

14 September 2011

TO: ALL RURAL ENTERPRISE POLICY COMMITTEE MEMBERS

Dear Member,

The Rural Enterprise Policy Committee meeting will be held on:

**MONDAY 26th SEPTEMBER
SEAGOE HOTEL, PORTADOWN
AT 8.00PM**

Please note that the AGM will follow immediately after the Committee business is concluded.

COMMITTEE MEETING AGENDA

- 1 Apologies
- 2 Minutes of meeting held 9 May (enclosed)
- 3 Matters Arising
- 4 Correspondence
- 5 Renewable Heat Initiative Consultation in NI
- 6 Grid Connection Update
- 7 Rural Development Axis 3 Funding
- 8 UK Union Meeting – 19 December 2011
- 9 Any other business
- 10 Date of next meeting

2011/2012 AGM

Chairman's Report – Followed by elections;

- Chair
- Vice Chair
- Co-options
- Environment Committee Representative

**CHRIS OSBORNE
SECRETARY**



ULSTER
FARMERS'
UNION

RURAL ENTERPRISE COMMITTEE MINUTES

The Rural Enterprise Policy Committee met on Monday
26 September 2011 at the Seagoe Hotel, Portadown.

ATTENDANCE: H Sinclair (Deputy President), D McElrea (Chairman), B Armtroug, J Carson, M Harnett, G Hawkes, J McKinley, J Martin and C Osborne (Secretary).

APOLOGIES: J McLenaghan (Vice Chairman), J Best, S Byrne, R Campbell, R Craig, A Hunter and L Knox

MINUTES: Signed by the Chairman.

MATTERS ARISING: M Harnett indicated that he had a few points to raise but would leave them until the next meeting.

Development of a Northern Ireland Renewable Heat Incentive (NIRHI) – The Ulster Farmers' Union have been invited to reply to a Department of Enterprise, Trade and Investment (DETI) consultation on the development of a Renewable Heat Initiative in Northern Ireland.

The key principles are;

- £25m in NI, ring-fenced – phased in over 4 years; £2m 2011/2012; £4m 2012/2013; £7m 2013/2014 and £12m 2014/2015)
- NI RHI will be funded from central Government funds
- OFGEM will oversee NI RHI; application, accreditation of installations, make payments, as well as monitor compliance.
- NI RHI will be available to those in the non-domestic market
- Large industrial sites – there are 17 in NI, will subject to separate eligibility criteria and a separate application process (DETI point out that their concerns about protecting the development of the natural gas market in NI being an over-riding concern)
- NI RHI will support new renewable heat installations commissioned after 1 September 2010
- NI RHI to be in place 1 April 2012
- Small and Medium-sized installations (up to and including 45kWth) installers and equipment must MCS accredited – ensure quality assurance and consumer protection.
- Payments will be made on a quarterly basis and tariffs will be grandfathered
- DETI to undertake a formal review starting January 2014

Eligible technologies are; Gaseous biomass, Bioliquids, Solar Thermal, Air-Source Heat Pumps, Ground-Source Heat Pumps, On-site biogas, Geothermal, Energy from waste and Injection of biomethane into the grid.

No support for Anaerobic Digestion - DETI concluded that AD generators are already in receipt of ROCs for renewable electricity generated and should not be eligible for the NI RHI, due to the danger “over-incentivisation” and would not represent “additionality” or value for money.

DETI believe that the development of AD systems is already viable because of the existing ROC levels they receive. However, an encouraging point is that for heat-only AD systems, that do not receive ROCs, the relevant RHI tariff level will be available. The UFU will be looking into this further.

- **Tariff levels in Northern Ireland**

Tariff levels in NI devised to bridge the financial gap between conventional heating system and renewable heating technologies

Tariffs designed to address capital costs, ongoing operating costs and “non-financial hassle costs”

Tariff Name	Eligible Technology in NI	Installation Capacity NI	NI Tariff Rate (pence/kWh)
Air Source Heat Pumps		< 45kWth	3.3
Ground Source Heat Pumps	Inc water source heat pumps and deep geothermal	< 45 kWth >45 kWth (exc. Industry scale)	4 0.9
Bioliquids		<45kWth	1.5
Biomass	Solid Biomass; municipal solid waste, inc CHP	< 45 kWth >45 kWth (exc. Industry scale)	4.5 1.3
Biomethane	Biomethane injection and biogas combustion (except from landfill gas)	Biomethane, Biogas Combustion <200 kWth	2.5
Solar Thermal	Solar thermal	< 200 kWth	8.5

UFU will be providing a detailed analysis of these proposed tariffs in the Consultation response and what they will mean for landowners.

In addition, there is to be support for the domestic sector in NI.

The Committee discussed each question in detail in the Consultation

Q3.1 – Do you agree with the decision to introduce a Renewable Heat Incentive (RHI) tailored for Northern Ireland instead of pursuing other options considered?

In its current proposed form the RHI is not tailored to NI’s specific needs. Rather the RHI should have been tailored to savings in fossil fuel usage and geared towards a “Renewable Heat Challenge Fund”. The Consultation states that we will be displacing oil and not gas, which is the opposite of what will be happening in GB. DETI admit that delivered oil prices are more expensive in NI compared to GB and because of this NI needs less subvention to RH projects. The UFU would disagree with this logic, with gas not likely to reach many parts of NI, the gas price is irrelevant and these areas will still be subject to high oil prices. In light of these assumptions, the RHI in its current form is not tailored to the needs of NI.

Q3.2 – Do you agree that OFGEM are best placed to administer the NI RHI?

No. The UFU would have concerns about OFGEM administering the NIRHI. Northern Ireland should be responsible for administering its own RHI. Our reservations are partly based upon on-going time delays and problems being encountered by our members when undergoing the accreditation process for NIROCs. Added to this local administration will encourage local job creation, ensure local knowledge about our market and enhance accountability. UFU to seek assurances from DETI that the administration charges are not encapsulated into the set aside £25 million for the proposed RHI.

Q3.3 – Do you agree with the eligibility requirement as prescribed?

The UFU disagree with the proposed start date of 1 September 2010. The equivalent date in GB is 15 July 2009, so there is a disparity of 14 months between the GB and NI dates. This will leave applicants in NI at a competitive disadvantage.

Q3.4 – Do you agree with DETI's treatment of those who have received grant support for renewable heat installations?

Should a project receive funding under the Biomass Challenge Fund for example, this will have a reducing effect upon the RHI. UFU would argue that the BCF is to assist with start-up capital funding and the RHI is to provide an incentive for the running costs. The two should be able to run side-by-side. In the meantime, the Committee would like the reduction level and calculation to be clarified.

Q3.6 – Do you agree with the proposed eligible technologies and standards?

The UFU would question the inclusion of technologies such as Geothermal. This is very much a "still-in-development" technology and with only £25m available the UFU believes that the money should have been directed to other more established renewable technologies (possibly through more generous tariff levels). The Committee felt that the list of eligible technologies should not be final.

Q3.7 – Do you agree with the proposed tariff level and standards?

As far as biomass boilers are concerned, the NI non-domestic tariff is out of line with GB. Not just the tariff values but also the break points. The UFU wishes to know why several technologies have differing levels of break support in NI compared to GB.

Q3.8 – Do you agree with DETI's rationale for tariffs?

The tariff levels are out of sync with GB. The UFU acknowledge that the NI levels were submitted on the basis of NI-specific modelling. These models took into account differing heat requirements, geographical considerations, NI reliance upon heating oil and other factors. However, judging by the proposed tariffs, consideration has not been given to the fact that NI has the highest levels of fuel poverty in the UK.

Looking at the Cambridge Economic Policy Associate Report in greater detail, the information in the work (Page 124) used as the basis for the calculation, modellers have assumed a "UK" price for woodchip of £6-8/gigajoule, with no inflation until 2020. Currently NI delivered prices are averaging around £10/gigajoule. The fact that we have less woodland than GB/EU has been ignored by the study.

Another factor which has been ignored is that we share a land border with another EU Member State. ROI are utilising a Carbon Tax as one of their policy instruments. Calculations indicate that each €15 euro/tonne (t) of Carbon Tax applied, will lead to increases in the potential value of wood chip (15% moisture) by €16/t, with proposals to raise the tax applied to €30/t in 2012, with possibly of €50/t in 2014.

With indications from ROI that they are likely to press ahead with this increase in Carbon tax, this will have a negative impact upon biomass production in NI. Unless a biomass grower's customer is on their doorstep or they are using their own fuel, woodchip will be significantly more valuable in ROI. ROI biomass users will buy wood chip from NI, leaving a shortage and drive the import of non-indigenous feedstocks.

GB will also be a more enticing prospect compared to NI, where on the basis on this consultation, the tariffs will be nowhere near as attractive. Investors looking to fund ESCOs will get a far better return in GB compared to NI and turn their focus to across the Irish Sea.

Q3.9 – Do you agree that all heat should be measured under the RHI?

Heat should be metered wherever possible, therefore reducing the chances of fraud. The argument has been that metering is too expensive, but the UFU have been informed of a company who can provide heat meters which are cost effective and reliable and this should be considered.

Q3.10 – Do you expect any obstacles in metering heat output?

The cost obstacle has been addressed above. However, the costs attributed to metering should be outside the £25 million budget.

Q3.11 – What are the alternative measures to metering heat output?

There would be no need for an alternative if a cheap and reliable meter is available.

Q3.12 – Do you agree that Sustainable Reporting should be part of the RHI?

The UFU would be in favour of the concept of Sustainability Reporting if the requirements are clearly set out and achievable.

Q4.1/4.2/4.3 – Do you agree that the heavy industrial sector should be treated separately under the NIRHI?

The UFU believes that the heavy industry sectors should be excluded from the RHI and instead they should have their own Renewable Heat Incentive.

Q6.1 – What impact do you think the implementation of the NIRIC will have upon the future development of the natural gas market?

DETI has a statutory obligation to extending the natural gas network in NI. This is a policy which has been pursued in GB since 1967. The UFU would question the priority to moving to gas.

Q6.2 – Do you agree with DETI's assessment of potential support for CHP and agree that no changes should be made until April 2014 at the earliest?

CHP without RHI support is simply not viable. Delaying the decision will simply create further uncertainty in the market. Current CHP users should be given the opportunity to switch to the RHI if there is no other alternative available. The UFU's view is based on CHP users and hence the following case study. A litre of biodiesel stores about 10.5kWh of energy. If you consider that most generators including CHP are about 33% efficient electrically; 62% is typical in heat production. Therefore by this reckoning, 1 litre of fuel generates about 3.5kWh of electricity and about 6kWh of heat. Biodiesel costs currently costs 88p, therefore in fuel costs alone 1kWh costs 25 pence. If 2 ROCs (assuming $2 \times 4.5 = 9p$) are removed, this leaves a cost price of 16p for each kWh generated. In addition, you would need to add depreciation, maintenance, labour and finance costs. On this basis it does not pay to keep the CHP unit running and emphasizes the need for an RHI.

Q6.3 – What is your view on the proposals that AD systems which avail of the NIRO be excluded from receiving payments under the RHI?

The UFU believes that AD should not be excluded from the RHI. UFU have been researching smaller scale on-farm AD solutions. If there is no financial incentive, renewable heat generated from an AD unit will be dumped.

Q6.4 – Would you support a reduced ROC level in order to avail of the RHI?

A reduced level of ROC support might be necessary, but every case should be considered. If a ROC reduction is considered where heat is supported, the income would need to be greater than what is available from the RHI, to ensure a sustainable operation. Hence, ROC's and an RHI should be considered in unison and not as a replacement for each other.

UFU position - One initial concern is the assumption and almost accepting realisation by DETI that NI will always remain a high cost region when it comes to energy and heat, in that we will always

have high oil prices. We acknowledge that oil and gas are outside of DETI control. Yet Renewable Energy is within their remit and we cannot understand why the RHI is being proposed in the form that is, namely leaving our own local sector at a competitive disadvantage both with our neighbours in GB and across the border in RoI. Particularly at a time when the Enterprise Minister is seeking to make local food companies more competitive to facilitate growth through rising exports.

This as a missed funding opportunity to develop the Renewable Heat sector in NI. The UFU feels that the balance of money being directed at the extension of the gas network compared to renewable heat is unfairly skewed, especially when you consider the fact that the RHI money is funded from HM Treasury. This money would be better directed at the development of a Northern Ireland-tailored Renewable Heat Incentive.

NIE Grid Connection:

Irrelevant Information redacted by the RHI Inquiry

The UFU position -

Irrelevant Information redacted by the RHI Inquiry

Irrelevant Information redacted by the RHI Inquiry

UK Union Meeting

Irrelevant Information redacted by the RHI Inquiry

NI RDP – Axis 3 Funding

Irrelevant Information redacted by the RHI Inquiry

ANY OTHER BUSINESS:

Frequency of Committee Meetings -

Irrelevant Information redacted by the RHI Inquiry

Mobile Phone Masts –

Irrelevant Information redacted by the RHI Inquiry

AFBI Hillsborough AD Plant –

Irrelevant Information redacted by the RHI Inquiry

AGM

Irrelevant Information redacted by the RHI Inquiry