

**From:** Connolly, Samuel  
**To:** [Hutchinson, Peter](#)  
**Subject:** FW: TRIM: A Renewable Heat Incentive for Northern Ireland - final report  
**Date:** 01 July 2011 10:31:00  
**Attachments:** [RHI example.xlsx](#)

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Peter,

As discussed,

Perhaps we could get CEPA to fill in the attached spreadsheet.

Hopefully this will provide a clearer picture of what the subsidy is covering as well as comfort that the rates are reasonable.

Happy for them to tweak this if necessary.

Regards  
Sam

## Samuel Connolly

Strategic Planning & Economics  
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**From:** Iain Morrow [mailto:[Iain.Morrow@cepa.co.uk](mailto:Iain.Morrow@cepa.co.uk)]  
**Sent:** 29 June 2011 10:54  
**To:** Hutchinson, Peter  
**Cc:** Mahmoud Abu-ebid; Mark Cockburn; Oliver Edberg; Jeremy Stambaugh; Paget Fulcher; Patrick Taylor; Connolly, Samuel  
**Subject:** RE: TRIM: A Renewable Heat Incentive for Northern Ireland - final report

Peter

OK please do give me a call if there is anything.

For biomass boilers, the subsidy is driven by the difference in the capital, operating, and fuel costs, and differences in our technology assumptions. We only provide subsidy to cover the additional capital cost of the boiler rather than the full cost, and since a conventional 50kW boiler costs just under £5000 (table A1), the additional capital cost is around £3000. Also, wood chips are cheaper than oil (see tables C5 and C3) so there can be some fuel cost saving. Hassle costs are included in the rate.

Regards

**Iain Morrow**  
Managing Consultant

**Cambridge Economic Policy Associates**  
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**From:** Hutchinson, Peter [mailto:Peter.Hutchinson@detini.gov.uk]  
**Sent:** 29 June 2011 10:02  
**To:** Iain Morrow  
**Cc:** Mahmoud Abu-ebid; Mark Cockburn; Oliver Edberg; Jeremy Stambaugh; Paget Fulcher; Patrick Taylor; Connolly, Samuel  
**Subject:** RE: TRIM: A Renewable Heat Incentive for Northern Ireland - final report

Iain,

Thanks for this, we'll take a look through and if there any further questions I will let you know but hopefully most issues will now be addressed.

One thing that caught my eye however was footnote 5 on page 10, the example that we asked you to put in. For the small commercial operator installing a 50kW biomass boiler they would expect an annual subsidy of under £400 per annum, over 20 years this would be less than £8000. The cost of a small commercial boiler would be in the region of £8000. Is this correct? Is the RHI just covering the cost of the technology and not the operating costs or non-financial hassle costs? In the same example in GB the installer might expect a subsidy of around £2000 per annum, can the gap in the two different levels be solely explained by differing fuel costs or different assumptions in the tariff-setting methodology? In the example it might also be useful to reference what the expected yearly fuel costs might be versus the counterfactual oil position?

Thanks,

Peter

**Peter Hutchinson**  
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**From:** Iain Morrow [mailto:Iain.Morrow@cepa.co.uk]  
**Sent:** 28 June 2011 17:28

Date : 07/06/2017 13:32:04

From : "Mark Cockburn"

To : "Iain Morrow"

Cc : "Richard Rodger"

Subject : RE: recommendation

Yes – thanks Iain, I think that sounds like it. They said that the GB figures were incorrect but NI was correct?

I've copied in Richard who can tell you how to access the RHI material

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**From:** Iain Morrow [mailto:Personal information redacted by the RHI Inquiry]  
**Sent:** 07 June 2017 13:30  
**To:** Mark Cockburn <Mark.Cockburn@cepa.co.uk>  
**Subject:** RE: recommendation

Hi Mark

OK. I have the emails you forwarded to me recently. Are there any others? You mentioned last time that Mariusz might send me a link to old emails/ files but I never got one.

The GB AEA cost estimates point that I remember went something like this. Paget and I queried some of the cost data supplied by AEA, and I think it turned out to have some mistakes in it. My recollection is that it was the same data as for GB. AEA said they would speak to DECC about this and sort things out. Is this the point you meant?

**Iain Morrow** | Open Box Models

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VAT: IE3415225RH

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**From:** Mark Cockburn [mailto:[Mark.Cockburn@cepa.co.uk](mailto:Mark.Cockburn@cepa.co.uk)]  
**Sent:** 07 June 2017 13:17  
**To:** Iain Morrow Personal information redacted by the RHI Inquiry  
**Subject:** RE: rec

Thanks Iain, that's useful as we've been asked to provide a view on why we think they never adopted a CF. If you have a chance to glance at your emails from then, it would be good to evidence. It very much backs up the point that ultimately it was their scheme and they made the decisions.

On tiering – although I have no concrete evidence for it – that they never raised the issue of tiering of biomass with us, because if we had had to provide a view we would most likely have said it was necessary which would have forced them down an avenue they didn't want to go (as it would have made NI look so less generous). The fact that GB was initially overly generous is, however, a separate point. Against this – later on – Peter did make the error in putting together the business case where he didn't appreciate (or had forgotten) that the 2011 no tiering logic no longer applied.

On the point on the wrong GB AEA cost estimates driving up the tariff – can you remember how that arose and how it played out?

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**From:** Iain Morrow [mailto:Personal information redacted by the RHI Inquiry]  
**Sent:** 07 June 2017 13:06  
**To:** Mark Cockburn <[Mark.Cockburn@cepa.co.uk](mailto:Mark.Cockburn@cepa.co.uk)>  
**Subject:** RE: recommendation

Hi

That sounds right. Our view at the time was that the advantages of a Challenge Fund over an RHI were significant. Partly this was about the cost/ benefit numbers, but partly also concerns about administratively determined tariffs in general. Did we say something to them about a Challenge Fund reducing the risk of over-subsidising some installations?

It was, though, very clear that DETI wanted an RHI. They did come to accept the benefits of an NI specific RHI, versus just adopting the GB tariffs, but moving to a Challenge Fund was a step too far for them. They were concerned about their ability to administer a Challenge Fund, rather than getting Ofgem to administer an RHI for them. Given their level of internal resources, this was a reasonable enough thing to be concerned about!

They would have liked us to recommend an RHI, but we felt, I think, that we couldn't make the judgement for them about whether their internal issues made a Challenge Fund unworkable. So, we agreed with them that the report would not make a firm recommendation. I seem to remember that this wasn't something they accepted easily. They wanted us to make a recommendation, but we said that it could only be to do a Challenge Fund, which they didn't want.

Hope that's some help.

Iain Morrow | Open Box Models

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**From:** Mark Cockburn [<mailto:Mark.Cockburn@cepa.co.uk>]

**Sent:** 07 June 2017 12:41

**To:** Iain Morrow Personal information redacted by the RHI Inquiry

**Subject:** recomm

Hi – looking through the 2011 report again, it seems that we never recommended an RHI over a Challenge Fund – we remained equivocal, leaving the choice to DETI. But if they chose the former, to go with the NI specific tariffs. Would this be your recollection to?

**Mark Cockburn**

Director

**Cambridge Economic Policy Associates** | Queens House, 55-56 Lincoln's Inn Fields, London, WC2A 3LJ |

T: +44 20 7269 0210 | M: Personal information redacted by the RHI Inquiry [mark.cockburn@cepa.co.uk](mailto:mark.cockburn@cepa.co.uk) | [www.cepa.co.uk](http://www.cepa.co.uk) | [www.linkedin.com/company/cepa-ltd](http://www.linkedin.com/company/cepa-ltd)

**From:** [Hepper, Fiona](#)  
**To:** [Private Office DETI](#)  
**Cc:** [Thomson, David](#); [McCune, David](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#); [Stewart, Susan](#); [Baxter, Clare](#); [Aiken, Glynis](#); [Connolly, Samuel](#); [Ross, Alastair](#)  
**Subject:** TRIM: FW: NI Renewable Heat Incentive  
**Date:** 05 July 2011 17:48:33  
**Attachments:** [Annex B - Branded RHI Consultation.DOC](#)  
[Annex C - Draft Equality Screening Form.DOC](#)  
[Annex D - Draft RIA - Renewable Heat Regulations.DOC](#)  
[Annex E - NI draft RHI Regulations.DOC](#)  
[DETI RHI Economic Appraisal Final report.PDF](#)  
[RHI Consultation Document and Draft Press Release.DOC](#)  
[RHI Consultation Document and Draft Press Release.tr5](#)  
**Importance:** High

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Private Office

see attached - marked as Desk Immediate. This is the RHI consultation material which should be issued as soon as possible to keep all the work on track. Some of the documents are quite large and the covering submission is the last word document on the attachment list. Once cleared and ready for issue the consultation document will be sent to the ETI Committee.

Fiona

## **Fiona Hepper**

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**From:** Fiona Hepper

**Date:** 5 July 2011

**To:** 1. Andrew Crawford  
2. Arlene Foster MLA

Copy Distribution List below

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

- Issue:** A ten week public consultation on the introduction of a Renewable Heat Incentive for Northern Ireland.
- Timing:** **Desk Immediate – to issue the consultation paper as early in July as possible 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;

- (b) Approve the draft consultation document for issue, **attached separately at Annex B**;
- (c) Approve the draft equality screening form, draft Regulatory Impact Assessment and draft Regulations to be issued alongside the consultation paper, **attached separately at Annexes C, D and E** respectively; and
- (d) Agree the draft press release attached at **Annex A**. This has been cleared with Press Office and an early date for release will be agreed.

## Background

I have written to you previously on 8 June 2011 regarding the outcome of an economic appraisal on a Renewable Heat Incentive (RHI) for Northern Ireland (SUB 1053/11) and again, on the 17 June 2011 in relation to briefing the ETI Committee and Ministerial colleagues on the proposed design of the Northern Ireland Renewable Heat Incentive (SUB 1073/11). The Department now wishes to seek the views of the energy industry and the wider community on the development of a RHI in Northern Ireland.

2. The consultation paper has been informed by an economic appraisal on the feasibility of a Northern Ireland RHI which was undertaken by Cambridge Economic Policy Associates (CEPA), in conjunction with AEA Technologies. In developing the paper, officials have been liaising with the DETI Economics Branch to obtain its views and to help to draw out the key issues which the consultation should address.

## Consultation Document

3. This consultation paper seeks to build on the conclusions of the economic appraisal and will be structured as follows:
  - (a) Outline of renewable heat technologies and the Department's contribution to meet EU targets in respect of energy consumption from renewable sources by 2020.
  - (b) Description of the design and structure of the GB RHI.
  - (c) Background to the Northern Ireland Renewable Heat Market and details the options and costs and benefits from the economic appraisal;
  - (d) Proposal for:
    - i. NI RHI;
    - ii. Interim support for domestic consumers;
    - iii. Support for heavy industrial market;
    - iv. Establishment of a Cross-Departmental Group on Renewable Heat; and
    - v. Timescales and next steps.

(e) Call for evidence on Deep Geothermal Energy.

4. The consultation paper also invites views on the draft equality screening form and draft Regulatory Impact Assessment. The paper also includes an initial draft set of Regulations on the RHI which have been provided by Energy Division's legal advisors, Arthur Cox. These Regulations outline the potential structure and design of a Northern Ireland RHI subject to the outcome of the public consultation.

### Design of the NI RHI

5. As previously discussed, the incentive measures proposed in the consultation have been specifically designed for the Northern Ireland heat market. The key issues that have been addressed within the proposed measures are that:
- i. Tariffs have been set using an oil counterfactual position;
  - ii. The funding of £25m is being utilised in the most cost-effective way; and
  - iii. The potential impact on the gas market, both existing and future, is minimised.
6. The consultation proposes a range of methods for supporting the Northern Ireland Renewable Heat Market. The key proposal is the introduction of a NI RHI for all non-domestic consumers. The non-domestic market presents opportunities for the most cost-effective renewable heat installations. Domestic customers will be able to avail of *Renewable Heat Premium Payments* until a longer term method of incentivisation is introduced, expected by October 2012 in line with GB proposals.
7. The heavy industrial sector (defined at 17 large industrial users) will be able to receive support, however separate eligibility standards will be required. These standards will focus on the supply of a sustainable fuel source, the demonstration that financial incentives are required and DETI's satisfaction that the natural gas market will not be negatively affected.
8. The tariffs proposed for the NI RHI, and the *Renewable Heat Premium Payments*, are detailed below. These tariffs are subject to public consultation.

Tariff name	Eligible Technologies	Size	Tariff duration (years)	Northern Ireland recommended levels (pence per kWh)
Air Source Heat Pumps		Less than 45kWth	20	3.3
Ground Source Heat Pumps	Including water source heat pumps and deep geothermal	Less than 45kWth	20	4.0
		Above 45kWth but excluding large industrial sites		0.9

Tariff name	Eligible Technologies	Size	Tariff duration (years)	Northern Ireland recommended levels (pence per kWh)
Bioliquids		Less than 45kWth	20	1.5
Biomass	Solid biomass; <sup>1</sup> Municipal solid waste (inc. CHP)	Less than 45kWth	20	4.5
		Above 45kWth but excluding large industrial sites		1.3
Biomethane	Biomethane injection and biogas combustion, except from landfill gas	Biomethane all scales, biogas combustion less than 200 kWth	20	2.5
Solar Thermal		Less than 200kWth	20	8.5

#### *Renewable Heat Premium Payments*

Technology	Support per unit (£) in a detached dwelling	Support per unit (£) in any other dwelling
Air Source Heat Pump	1860	1170
Biomass boiler	2580	1620
Ground Source Heat Pump	2250	1410
Solar Thermal	480	480

#### **Timescale**

9. The consultation document is attached for consideration at **Annex B**. I should be grateful if you would approve the issue of the consultation in the week commencing 11 July 2011 with particular reference to the foreword which will require your signature. As stated in my previous submission, the consultation process will last for 10 weeks and we hope to issue this as early into the summer as possible to allow for work on designing and implementing the final scheme to begin in early September. This, in turn, will allow the Department more time to utilise the allotted £2 million funding for this financial year.

<sup>1</sup> Defined under the Waste and Emissions Trading Act 2003, Section 21

10. A draft press release is also attached for your approval at **Annex A**.

### Recommendation

11. It is recommended that you:

- (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;
- (b) agree the draft press release for issue during week commencing 11 July 2011 (**Annex A**);
- (c) approve the consultation document, particularly the foreword (**attached at Annex B**); and
- (d) approve the issue of the draft equality screening form (**Annex C**), draft Regulatory Impact Assessment (**Annex D**) and draft Regulations (**Annex E**) alongside the consultation paper.

12. There may be some minor drafting issues that need to be resolved in the consultation and regulations in advance of publication. We will do that while you consider the attached material.

(signed)  
**FIONA HEPPER**  
Ext 29215

cc: David Thomson  
David McCune  
Clare Baxter  
Joanne McCutcheon  
Peter Hutchinson  
Sam Connolly  
Susan Stewart  
Glynis Aiken  
Alastair Ross MLA, APS

Date : 15/06/2011 14:44:47

From : "Paget Fulcher"

To : "Hutchinson, Peter"

Cc : "Mark Cockburn" , "Iain Morrow" , "Mahmoud Abu-ebid" , "Oliver Edberg" , "Jeremy Stambaugh" , "McCutcheon, Joanne" , "Connolly, Samuel" , "Stewart, Susan"

Subject : RE: Draft final report: A Renewable Heat Incentive for Northern Ireland

Attachment : DETI comments draft response 150611.docx;

Dear Peter,

As discussed on the phone I have just been in contact with AEA and we would now like to rearrange the teleconference to 2pm on Tuesday.

The phone number for everyone to call is 0207 154 0023 with participant code 456779.

Also as discussed, please see attached a document mapping some of our initial responses to your comments on the Draft Final Report in advance of the call. We have not responded to all comments yet and some points are still open, but we are happy to discuss all areas with you.

Regards,

**Paget Fulcher**

Consultant

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**From:** Hutchinson, Peter [mailto:Peter.Hutchinson@detini.gov.uk]

**Sent:** 07 June 2011 16:51

**To:** Iain Morrow

**Cc:** Mark Cockburn; Paget Fulcher; Patrick Taylor; Mahmoud Abu-ebid; Oliver Edberg; Jeremy Stambaugh; McCutcheon, Joanne; Connolly, Samuel; Stewart, Susan

**Subject:** RE: Draft final report: A Renewable Heat Incentive for Northern Ireland

Iain,

Thanks for the draft report, I think generally it is in good shape however as with all reports there are some issues that we would like you to consider and address for the final version. Firstly I think it is important that we have sight of the model as soon as possible, if this could be finalised and sent through as a matter of urgency that would be greatly appreciated.

I apologise for the format of response, have listed below some overarching issues/questions that I think need addressed/answered in the final version. Some will be self-explanatory though others may need clarification and therefore it may be useful to arrange a teleconference to chat through these issues in advance of a final final report being finalised. At the bottom of the email there are more minor issues that should be easily addressed. I have also attached Sam's comments, which are easier to follow.

Grateful if you could look through and then we can discuss further, and if possible could the model be sent through as a matter of urgency.

Thanks in advance for considering these matters.

Peter

Some general comments and issues that need to be considered are;

**Not reaching 10%** - 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?

**RHI Tariff levels** - 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?

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**Consultation**

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**Energy**

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**The Development of the Northern Ireland Renewable Heat Incentive**

July 2011

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# NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (NI RHI)

## 3

### Rationale

- 3.1 In considering the most appropriate method of incentivising and developing the Northern Ireland renewable heat market, DETI has assessed a number of different options. These include the use of capital grants for renewable heating technologies, launching a renewable heat challenge fund for large-scale projects, and following the GB RHI as well as other options. Following an economic appraisal and wider policy considerations DETI is now presenting its preferred option for consultation and comment.
- 3.2 The proposed option is a RHI, specifically tailored and designed for the local heat market but with similar characteristics to the scheme proposed in GB. Similar to the GB scheme, the NI RHI will provide long term stable support for those wishing to install renewable heat technologies; however, the tariffs have been designed to ensure that they are appropriate for the local heat market. The introduction of long term support for the renewable heat market is expected to assist in the growth of renewable heat just as the Northern Ireland Renewables Obligation (NIRO) has done for renewable electricity. As the market grows and as renewable heat technologies become more established we would expect that these technologies become more accessible to everyone.
- 3.3 The decision to consult on a Northern Ireland RHI follows an economic appraisal<sup>10</sup> of various options available to DETI to incentivise the local renewable heat market. This appraisal has been published on the DETI Energy website<sup>11</sup> and was part financed by the European Regional Development Fund under the European Sustainable Competitiveness Programme for Northern Ireland.
- 3.4 The economic appraisal considered several options for supporting the development of renewable heat in Northern Ireland, including:
- Do nothing
  - A Renewable Heat Challenge Fund
  - 50% capital grant support
  - Implementing the GB RHI
  - A Northern Ireland RHI
- 3.4 DETI now wishes to consult on the design of a Northern Ireland RHI. This has been determined as the most appropriate method of providing long term support for the local industry, with tariffs developed specifically for the Northern Ireland heat market which will utilise available funding most efficiently.
- 3.5 Options which involved capital grant assistance were considered to offer no long term support and would only cover elements of the capital costs of installing renewable heat technologies, rather than supporting the whole life-time costs of the technology or incentivising actual renewable heat delivery. The GB RHI

<sup>10</sup> Cambridge Economic Policy Associates (CEPA) and AEA Technologies - A Renewable Heat Incentive for Northern Ireland 2011

<sup>11</sup> <http://www.detini.gov.uk/deti-energy-index.htm>

was also assessed but deemed as inappropriate for the Northern Ireland heat market with the possibility of over-incentivisation and ineffectiveness.

- 3.6 The proposed Northern Ireland RHI scheme will support new renewable heat installations (those commissioned<sup>12</sup> after 1 September 2010) and will provide tariffs for actual heat output. The proposed RHI is not designed as a reward but as an incentive to increase the uptake of renewable heat in Northern Ireland.

### CONSULTATION QUESTION 3.1

Do you agree with the decision to introduce a RHI tailored for Northern Ireland instead of pursuing other options considered? If not, please elaborate.

## Overview

- 3.7 There are three elements in DETI's proposal to support the renewable heat market;
- A NI specific RHI**, as detailed in this chapter, this incentive scheme is intended to be open to all non-domestic customers from 1 April 2012 (barring heavy industrial sites). It is expected that the domestic sector will enter the NI RHI no later than October 2012.
  - Support for the heavy industrial sector**<sup>13</sup>, also through regular incentive payments. However there will be differences in eligibility and accessibility, which are detailed in chapter 4.
  - Interim support for the domestic sector** available until a longer term scheme is introduced for this market, expected in October 2012, further details in chapter 5.
- 3.8 The NI RHI will be available to all non-domestic consumers at the time of introduction, expected at 1 April 2012. The non-domestic sector includes the commercial and industrial (barring those within the EU-ETS) sectors, small and medium sized enterprises, the public sector, not-for profit organisations and communities. The reasons why the heavy industrial sites are excluded from the NI RHI and the alternative methods of incentivisation are outlined in chapter 4.
- 3.9 The non-domestic market presents the greatest opportunity for large-scale deployment of renewable heat, this will provide a high level of renewable heat at a cost-effective rate. At a time when the commercial sector faces high energy costs and a pressure to reduce carbon emissions the NI RHI will assist businesses to switch to renewable heat and aid the development of the low-carbon economy.
- 3.10 The domestic market will not be eligible for the NI RHI from the outset of the scheme, instead it will be brought into a longer term scheme from October 2012, as discussed in chapter 5. Domestic installations are defined as single private dwellings with a single heat source. This does not include district or community heating where a number of properties are served by a single heat source; this is eligible for support under the NI RHI. Houses which are used for home businesses will be classed as domestic; however where dwellings have been fully adapted for commercial use, such as a bed & breakfast, the NI RHI will be available.
- 3.11 This phased approach will ensure that large scale commercial applications will be incentivised first and act as a primer for the local market. Interim support is available for the domestic sector, detailed in chapter 5, with a more long term solution to be rolled-out from October 2012.

## Funding

- 3.12 Her Majesty's Treasury (HMT) has notified the Northern Ireland Executive that £25million of funding is available for the NI RHI over the next four years. This funding is split as follows, £2million in 2011/12, £4million in 2012/2013, £7million in 2013/2014 and £12million in 2014/2015.
- 3.13 The NI RHI will remain open to new installations until 31 March 2020, this is in line with the GB RHI proposed by DECC. In advance of current funding coming to an end in 2015, DETI will discuss with DECC appropriate funding for the next spending period.

<sup>12</sup> 'Commissioned' is defined as an eligible installation which is capable of delivering heat to premises or process for which it was installed.

<sup>13</sup> Defined as being sufficiently large to be covered by the EU Emissions Trading Scheme (EUETS)

## ANNEX B

### IMPLEMENTATION OF A RENEWABLE HEAT POLICY IN NORTHERN IRELAND

#### DRAFT REGULATORY IMPACT ASSESSMENT

##### 1. Title of Proposal

The Renewable Heat Regulations (Northern Ireland) 2011

##### 2. Purpose and intended effect of measure

###### a) The background

The Department of Enterprise, Trade and Investment (the Department) is responsible for the development and maintenance of an appropriate legislative and policy framework for energy in Northern Ireland. The vision is for a competitive, sustainable, reliable energy market at the minimum cost necessary. Four key policy goals have been identified to support this vision as follows

- Competitiveness
- Security of Supply
- Infrastructure
- Sustainability

The agenda for developing renewable energy solutions and securing real reductions in energy consumption to enhance sustainability is driven by environmental policy, aimed at reducing harmful emissions. However, pursuing sustainability in energy also offers opportunities to enhance security of energy supply by introducing alternative generation sources, which are not subject to the price volatility of imported fossil fuels. Furthermore, development of indigenous sources offers opportunities for diversification and alternative sources of income.

###### **Renewable Heat**

Renewable heat is simply heat produced from renewable sources, for example wood pellet boilers, solar thermal water heating units, heat pumps and, on a larger scale, industrial biomass boilers or biogas plants.

The EU Renewable Energy Directive (2009/28/EC), published in the Official Journal of the European Union on 5 June 2009, requires that member states ensure that 15% of their energy consumption comes from renewable sources by 2020. This requirement extends beyond electricity to heating and cooling and to transport.

As heat energy accounts for almost half of all the energy consumed in the UK and produces around half of the UK's CO<sub>2</sub> it would appear there is considerable scope to explore and increase the use of renewable heat technologies in order to help meet the new Renewable Energy Directive target.

there would be no economic benefit for a gas customer switching to renewable heat. The Department considers this will help to limit the impact of the policy on the gas network.

#### **Risk of failure of renewable heat supply**

Just as supplies of conventional fuels may be disrupted, there is a risk that supplies of renewable fuel (i.e. biomass, biogas and bioliquids) will be disrupted. It has been suggested that around 35% of the additional renewable heat deployed would be powered by biomass (22%), biogas (5%) or bioliquids (9%). Biogas can be replaced with conventional gas in the short term, so disruptions to it should be relatively low risk. Bioliquids, since locally sourced by assumption, should be less risky than biomass, much of which will be imported. This suggests that the biomass supply chain, and the security of biomass imports, will be an important factor in the actual or perceived riskiness of renewable heat.

#### **Risk of low take-up**

Other possible barriers include planning restrictions, a lack of awareness, and negative perceptions of the reliability and/ or cost of renewable heat. The delivery of the Green New Deal, an energy efficiency measure being led by the Department of Social Development (DSD), presents a significant opportunity to deliver messages about renewable heat to homes and businesses.

#### **Risk of failure to implement targets set by EU Renewable Energy Directive**

The EU Renewable Energy Directive (2009/28/EC)<sup>36</sup> (RED), published in the Official Journal of the European Union on 5 June 2009, set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020. This requirement extends beyond electricity to heating and cooling and to transport. This is an important shift in emphasis: almost half of the final energy consumed in the UK is in the form of heat, producing around half of the UK's CO<sub>2</sub>.

The RED is the key driver for the work undertaken by the Department on renewable heat. The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration (DA) level. However, while energy is a devolved matter for Northern Ireland, each DA is expected to contribute as much as possible to the overall UK target. In light of the obligations within the RED, the Department has undertaken to introduce a renewable heat scheme in Northern Ireland.

### **3. Options**

As part of the economic appraisal a number of options for DETI's support of the renewable heat market were considered.

#### Option 1 - Do nothing

It was determined that under this option there would be limited deployment of renewable heat, the amount of which would largely be dependent on fossil fuel prices and the understanding of renewable alternatives. It was estimated that by 2020 renewable heat

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<sup>36</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:EN:PDF>

would account for around 4.8% of heating demand if no financial support was available. This option is not deemed as viable for a number of reasons.

#### Option 2 - A renewable heat challenge fund

A 'Renewable Heat Challenge Fund' would be a capital grant with the grants being awarded on a competitive basis, rather than 'first come first served'. In this scenario interested parties would be invited to apply for funding and would provide information on the intended installation, expected heat output and required funding (there would be a maximum allowed grant based on % of total cost). Applications would then be ranked based on the cost-effective renewable heat output and grants awarded according to rank. This process would be repeated on either a bi-annual or annual basis.

#### Option 3 - 50% capital grant

The option considered would be a 50% grant to cover the capital costs of various renewable heat installations. Under this scheme 5.35% renewable heat could be delivered by 2015. If a grant scheme is the preferred option then a challenge fund scheme would be the preferred option and would deliver more cost effective renewable heat. Lessons learned from the *Reconnect* scheme would support the view that a competitively awarded grant can be more cost-effective and targeted than an administratively awarded grant.

#### Option 4 - Joining in with the GB RHI scheme

There are many positives for joining in with the existing GB RHI including the consistency of approach with GB, savings in the cost of administering an NI scheme, and the potential speed with which a scheme could be implemented.

However, it has been concluded that, given the differences between the GB and Northern Ireland heat markets implementing the GB RHI as it is currently devised and using the proposed GB tariffs in Northern Ireland would not be appropriate.

#### Option 5 - A specifically tailored NI RHI scheme

The NI RHI option is the preferred approach and offers the highest potential renewable heat output at the best value. It also would incentivise a wide range of technologies and provide investors with long-term support. Whilst it would only be open to non-domestic market, in the first instance, it would eventually be open to all consumers and therefore provide greater accessibility.

The purpose of the RHI (in GB and NI) is to incentivise people to move from carbon-based heating to renewable energy sources. The 'cost' of the carbon fuel is therefore important and differs in the GB and NI markets. The tariffs for the Northern Ireland scheme are therefore lower as they are based on moving people from a more expensive fuel source, therefore the required incentive to move is deemed to be lower. In addition, the tariffs are based on an oil counterfactual, increasing the tariff levels could lead to consumers currently on gas switching to renewable heat, this would **not** be desirable as it could lead to long term price increases in gas distribution charges.

Similar to the GB scheme, the NI RHI would be made available to the non-domestic market in April 2012, with the domestic market introduced in October 2012. The reason for this is difficulties in assessing and monitoring heat demand in domestic dwellings.

Alan Bissett

14 March 2012 19:29

'Stewart, Susan'

McCutcheon, Joanne; Hutchinson, Peter; Thompson, Sandra; David Trethowan  
RE: Review of Draft Regulations

**Subject:**

**Attachments:**

Draft NI RHI Regulations - 14 03 12.doc; DV 14.03.12 against DSO version  
November 2011.pdf

Susan

In accordance with the Work Request Form for this matter, please find attached for your review a revised draft of the Northern Ireland Renewable Heat Incentive Scheme Regulations (the "**NI RHI Regulations**"). As previously discussed and for ease of reference, we have attached a blacklined version marked to show the changes made to the DSO version that you shared with us.

As you will see, we have incorporated the amendments which were introduced into the GB RHI Regulations prior to them being enacted which were not included in the version to be debated in Parliament that we used to prepare the previous draft of the NI RHI Regulations. We have dealt with the issues flagged by the DSO by making some additional amendments and have also addressed those issues raised in Appendix 2 of the Ofgem report which relate to drafting rather than policy issues.

We should be grateful if the Department would provide us with some clarification on a few points at this stage:-

1. In our discussions with you last week, we note that you referred to the definition of the term "Northern Ireland authority" that appears in Section 114 of the enabling legislation (the Energy Act 2011) – this term is defined for the purposes of Section 114 only as the Department or the NIAUR. We note that the powers in the enabling act provide for the Department or the NIAUR to have *vires* to establish the scheme and you mentioned that it has been determined that the Department is to establish the scheme. If this is the case, we could dispose of the definition of "NI Authority" altogether from the NI RHI Regulations and refer only to the "Department" where the term "NI Authority" is currently used – I should be grateful if you would confirm if this is appropriate.
2. In relation to Part 4, Chapter 1 which refers to the reporting functions relating to the use of municipal waste as an energy source, we have noted the DSO's comments and can confirm that we are in broad agreement with these. However, we have slightly amended Article 28(7)(a) to conform it with the parallel reporting function used in the Renewables Obligation (Northern Ireland) Order 2009. As you will see, this refers to data published by the Department of the Environment or a district council and, in this regard, we should be grateful if the Department would confirm that the data publishing regime has not changed since 2009 in order for these provisions to operate.

Once you have had an opportunity to review the amended version the NI RHI Regulations attached, we would welcome a call or meeting to have your thoughts and comments on this draft and the points raised above. We also look forward to discussing with you the next section of the work order involving iterative engagement with the Department, the DSO and Ofgem and further discussions with the Department in relation to the final policy decisions which will need to be reflected in the final form of the NI RHI Regulations.

I should be grateful if you would acknowledge receipt of this email and its attachments.

Kind regards

Alan

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**From:** Stewart, Susan [mailto:Susan.Stewart@detini.gov.uk]

**Sent:** 02 March 2012 16:12

**To:** Alan Bissett

**Cc:** McCutcheon, Joanne; Hutchinson, Peter; Thompson, Sandra; David Trethowan

**Subject:** FW: Review of Draft Regulations

Alan

I attach a work request form detailing the work needed to provide the Department with a Final draft version of Renewable Heat Regulations.

I also attach a copy of the previous comments from Ofgem along with a letter with comments on the draft Regulations from DSO. We have redrafted the Regulations to incorporate DSO comments which are attached for your convenience.

**We request a quote only at this stage and we would appreciate if you could provide the quote by close of play Tuesday 6th March 2012.**

If you need any more information, please don't hesitate to contact me

Many Thanks

Susan

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