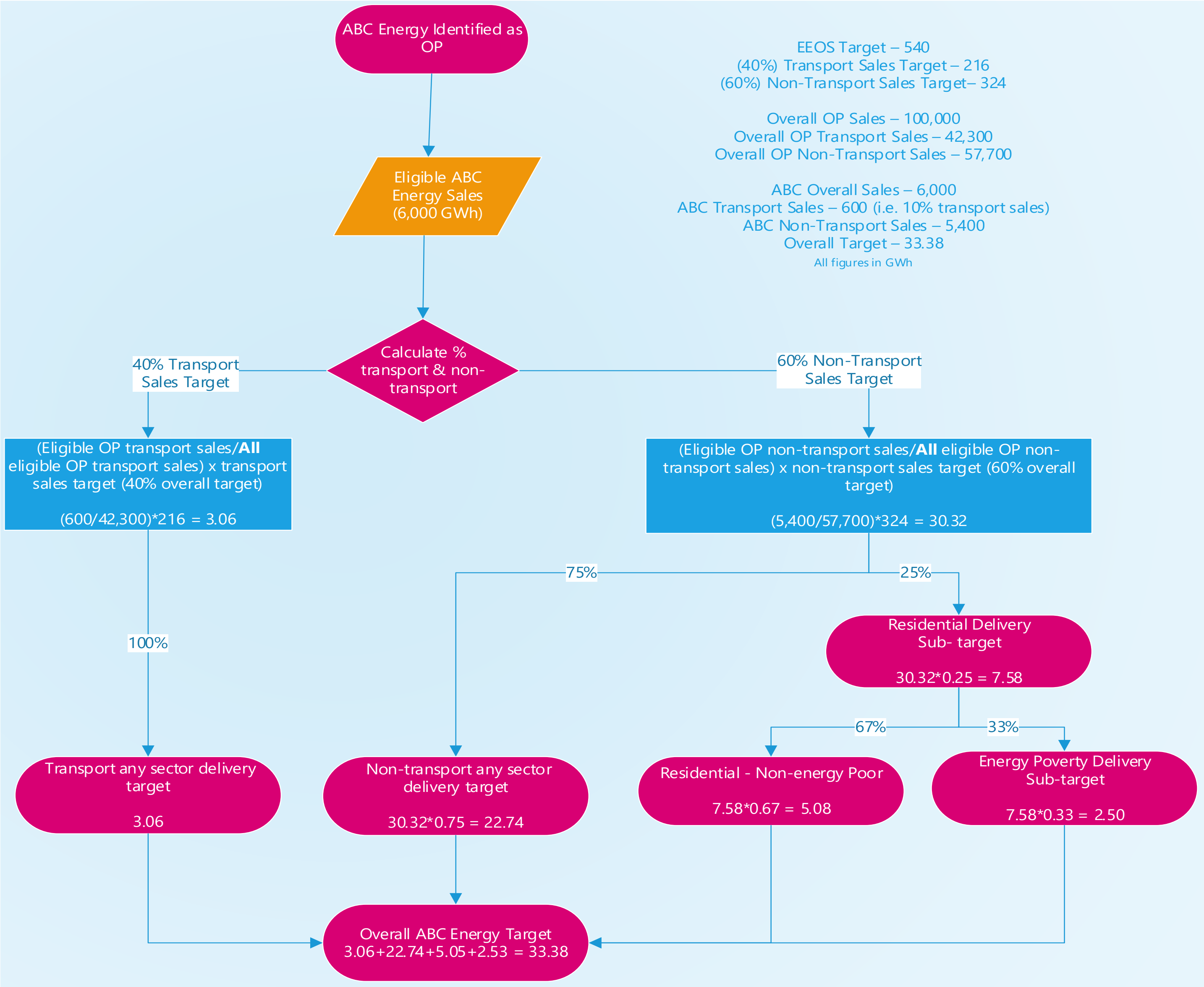
All figures in GWh



Sub-sector Delivery Targets: Example 1



Sub-sector Delivery Targets: Example 2



Sub-sector Delivery Targets: Example 3