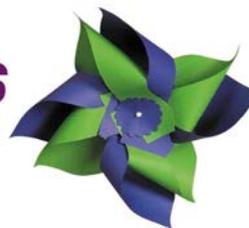


Action Renewables
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Action Renewables Response to DETI Consultation on the
Development of the Northern Ireland heat Incentive

September 2011

Susan Stewart
Department of Enterprise, Trade and Investment
Room 44
Netherleigh House, Massey Avenue,
Belfast
BT4 2JP.

Date: 24th September 2011

RE: Development of the Northern Ireland Renewable Heat Incentive

INTRODUCTION:

Action Renewables welcome the opportunity to respond to the consultation on the Development of the Northern Ireland Renewable Heat Incentive.

Action Renewables is the lead authority on renewable energy in Northern Ireland. We welcome the development of all strategies that will encourage more of a sustainable energy infrastructure in Northern Ireland, increasing our security of supply and recognising the fact that most of the energy consumed in Northern Ireland is associated with heat.

We welcome the consideration of such strategies by the Department of Enterprise, Trade and Investment and applaud the minister for showing commitment to the industry by proposing the introduction of an incentive to encourage the adoption of renewable heat.

Consultation Response

- 3.1 Yes. Several options were considered within the proposal and we agree that the Incentive is probably the best way to move forward in Northern Ireland.
- 3.2 No. We suggest that Northern Ireland should be responsible for administering its own incentive. This is for the following reasons.
- It will create job opportunities in Northern Ireland
 - It is likely that the Incentive in Northern Ireland will not be identical to the Incentive in the rest of the UK. There will therefore be discrepancies in the way that the incentive will be administered in the two jurisdictions. This will lead to confusion if Ofgem is responsible for both.
 - There is a perception in the commercial marketplace that Ofgem does not handle processes efficiently and is slow to deliver.
 - Northern Ireland has the capability to provide its own administration which is likely to be more effective and proactive in delivering an efficient service than Ofgem.
- 3.3 No. We do not agree that existing gas customers should be excluded from Premium Payments. We also disagree with the comments in Section 4, about the advisability of excluding large heat consumers from the scheme.
- 3.4 Yes, but it is unclear how those who have already installed a heating installation, with support, would be expected to repay the monies that have already been granted. If it is immediate, it may create financial difficulties as the return of capital might not have been anticipated.
- 3.5 No.
- 3.6 No. We recognise and applaud the decision to include bioliquids and air source heat pumps in the Incentive, even though they have been excluded in GB. However, we do not agree with excluding CHP where it also receives ROCs. See the response in Section 6. We also do not agree with the decision to exclude heat generated from landfill and anaerobic digestion. Northern Ireland has the potential to produce significant amounts of heat from both sources. Anaerobic digestion is also an intricate part of the solution for the disposal of agricultural waste products and will be disadvantaged if it is not included in the RHI. It will also encourage best practice to encourage producers to use all of the energy possible from a waste stream.
- 3.7 No, this is our major concern within the proposal. Several technologies have different levels of break support to the UK and it is unclear why this has been proposed. It is also evident that most of those break points are also disadvantageous to Northern Ireland. We also have major concerns about the rationale for having different levels of support in Northern Ireland to GB.

Ground source Heat Pumps have a break point in NI at 45kW but it is 100kW in GB. We propose that the level in NI should be raised to 100kW.

Biomass boilers have 2 break points in GB at 200kW and 1 MW. NI proposes to have one break point at 45kW. We suggest that the GB levels should be adopted here.

Biomethane has a level of support in NI that is only 38% of the level of support in GB. We recommend that the level of support should be the same.

3.8 No. We recognise and agree that the cost of oil in Northern Ireland is more than the cost of gas in GB and these can be considered as the counterfactual fuels. However there is a complete lack of recognition within the Cambridge Report that the cost of biomass in Northern Ireland is also more expensive in Northern Ireland than in the rest of the UK. Biomass in the form of wood chip is approximately 40% more expensive in Northern Ireland than the rest of GB for two reasons; the availability of fuel, and the border with another EU country where the cost of biomass fuel is even higher, largely as a result of carbon taxation. This is a major deficiency in the RHI proposal. The Cambridge figures do not recognise the cost of replacement fuels in Northern Ireland, and it is these figures upon which the differing levels of RHI support have been based.

It is difficult to recommend what the level of support should be for all of the technologies in NI, when the basic assumption about the cost of biomass fuels in NI is so inaccurate. We recognise that the oil is more expensive than gas and that over-incentivisation should be avoided. However the basic assumptions about the cost of alternative fuels and of the rate of increase in the cost of fuels going forward are also defective. This needs to be resolved before an accurate assessment of the appropriate level of RHI in NI can be agreed.

There is also likely to be a considerable difficulty associated with raising finance for Renewable Heat projects in Northern Ireland if there is a different and lower level of support in Northern Ireland. Lending institutions such as banks and Asset Finance Companies will see a higher level of return in GB for identical projects. Investors including Eco companies will also gravitate towards GB as the level of return will be higher. This is likely to be a considerable disincentive to projects in Northern Ireland.

3.9 Yes, it is reasonable and practical to do so. An exception may be solar thermal, under 10kW, where it could be deemed that a specific output is being achieved.

3.10 No. It is an administrative process that will be necessary to ensure proper monitoring and delivery of the RHI.

3.11. It would be advisable to consider Smart metering at this stage. This has implications for the development of Renewable Electricity in the future to manage the demand side. It would be desirable to have an integrated Smart system that could manage both. However, we are unsure about the stage of market development in this area and if it is likely to delay the introduction of the RHI then the decision to use an integrated system should be deferred.

3.12. Yes. Sustainability reporting should be a prerequisite on larger schemes

3.13. It is unclear how DETI intends to handle Sustainability Reporting. We understand that DARD are currently developing a Sustainability Reporting Protocol. It should be:

- Practical
- Pragmatic
- Based on the EU Sustainability criteria which are under development at the moment
- Mindful of the situation in Northern Ireland that many of the biomass suppliers are small and do not have the resource to implement a sophisticated system
- Delivered in a way which recognises the scale and capabilities of the NI market

3.14. Again, we consider that the RHI should be administered within NI and not be Ofgem. However we do agree with the proposal to include payments to ESCo companies.

3.15. Yes. However it should be made clear, now, that any reviews will not reduce the level of support, or reduce support completely, from projects which have already been approved and developed based on the indicated level of support. If there is a perception in the market that the level of support for a scheme which has been installed, might have its funding reduced at a future date, because of a review, there be so much uncertainty that, in our opinion, it will be almost impossible to get any financing for the project to proceed. Reviews are necessary to ensure that the scheme is delivering on its intended objectives, and to correct any anomalies that might arise, but not if they have the capacity to undermine confidence.

3.16. Yes. As in 3.15, if they do not, it will be difficult to raise finance for projects

4.1, 4.2, and 4.3.

We believe that the main reason for considering the Industrial Sector separately is to protect the gas network. We think that this is flawed. A report produced in 2010, by Action Renewables and Element Energy, on behalf of the EST in Northern Ireland, indicated that the Carbon savings associated with the extension of the gas network to the west are not justifiable. That report considered the cost of extending the gas network, versus several other initiatives to reduce the carbon footprint within NI. Scenarios including an incentive, capital support and grants were considered and none of them indicated that an extension of the gas network would be a cost effective way of addressing the issue. While that report did not plug in the specific figures which are now being proposed within the current RHI consultation, they did indicate that extension of the gas network would be an inefficient and expensive way of “solving the problem”.

GB is now actively trying to reduce dependency on the gas market. It would seem to be illogical for Northern Ireland to be protecting the gas market, at the possible expense of Renewables.

4.4. We are unsure about whether co-firing should be included, or not. It is our opinion that one of the important factors to be considered in the RHI is the availability of the scheme to the public and to private industry. This would ensure a “buy-in” in terms of appreciation that energy security and renewable energy are serious issues that need to be addressed. If the 10% heat target is achievable by delivering on a limited number of large scale schemes, the spin off to NI PLC is likely to be limited. Co-firing projects will look to find large scale, imported feedstocks, that will simply replace fossil fuel dependency with imported biomass fuel dependency. It will reduce the carbon footprint issue but will not address the fuel security issue.

5.1, 5.2, 5.3, 5.4.

We agree that the domestic heat market is a more difficult sector to deal with effectively and that some delay might be necessary to decide on the best instrument for delivery and level of tariff.

However here is already a considerable amount of uncertainty in the market about how this is going to proceed and further delay will exacerbate this situation. The main concerns are:

- What will be the level of support?
- How will Renewable Heat Premium Payments be handled? When will the payment be made and how?
- What happens if the original installation was not carried out by an MCS approved installer?

There is also the issue of the level of support proposed. It is unclear how the level in NI will compare with GB. Bearing in mind the previous comments about the inaccuracy of the Cambridge report in recording the cost of biomass fuel in NI, we do not think that it is desirable to set a level in NI which is lower than the rest of GB. We would suggest a tariff of 5p/kWhr for domestic installations, for all technologies.

6.1 As noted previously we are of the opinion that if the RHI is implemented as proposed, it could mitigate against Renewable Heat projects, on the industrial scale. A large heat consumer, situated off the current gas network, who wishes to convert to biomass, could be prevented from doing so, because DETI considers them be the anchor tenant for the gas extension. This appears to be counter intuitive.

6.2 Again, this is a difficult consideration. While we agree that over-incentivisation should be avoided, it seems unreasonable not to support the production of renewable heat from CHP systems. Delaying the decision until 2014 creates further uncertainty in the market.

We agree that CHP producers, who have accessed the NIRO, should be given the opportunity to switch to the RHI if another accommodation including both support mechanisms cannot be delivered. However the best solution is to incentivise heat from CHP as well as electricity, if an appropriate level can be found.

6.3, 6.4

We do not agree that AD should be excluded from the RHI because it is already eligible for ROCs. It is important to encourage the use of the heat from these projects as well as the electricity. A reduced level of ROC support may be necessary, where heat is being supported, but not to the point where the overall income is less than would have been achieved without the RHI

7.1, 7.2, 7.3

The key actions for the Renewable Heat Strategy Group are:

- Create an Action Plan for, with dates and targets for roll out of the RHI
- Create a link to industry/commerce by inviting representatives on to the Group (include members from outside Government Departments)
- Investigate the opportunity to extend the Green Deal from GB to NI, or to see a similar initiative is possible in NI
- Liaise with DARD on biomass production. Forest Service have been conspicuously unsuccessful in increasing the level of afforestation in NI in the last 20 years. It would not be in NI's interest to replace fossil fuel dependency with imported biomass fuel dependency.
- Agree on the Sustainability criteria for biomass feedstocks.
- Monitor the uptake and performance against targets of the RHI
- Encourage the uptake of Renewable Heat in the Government Estate

Action Renewables would wish to give evidence to the Renewable Heat Strategy Group. We would also wish to be included on the Group, if a decision is made to extend the membership beyond the confines of Departmental Staff.