

team to lead this work and focus on pushing it forward to the next stage. I also ensured that, from within the Department, there would be access to an appropriately skilled economist to work alongside the project team, engage with the consultants in due course and provide the required element of professional challenge.

40. The next stage was to procure expertise and use this to examine the options for delivering the best approach to meeting NI obligations in relation to the UK target. Following Ministerial and DFP approvals, this resulted in the appointment of the consortium/partnership Cambridge Economic Policy Associates (CEPA) and AEA Technology Ltd (AEA). I ensured that there was a comprehensive set of Terms of Reference for CEPA-AEA (**Annex 4**) to work to in carrying out an economic appraisal for a Renewable Heat Incentive for Northern Ireland and making a recommendation on the most appropriate means of incentivising the maximum amount of renewable heat for the budget available (i.e. the £25m set by HMT and allocated over the 4-year period and capped in each year as follows - 2011-12 (£2m), 2012-13 (£4m), 2013-14 (£7m) and 2014-15 (£12m)). They commenced their work in January 2011 and presented their report at the end of June 2011 (**Annex 2**).
41. I ensured that the Renewable Heat Branch/project team (including the internal economist) worked closely with CEPA-AEA, seeking explanation and ensuring they understood the work as it developed. I also met the CEPA team to discuss emerging findings and conclusions. Further, prior to the finalisation of their report, a meeting was held with a range of internal stakeholders (including, officials from the NI Authority for Utility Regulation, Invest NI and representatives from other Departments, including DARD, and Principal Officers from other Energy Division branches) to consider the findings and, in particular, the impact on NI's gas network. In parallel, work was undertaken to ensure DETI had the necessary legislative basis to introduce an RHI. This was achieved via an amendment to the UK draft Energy Bill (which became the 2011 Energy Act). The project team undertook all the steps associated with a Legislative Consent Motion (including endorsement by the NI Executive and Assembly) and engaged

engaged on RHI matters. Please see Annex B for an estimated breakdown of my involvement. Most of this would have been in relation to the first report, with perhaps 1 to 1.5 full time equivalent days considering the addendum and attending the casework meeting. The main activities that would have accounted for this time would have included attending a number of meetings/conference calls with CEPA (which I estimate was 2 or 3 meetings); a review of the report and providing advice/comments; a small number of meetings with Energy Division (2 or 3 including casework committee pre meeting); and the casework committee meeting itself).

During the period in question, the remainder of my time would have been spent working elsewhere within the ASU/the Department.

B) As indicated above, my primary role was to ensure that the consultant's report covered the issues needed for an economic appraisal. It is perhaps important to note that I had no role in designing or calculating tariffs, approving or deriving assumptions used within the modelling work or drafting any sections of the report. Neither I nor anyone else within the DETI would have had the knowledge or experience to undertake these tasks, hence the reason why consultants had been engaged. Aside from this work, I was engaged by Energy Division to review Terms of Reference and Business Cases for hiring consultants to assist with the project and I also provided a small number of comments on the Consultation Document intended for use by the Department (after CEPA's report had been finalised).

C) As a Deputy Principal economist I consider that I had sufficient knowledge and experience working with economic appraisals and the appraisal guidance to provide advice on what was required in relation to these matters. However, I had no prior knowledge of the renewable heat industry, including the type of technologies used or assumptions in running costs etc. This would have been a considerable weakness if my role depended on it, however this was the reason that the consultants that included both economists and engineers had been engaged i.e. to provide the specialist knowledge and experience in a sector, that to the best of my knowledge no-one within the Department at that time would have had.

11. A) The main point of contact that I had for the RHI project was Peter Hutchinson (Deputy Principal) within Energy Division. I understood that Peter was the project manager and would have taken forward most of the activities associated with the project. I also had some initial contact with Alison Clydesdale (Grade 7 Energy), however I cannot recall the extent of her role within the project. I would not describe my dealings with Fiona Hepper (Grade 5 Head of Energy) as significant, however it is likely that she would have been at some of the meetings that I attended. It is also likely that I attended a casework pre brief meeting that she would have convened.

B) I had no significant (or any dealings) with UK government officials concerning the RHI project.

C) When working on this project I had limited direct contact with the consultants, however I attended one of the early meetings (as noted above I understand this to have been a video conference call on 22/02/11, subsequent to receiving the "interim" report on 21/02/11) I also had a subsequent telephone conversation with Iain Morrow regarding the gas industry locally and received an overview of the financial model CEPA produced from Paget Fulcher. I cannot recall, but believe it to be unlikely that I had any contact with any other organization of advisers or experts during this time.

49. I had no involvement in any of the activities (or similar) noted in question 49.

Creation of the RHI Scheme Funding

50. My understanding was that £25m of funding had been provided by HMT for the purposes of a RHI and that any commitments made using this funding would be met by HMT for the duration of the scheme. This understanding was informed by officials within Energy Division and did not change from the inception, to the end of my involvement with the scheme. In the very early days of the project (at the stage of engaging consultants') I was informed by Alison Clydesdale that the funding could only be used for an RHI type scheme. I understood this to be a tariff type scheme and I have no recollection of why the challenge fund scheme was then assessed, and whether Energy Division and CEPA considered it to be a form of RHI that could be implemented under the terms of the funding.

51. The nature and source of funding would have had no bearing on my involvement with the scheme.

52. I only became aware of this during 2016.

53. A&B&C) I have not come across this type of funding issue before.

Creation of the RHI Scheme Administration

54. I was aware that Ofgem were being engaged with a view to administering the scheme. However I had no knowledge of the detail surrounding that arrangement and was not involved in establishing that arrangement.

55. The proposed arrangement with Ofgem (and associated detail) would have had little impact on my assessment of the appraisal. However the likelihood of being able to administer an RHI using significantly less resources than a challenge fund (using Ofgem as a delivery partner) was relevant in my overall conclusion on the scheme i.e. being able to use a cheaper and experienced delivery body.

Creation of the RHI Scheme – Important Documents

56. I was not involved in drafting any of the documents listed. Taking each of these in turn:

The CEPA Report – I was involved with this providing advice to Energy Division in relation to what form this should take and what content it should include in order to adhere to the NIGEAE guidance. The only specialist advice I imparted was in relation to the gas industry locally. Aside from these two roles, Economists will seek to add value and challenge a project were possible. The two sets of comments in Annex D represent my contribution in this regard.

The Addendum – I had no input into this document. I was sent this by energy division and did review it, however I simply sought clarification on its content (Annex G). My focus on reviewing this would have been to assess the changes and whether they appeared reasonable. The main changes related to banding, reference technology and inclusion of hassle costs. At the time these appeared reasonable changes to make, being informed by both a consultation

CEPA response to DETI comments on Draft Final Report

The table below provides CEPA’s initial responses to DETI’s comments on the Draft Final Report.

CEPA responses

DETI comment	CEPA response
<p>Email comments</p> <p>1 <u>Not reaching 10%</u> - As no options deliver 10%, as above, can tariff levels be developed that would deliver 10%? Obviously the associated costs would also need to be developed. Do these projections include domestics? How would figures change if industrial and domestics were included? April presentation suggested 12.5% could be met under RHI – what has changed in final model?</p>	<p>We have subsequently modified the tariff levels for domestic ASHPs, and included the switching of the Invista plant to biomass. In this scenario, the 10% target is achieved for some options. The final report will include costings for this. All projections/ results include domestics and industrials (although much of the renewable heat in the large industrial sector is cost-effective without any additional subsidy or not feasible due to access to the gas network). The reduction in renewable heat achieved, compared to the figures presented in April, is largely a result of us revising down the potential in the large industrial sector.</p>
<p>2 <u>RHI Tariff levels</u> - Is there a need for additional tariff options; i) at a 15% rate of return, rather than 12%; and ii) tariffs which will deliver 10% renewable heat by 2020. Is this possible? Would need to detail the costs of these options and reference the funding constraints of £25m to 2015/2016. Need a section fully explaining why NI tariff levels are lower than GB levels (i.e. high energy costs and mitigating impact on gas). Need to explain the negative impact of increased tariff levels (gas issue). Do these tariff levels indicate that heating prices in NI will always be high? Would higher levels force fossil fuel prices down?</p>	<p>i) will be covered in model training session ii) see above – we now have tariffs that are projected to achieve 10% We will draft a section explaining why NI RHI levels are lower (which is basically the reasons noted i.e. high energy costs and reducing impact on gas that could well be seen with GB RHI rates). This will include a worked example for an example technology. Don’t understand this last point. Is it asking whether subsidy for renewable heat will provide increased competition for fossil fuel heating and so drive down prices?</p>

<p>- Consideration of using the £2m in year 1 for domestic grants (akin to premium payments) in advance of a RHI being in place for April 2012 and also to cover the fact that the domestics are excluded in the first wave of the RHI. This would need to include suggested grant levels and how these installations would be dealt with under a RHI when introduced to domestic market (i.e. if domestic grants of £x were available then those who take that up could only then claim 16/18 years of RHI?? This, in essence, would be front loading for the domestic market.</p>	<p>loading, should the evidence from the Premium Payments scheme support it. We will update the report to make this clear. Use of the GB Premium Payments scheme as a short-term capital grant is included in our overall recommendations.</p>
<p>8 <u>Final recommendations</u> - Need to be very clear why RHI is preferred option over Challenge Fund in the long term funding scenario.</p>	<p>Our recommendation is based on the assumption that DE/1 wants to do an RHI. The Challenge Fund option is for comparison purposes to show what could be achievable.</p>
<p>9 Pg 6 – reference the do nothing option</p>	<p>Ok</p>
<p>10 Pg 6 – need more information on how do nothing would deliver 4.8%, seems very high. Is spending £25m to achieve a further 3.2% value for money?</p>	<p>The 4.8% is below the “do nothing” level identified in the AECOM/Pöyry report, of 6%. It is mainly from large industrial sites installing biomass, and from air-source heat pumps. The £25m does not achieve an additional 3.2% (i.e. a total of 8%). This requires long-term funding. Our analysis suggests that achieving this additional 3.2% has a negative cost-benefit (based only on monetisable costs and benefits).</p>
<p>11 Pg 9 – can we include an example of what these tariff figures would mean Eg. A business with xxxxx heat load switches to biomass. RHI would be xx per kwh meaning a yearly tariff of xxxx, paid in 4 quarterly payments of xxxx. Annual biomass bills would be xxxxx in comparison to xxxxx of oil.</p>	<p>ok</p>
<p>12 Need exact banding for technologies rather than small/medium/large.</p>	<p>ok</p>
<p>13 Need a discussion on geothermal – recommendation that geothermal is included in GSHP tariff as in GB but recommend</p>	<p>We can certainly include a couple of sentences on this.</p>

From: [Hepper, Fiona](#)
To: [Lewis, Colin](#); [Cooper, Trevor](#)
Cc: [Sterling, David](#); [Thomson, David \(DETI\)](#); [Martin, Olivia](#); [Clydesdale, Alison](#); [Hutchinson, Peter](#); [Swann, Barbara](#)
Subject: FW: DETI SUB 511/10: Letter for DFP Minister ahead of 8 November meeting: Funding for Renewable Energy in NI as part of 2010 the Spending Review Settlement
Date: 16 November 2010 17:04:39
Attachments: [COR 958 Minister's Memo.pdf](#)
[SUB 511 Minister cleared 08.11.10.pdf](#)
[Minister signed 08.11.10.pdf](#)
[DETI SUB 51110 Letter for DFP Minister ahead of 8 November meeting Funding for Renewable Energy in NI as part of 2010 the Spending Review Settlement.msg](#)

Colin
Trevor

I see that DFP have kicked the ball back to DETI in terms of the renewables funding. Grateful for your advice on -

(1) re the RHI - DFP have let HMT know that we intend to implement the scheme locally - but it is for DETI officials to feed the figure work into the next AME exercise. Is that something Finance Division commission and if so when and what do/will you need from us?

(2) Re the £60m for ports - I note DFP say it is for our Minister to bring a proposal to the Executive as part of the Budget 2010 process. Is it too late to work up a bid at this stage - bearing in mind that the £18m bid made by INI for renewables (which we could have swung round to be our version of the English ports bid) appears to be well below the line. [DS and DT - I would welcome a view]

(3) Re the Renewable Energy Fund, I think this is probably for INI and I sent you some info on this a couple of days ago.

Happy to speak

Fiona

Fiona Hepper

Senior Management

Department of Enterprise, Trade & Investment

Netherleigh

Massey Avenue

Belfast, BT4 2JP

Tel: 028 9052 9215 (ext: 29215)

Textphone: 028 9052 9304

Web: www.detini.gov.uk

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From: McLaughlin, Christine

Sent: 16 November 2010 16:54

To: Hepper, Fiona

Cc: Sterling, David; Thomson, David (DETI); Lewis, Colin; Cooper, Trevor; Clydesdale, Alison; Martin, Olivia; 'ceo'; Neth_Energy; Aiken, Glynis; Stevenson, Valerie; Duffy, Michael

Subject: DETI SUB 511/10: Letter for DFP Minister ahead of 8 November meeting: Funding for Renewable Energy in NI as part of 2010 the Spending Review Settlement

Department of Enterprise, Trade & Investment
 Netherleigh
 Massey Avenue
 Belfast, BT4 2JP
 Tel: 0
 Mob: Personal information redacted by the RHI Inquiry
 Textp
 Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?

From: Parker, Jon - HMT [mailto:Jon.Parker@hmtreasury.gsi.gov.uk]
Sent: 15 April 2011 12:13
To: Clydesdale, Alison
Cc: Hutchinson, Peter; Garcia, Nicolas - HMT; Parkinson, Mark - HMT; Mike.brennan@dfpni.gsi.gov.uk
Subject: [RESTRICTED] RE: RHI NI

Alison,

Sorry for the delay in coming back to you. Taking your points in turn:

- i) With DECC, we have agreed that they can make commitments to spending in future years (up to 20 years) for installations that are installed within the SR period (i.e. the initial payments have to be affordable within the SR profile), and providing that the policy is set up so that payments should be basically flat over the 20 year period in real terms (i.e. no backloading to ease short-term affordability pressures). This same agreement would apply to any NI scheme.
- ii) DECC's GB RHI profile is £56m/133m/251m/424m. NI's share of this is 2.98%, so £1.7m/4.0m/7.5m/12.6m. The NI scheme would need to follow this profile as much as possible – on which further below. We will need you to feed into us forecasts of NI RHI spending for the Office of Budget Responsibility's bi-annual forecasts – this can be fed through me or Mark Parkinson (in the Devolved Countries Unit within Treasury).
- iii) This funding does have to be used for renewable heat, but if NIE decide you would like to use it for a grant scheme or some such then this would be permissible as long as the cost of NIE spending is constrained to the AME consequential.

The other key point it is necessary to let you know about is that the DECC RHI spending is not being treated as standard AME, where the Exchequer takes on all risks of overspend. Instead, there is a risk-sharing arrangement whereby should RHI spending in one year exceed the SR profile, then DECC would need to repay this in future years. They can do this through announcing changes to the SR that will bring cost savings relative to the SR profile in future years. However, a small proportion of any required future savings (still to be determined, but likely to be of the order of 5%) will have to be funded through contributions from DECC's DEL. Again, these rules would be applied in equivalent fashion to NI.

Happy to discuss any of these issues in more detail.

Jon

Jon Parker | Joint Head, Energy Branch | Energy, Environment and Agriculture
 HM Treasury, 1/N2, 1 Horse Guards Road, SW1A 2HQ | 020 7270 5641

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www.hm-treasury.gov.uk

From: Clydesdale, Alison [<mailto:Alison.Clydesdale@detini.gsi.gov.uk>]
Sent: 11 April 2011 13:00
To: Parker, Jon - HMT
Cc: Hutchinson, Peter
Subject: RHI NI

Jon

We spoke briefly the other day about the £25m allocation to NI for an RHI.

Can I ask you to clarify for me :-

- (i) The position with the commitment to 20 year payments within NI.
- (ii) The process for advising on the spending profile of the £25m AME that we have been allocated.
- (iii) If the £25m can solely be used for an RHI - or we can use it to incentivise in a different way e.g grant ?

Happy to discuss.

Alison

Alison Clydesdale
Sustainable Energy
Department of Enterprise, Trade & Investment
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Tel: 028 9052 9248 (ext: 29248)
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From: [Brankin, Bernie](#)
To: [Clydesdale, Alison](#)
Cc: [Cooper, Trevor](#); [Hepper, Fiona](#); [Hutchinson, Peter](#)
Subject: FW: [RESTRICTED] RE: RHI NI
Date: 15 April 2011 16:04:28

[Alison](#)

AME budgets have just been confirmed by Treasury/ DFP. Your AME allocation for RHI is £2m in 11/12, £4m in 12/13, £7m in 13/14 and £12m in 14/15. This will be confirmed in writing to you early next week. I will discuss further with DFP and come back to you.

[Bernie](#)

Bernie Brankin

Finance
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Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?

From: Clydesdale, Alison
Sent: 15 April 2011 12:25
To: Hepper, Fiona; Brankin, Bernie
Cc: Hutchinson, Peter
Subject: FW: [RESTRICTED] RE: RHI NI
Importance: High

[Fiona - for info .](#)

[Bernie - see below regarding reporting against the £25m that we have been allocated for RHI - can you advise how this will work in practice for us - I am presuming that DFP will work through your side on this ?](#)

[Can you also advise if this years' allocation of £1.7 m will show in Energy's budget line ?](#)

[Happy to discuss.](#)

[Alison](#)

Alison Clydesdale

Sustainable Energy

From: [Clydesdale, Alison](#)
To: [Hutchinson, Peter](#)
Cc: [Hepper, Fiona](#); [Connolly, Samuel](#)
Subject: FW: [RESTRICED] RE: RHI NI
Date: 04 May 2011 11:00:52

Peter

I spoke with Bernie yesterday at length about this.

This presents a significant challenge.

DFp will require evidence of our ability to control the scheme in order to minimise over/under spending in any one year.

From a finance perspective grant is the riskiest route financially as it is hard to control the number of applications especially at the end of the programme. But from the policy side I expect we will need some element of front loaded grant to stimulate demand.

You will need to ask CEPA to factor this in as a risk factor in the economic appraisal - I didn't see any evidence of this in the draft that we have already received - but it will need to be fully addressed - especially as finance have asked to see the final proposals.

I also raised with Bernie the fact that the non grant route i.e. RHI will require admin funding to cover the cost of Ofgem administering the scheme. We will need to make a bid in June monitoring (I'll discuss with Sandra) but she was not hopeful that funding could be found.

It might be useful to get the IA for the grant funded element of the DECC scheme if we can - so as we can see how DECC are addressing this risk as their AME funding is being treated in the same way.

Alison

Alison Clydesdale

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Please consider the environment - do you really need to print this e-mail?

From: Brankin, Bernie
Sent: 03 May 2011 15:40
To: Clydesdale, Alison
Cc: Cooper, Trevor; Hepper, Fiona; Hutchinson, Peter
Subject: FW: [RESTRICED] RE: RHI NI

Alison

Energy Division's AME has now been confirmed. I have spoken to Stuart Stevenson regarding RHI NI

AME allocation. RHI spending is not being treated as standard AME. This means that your RHI NI budget allocation is being treated the same as DEL allocations. If you underspend in any year, that part of your budget is lost to the department and, if you overspend in any year, DETI's budget will be reduced by the amount of overspend in future years. The NI Block lost all underspent budgets in 10/11 and DFP are currently in negotiations with Treasury about end year flexibility for the Block for this year and future years.

As discussed, you will need to take this treatment of AME into consideration when drawing up your proposals on how you will spend this allocation particularly if you are considering grants (which Energy Division knows from past experience are fraught with control problems). Please copy Finance into your draft proposals which would need to address the controls that you would put in place to prevent significant under/over spending. These proposals will also require DFP approval.

Happy to discuss further.

Bernie

Bernie Brankin

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Textphone: 028 9052 9304
Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?

From: Brankin, Bernie
Sent: 15 April 2011 16:04
To: Clydesdale, Alison
Cc: Cooper, Trevor; Hepper, Fiona; Hutchinson, Peter
Subject: FW: [RESTRICTED] RE: RHI NI

Alison

AME budgets have just been confirmed by Treasury/ DFP. Your AME allocation for RHI is £2m in 11/12, £4m in 12/13, £7m in 13/14 and £12m in 14/15. This will be confirmed in writing to you early next week. I will discuss further with DFP and come back to you.

Bernie

Bernie Brankin

Finance
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue

DETI ENERGY DIVISION (Renewable Heat Branch)

Work Request Form

Departmental Contact Name and tel: Peter Hutchinson (028) 90529532

Date: June 2011

Work request Ref no:	ACX/RHI 001
Issue:	<p>The Department has successfully put forward a legislative consent motion which allowed for the Department of Energy and Climate Change (DECC) to amend their current Energy Bill 2011 that would extend powers for renewable heat, contained within the 2008 Energy Act, to Northern Ireland. DECC are seeking Royal Assent in July 2011 and we can only move forward with the implementation of subordinate legislation once this has been acquired.</p> <p>Once Royal Assent has been obtained, this will allow the Department to proceed and make subordinate legislation for a Renewable Heat strategy in Northern Ireland.</p> <p>The standalone clause, which has been tabled in the 2011 Energy Bill, is attached for your information.</p>
Action required:	Request to draft Northern Ireland Renewable Heat Incentive Regulations. These will be based largely, in the first instance, on the GB equivalent Regulations. These are attached for your information.
Date Required By:	A preliminary draft of the Regulations would be required in time for the Department's consultation on a potential RHI scheme which is due to be launched in early July 2011. These could then be completed once a final scheme is designed and in advance of taking them through the NI Assembly – 24 June 2011
Service Provider comment if appropriate:	This fee quote is based on an initial review of the GB equivalent Regulations and assumes that the initial draft of the Northern Ireland Renewable Heat Incentive Regulations will be based largely on the GB equivalent Regulations. It may be the case that the full extent of the work involved will not become apparent until we carry out the exercise of preparing the initial draft of the Northern Ireland Renewable Heat Incentive Regulations. If after we commence drafting it becomes apparent that there will be a significant increase in the amount of work involved, we will contact you as soon as possible to discuss this.
Service Provider (Company name):	Arthur Cox

Service Provider Contact Name	Alan Bissett
Estimated Cost:	£ [REDACTED] (excl. VAT)
HOD Approval	Fiona Hepper (signed)
HOD Approval Date	9 June 2011



From: Fiona Hepper

Date: 5 July 2011

To: 1. Andrew Crawford
2. Arlene Foster MLA

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THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE – PROPOSED CONSULTATION DOCUMENT AND DRAFT PRESS RELEASE

- Issue:** A proposed ten week public consultation on the introduction of a Renewable Heat Incentive for Northern Ireland.
- Timing:** **Desk Immediate – to issue the consultation paper in early July and thereby allow work on designing and implementing the final scheme to begin in early September.**
- Need for referral to the Executive:** Not at this time.
- Presentational Issues:** Likely to be significant interest from key stakeholders and the media. A draft press release (cleared with Press Office is attached.
- Freedom of Information:** This submission may not be discloseable at present on grounds of policy development.
- Programme for Government:** None at present, but it is likely that new PSA targets in relation to renewable heat will have to be developed.
- Financial Implications:** HMT has advised that £25m of AME is available over the spending period for a Northern Ireland RHI.
- Statutory Equality Obligation:** An equality screening form has been completed for this policy and is attached at **Annex C**.
- Legislation Implications:** None.
- Recommendation:** It is recommended that you note this submission and:
- (a) Agree that the economic appraisal on the feasibility of a Northern Ireland Renewable Heat Incentive (**attached separately**) should be published on the DETI website in conjunction with the consultation paper;

Summary: Intervention & Options

Department /Agency: DETI	Title: Impact Assessment for Renewable Heat Incentive	
Stage: Consultation	Version: 1	Date: 19 May 2010
Related Publications:		

Available to view or download at:

Contact for enquiries: Peter Hutchinson, DETI

Telephone: 02890 529532

What is the problem under consideration? Why is government intervention necessary?

This IA analyses options to increase the uptake of renewable heat technologies to help meet the Northern Ireland Executive agree target of 10% renewable heat by 2020. This target also contributes to the UK share of the EU 2020 renewable energy target, and the 80% reduction in GHG by 2050. It is widely agreed that Government intervention is necessary because many renewable energy technologies are less developed or deployed at a lower scale and higher cost than traditional energy technologies. Without Government support, it is likely that the private sector will not invest sufficiently in innovation and deployment to meet our longer term goals

What are the policy objectives and the intended effects?

To achieve a substantial increase in renewable heat in the Northern Ireland, reaching a level of the order of 10% of total heat demand or more by 2020, compared with 1.7% today. Current heat demand in Northern Ireland is estimated at 17.4 TWh however this will drop to 16.7 TWh by 2020, therefore the 10% target equates to 1.7 TWh by 2020 (this is an additional 1.3-1.4 TWh). Analysis of this target and the associated costs has been carried out by AECOM and Pöyry in a 2010 DETI commissioned study.

What policy options have been considered? Please justify any preferred option.

The 10% target has been agreed by DETI and the Executive following substantial analysis. The most appropriate method of reaching this target has been assessed with consideration given to several options including specific industrial support, capital grant schemes and a Northern Ireland RHI. The Northern Ireland RHI option is consistent to the GB position and provides long-term, stable support for those wishing to invest.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The potential costs and expected benefits have been assessed through a economic appraisal (following the NIGEAE ten steps) carried out by CEPA and AEA. A full impact assessment will be carried out in advance of consultation on the final design of the Northern Ireland RHI.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Date:

- c. A capital grant scheme – those wishing to install renewable heat technologies could apply for capital grant support, the level of support would be determined by the size and type of technology installed..
 - d. A “Renewable Heat Challenge Fund” – a competitively awarded grant scheme where applicants would be ranked on the amount of cost-effective heat delivered and awarded funding dependent on their ranking.
14. Other options were also considered but ruled out. Options were selected and assessed on the basis of set criteria, some of which were:
- Fit with existing Northern Ireland Executive energy policy
 - Level of cost-effective renewable heat delivered
 - Fit with profile of existing funding
 - Simplicity and accessibility for those wishing to avail of the scheme
 - Administrative complexity/costs
 - Carbon savings associated with the policy
 - Capability building: i.e. the long term development of the market, growth of ‘green job’, increase in trained installers and skills, presence of a mature supply chain etc.
 - Impact on the emerging natural gas market
15. DETI analysis of the various options is still ongoing. These options will soon be considered by the DETI Minister and a public consultation will then issue over Summer 2011 which will advise on the design and implementation of an appropriate scheme.
16. DETI has already expressed a preference for a Northern Ireland RHI, this is based on earlier research and a expectation that a consistent approach with Great Britain and DECC would be beneficial, however the unique circumstances in the Northern Ireland heat market need to be considered in a specifically tailored scheme. These issues include the prevalence of heating oil (77% of total demand), an emerging and developing natural gas market (17% of demand), higher levels of fuel poverty, varying fuel prices and a much more rural geography.
17. DETI will shortly consult on a preferred option; early indications are that local stakeholders wish a similar scheme to the GB RHI to be implemented locally.
18. The proposed amendment to the 2011 Energy Bill establishing powers to introduce a Renewable Heat Incentive in Northern Ireland, will allow work to begin immediately on the design of a NI RHI, minimising delays that could translate into lost opportunities for renewable heat delivery by 2020. Any delay would also leave Northern Ireland at a disadvantage in comparison to Great Britain and could lead to local skills being lost.

D. Costs and benefits of package to promote uptake of renewable heat

19. Initial analysis on developing the Northern Ireland heat market estimated that 10% renewable heat could be achievable at a cost of £2.5m per % per annum. The ongoing economic appraisal will provide more detailed costings as they will relate to actual proposed expenditure and set RHI tariffs. Similarly to GB, the costs and benefits are heavily dependent upon a range of factors including fossil fuel and biomass prices, the price of carbon within the EU ETS as well as assumptions underlying the renewable heat cost curve in the UK. The economic appraisal will provide a detailed evidence base for DETI to base decisions; this research will be published alongside future proposals.

E. Impacts

20. The most obvious impact will be the increased level of renewable heat deployed in Northern Ireland. It is also expected that there will be related impacts such as reduced carbon



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From: Fiona Hepper

Date: 17th June 2011

1. Andrew Crawford
2. Arlene Foster MLA

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE – BRIEFING FOR THE ETI COMMITTEE AND LETTER TO MINISTERIAL COLLEAGUES

- Issue:** To provide written briefing to the ETI Committee on the proposed design of the Northern Ireland Renewable Heat Incentive (RHI) in advance of consultation. A draft letter to Ministerial Colleagues is also attached.
- Timing:** This written briefing is scheduled to be tabled at the ETI Committee meeting of 30 June and therefore needs to issue to the Committee Clerk no later than Thursday 23 June.
- PfG implications:** Not applicable
- Need for referral to the Executive:** Not at this stage, although a Ministerial colleagues letter is attached should you wish to inform the Executive of progress and the forthcoming consultation.
- Presentational Issues:** Not applicable.
- Freedom of Information:** Elements of this submission may be exempt under Section 35 of the Freedom of Information Act.
- Financial Implications:** HMT has advised that £25m of AME is available over the spending period for a Northern Ireland RHI.
- Legislation Implications:** Energy Division is currently working with colleagues in the Department of Energy and Climate Change (DECC) in London to finalise the legislation to extend renewable

heating powers to Northern Ireland. This will be followed, in due course, by subordinate legislation in the Assembly.

PSA/PFG Implications: None at present, but it is likely that new PSA targets in relation to renewable heat will have to be developed.

Statutory Equality Obligations: Not applicable

Recommendation: That you note this submission and agree to the letters to the ETI Committee Chair and Executive Colleagues issuing, along with the appended overview of the preferred approach.

Background

Following our meeting of Tuesday, 14 June, as agreed this briefing provides a more detailed overview of the preferred approach to a Northern Ireland Renewable Heat Incentive (RHI) and attaches a paper to be shared with the ETI Committee and Executive Colleagues. The ETI Committee are scheduled to consider the issue of a Northern Ireland RHI at their meeting on Thursday, 30 June.

Support for the Northern Ireland Renewable Heat market

2. In my previous submission on the economic appraisal of the Northern Ireland RHI, several options were presented for dealing with financial incentives for the local renewable heat industry. These options were;
 - i. Do nothing
 - ii. A Renewable Heat Challenge Fund
 - iii. A 50% Capital Grant Scheme
 - iv. Implementing the GB RHI
 - v. Implementing a specific RHI for Northern Ireland.

3. Following consideration, you agreed that a Northern Ireland RHI should be designed and implemented; officials are currently drafting a consultation document to this end. The Northern Ireland incentive measures will have three elements;
 - i. A RHI scheme, similar in administration and eligibility to the GB scheme, for the non-domestic sector to be in place by 1 April 2012.
 - ii. Interim support for the domestic sector in the form of capital grants, similar to the GB “Renewable Heat Premium Payment” scheme.
 - iii. Support for heavy industrial sector, with this sector to be treated outside of the mainstream RHI with different eligibility and accessibility requirements.