

Energy



Jim McManus  
Room 414, Parliament Buildings,  
Ballymiscaw, Stormont,  
Belfast,  
BT4 3XX

23 November 2011

Dear Jim

**THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)**

I wish to provide the ETI Committee with an update on the recent consultation into the design and implementation of the Northern Ireland Renewable Heat Incentive (RHI). The Minister wrote to the Committee Chair on 21 June 2011 in relation to the work the Department was undertaking to assess the potential of the Northern Ireland renewable heat market and to develop an appropriate incentive scheme for the local industry.

As the Committee is aware, a consultation on a proposed scheme was designed and launched on 20 July 2011, closing on 3 October 2011. A number of consultation seminars were also held over the summer period and some members of the Committee were able to attend. In total, 78 formal responses were received, of which two offered no comment. The responses have been analysed and the vast majority of respondents were in favour of the proposals and provided useful comments which the Department has considered and, where appropriate, will seek to incorporate in the final design of the scheme.

A report providing an overview and analysis of all the responses received to the consultation is attached at **Appendix I** for information; in addition all the responses will be available on the DETI website.

Generally, respondents welcomed the introduction of the RHI as a measure to incentivise the deployment of renewable heat. It was recognised that the cost of installing renewable heat technologies was a barrier to uptake and therefore long term stable support was required to bridge that financial gap and provide the confidence for investors to install. It was also accepted that Northern Ireland had to pursue alternative methods of heating given the current dependence on heating oil and the impact this has on carbon emissions, fuel security and fuel poverty. Many other aspects of the scheme were welcomed and DETI is therefore content that a Northern Ireland RHI is the correct approach to incentivise and develop the renewable heating market.

There were elements of the proposal where consultees were not fully in agreement with the Department;

- **Tariffs, Banding and Technologies:** Respondents, whilst accepting the Departments tariff setting methodology, argued that the fact tariffs were lower than those in the GB scheme meant Northern Ireland was disadvantaged. Some issues were also raised about the technology assumptions used in

generating tariffs, the proposed banding ranges and the list of technologies incentivised.

- **Treatment of Large Industrial Sites:** A number of consultees were concerned that large industrial sites were being treated separately to all other applications and that this could affect their competitiveness with similar sites in GB in receipt of the RHI. It was also argued that larger applications were often the most cost-effective systems and therefore the RHI should be more focussed towards these sites.
- **Exclusion of heat from Anaerobic Digestion:** The proposal that heat from AD systems that were in receipt of Renewable Obligation Certificates for renewable electricity generation would not be eligible for RHI payments was an issue raised. Some respondents felt that capital costs involved in capturing and utilising the waste heat meant that an incentive was required otherwise heat would be wasted.
- **Renewable Heat v Gas:** A number of consultees commented that they felt that policy goals of developing the renewable heat market and extending the gas network were contradictory.
- **Wider cross cutting issues:** A number of respondents referenced policy areas outside of DETI's remit and asked for the renewable heat work to consider linkages with these issues. These include possible linkages to the policies on fuel poverty and the green new deal; the development of the biomass supply chain; the role of the public sector in deploying renewable heat; and the need for increased skills in this sector.

DETI is now considering these issues in more detail with a view to developing a final policy position prior to refining the scheme for implementation. In particular, Energy Division is looking at the tariffs and banding for each of the technologies and the assumptions used to design the incentive levels. We are also assessing the issues raised in relation to AD plants and large industrial sites. A cross departmental strategy group has already been established to consider some of the wider issues that were raised during the consultation.

In terms of the responses that argued that the extension of the gas network and the development of the renewable heat market were contradictory, it would be the Department's view that it is important that a sustainable, diverse and secure heat market is developed. This involves increasing customer choice and developing alternative fuel supplies, therefore reducing our dependence on oil. By seeking to remove the financial barriers related to renewable heat and the infrastructure barrier in terms of natural gas, DETI is working to develop a diverse heat market which will benefit Northern Ireland consumers.

In order to have the RHI in place by April 2012 there is a great deal of work required, this includes the finalisation of the policy position; securing internal approvals for the scheme; publicising the proposals in advance of implementation; putting in place the appropriate administration arrangements; securing state aid approval for the scheme; and laying the relevant legislation in the Assembly. Once a final policy position is agreed I will be

providing the Committee with an update report including an overview on the agreed scheme and the way forward.

I trust you find this overview useful and the attached analysis paper of interest.

(signed)  
**Fiona Hepper**  
**Head of Energy Division**  
**Department of Enterprise, Trade and Investment**

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> Irrelevant information redacted by the RHI Inquiry ]  
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> Irrelevant information redacted by the RHI Inquiry ]  
> Cc:Dolaghan, Paul[EX:/O=NIGOV/OU=EXCHANGE ADMINISTRATIVE GROUP  
> Irrelevant information redacted by the RHI Inquiry ]  
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> Cc:Hutchinson, Peter[EX:/O=NIGOV/OU=EXCHANGE ADMINISTRATIVE GROUP  
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> Cc:Hepper, Fiona[EX:/O=NIGOV/OU=EXCHANGE ADMINISTRATIVE GROUP  
> Irrelevant information redacted by the RHI Inquiry ]  
> Received-Date:24/11/2011  
> Received-Time:16:00 (LocalTime)  
> Sent-Date:24/11/2011  
> Sent-Time:16:00 (LocalTime)  
> Subject:FW: Submission: SUB/1311/2011 ETI COMMITTEE RESPONSE TO PUBLIC  
> CONSULTATION - RENEWABLE HEAT INCENTATIVE FOR NORTHERN IRELAND 1.  
> Andrew Crawford 2. Minister  
>  
> re the questions below :  
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> Anaerobic Digestion  
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> You asked whether the Department should consider reducing the level of  
> ROCs for AD plants with a view to providing a RHI tariff for the  
> useful heat output (possibly providing 2 ROCs and equivalent of 2 ROCs in  
RHI payments)  
> This was an issue that we specifically raised during the  
> consultation, ie would respondents consider a reduced ROC level in  
> order to secure a RHI payment. Unsurprisingly, perhaps, the vast  
> majority of respondents rejected this and argued that the ROC levels  
> should remain constant with an additional payment introduced for heat.  
> Where consultees considered a reduced ROC level it was caveated with

> the view that the RHI would need to be sufficient enough to make the  
> scheme more attractive than before (i.e. 3 ROCs plus equivalent 1.5-2 ROCs  
of RHI payment).

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> Currently, we remain of the view that any additional RHI payment on  
> top of the existing ROC levels would amount to overcompensation and  
> would draw the attention of the EU Commission during the State Aid  
> application. Where AD installers have useful waste heat output it  
> would be in their own commercial interests to seek a way to utilise  
> this heat, either through a heat contract with a local separate heat  
> source (sell the heat) or in their own internal processes in order to  
> off-set heating costs (we are aware of existing AD plants already  
> doing this). (We covered this issue with the ETI Committee this morning).

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> In GB, AD installers can avail of both FIT/RO and RHI. However in  
> most cases, even with both forms of incentive, installations will be  
> no better off than those in Northern Ireland operating under the NIRO.

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> If it was agreed that a RHI should be paid to AD installers for useful  
> heat output, significant further evidence/work would be required on  
> the actual level and the impact on the ROC support. At this stage,  
> any signal that ROC levels would reduce would be unwelcome given the  
> fact that levels were only increased last year.

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> Renewable Heat Strategy Group

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> You also enquired about the Renewable Heat Strategy Group. This group  
> was detailed in the RHI Consultation document as a demonstration that  
> the RHI would require supporting policies, outside of DETI's remit, in  
> order to be successful. Issues that this group will need to consider  
> include biomass supply chain (DARD), planning issues (DOE), role of  
> the public sector estate and public procurement (DFP), need for  
> increased skills (DEL), opportunities for businesses (Invest NI),  
> linkages with fuel poverty and Green New Deal (DSD) and linkages with  
sustainable development (OFMDFM).

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> This group is chaired by G7 in Renewable Heat Branch and sits as a sub  
> group of SEIDWG. It is not an additional group - rather I took the  
> opportunity to rename and refocus the bio-energy sub group which  
> delivered the bio-energy action plan - I did this at it would be the  
> same people involved. So - in short - its not an expansion of  
> numbers in groups. To date one meeting has been held.

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> Hope this is helpful  
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> Fiona  
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>  
> Fiona Hepper  
> Senior Management  
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> From: [Christine.McLaughlin@detini.gov.uk](mailto:Christine.McLaughlin@detini.gov.uk) [mailto:Christine.McLaughlin@detini.gov.uk]  
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> To: Hepper, Fiona  
> Cc: Dolaghan, Paul; Neth\_Energy; Sterling, David; Lewis, Colin;  
> Thomson, David; Aiken, Glynis; Stevenson, Valerie; Baxter, Clare;  
> DG\_DETI Press Office; McCune, David; Haughan, Anthony; Murray, John;  
> Clarke, Rosie; Hegarty, Damien; McLaughlin, Christine  
> Subject: Submission: SUB/1311/2011 ETI COMMITTEE RESPONSE TO PUBLIC  
> CONSULTATION - RENEWABLE HEAT INCENTATIVE FOR NORTHERN IRELAND  
>  
> DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT  
>  
> Unclassified  
>  
>  
> From: Christine McLaughlin  
> Private Office  
> To: Hepper Fiona (Mrs)  
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> McCune David (Mr)  
> Haughan Anthony (Mr)  
> Murray John (Mr)  
> Clarke Rosie (Ms)

- > Hegarty Damien (Mr)
- > McLaughlin Christine (Mrs)
- >
- > SUB/1311/2011:ETI COMMITTEE RESPONSE TO PUBLIC CONSULTATION -
- > RENEWABLE HEAT INCENTATIVE FOR NORTHERN IRELAND
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- > The Minister has seen and read your submission of 11/11/201.
- > The Minister and Spad are content for paper to go to ETI Committee but
- > the Spad has made the following comments, which require answering
- separately:
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- > Treatment of Waste Heat - "Should we reduce ROCs for AD and increase
- > introduce RHI"
- >
- > Wider Cross- departmental issues - " is this another group"
- > Please provide response by email (minute format) i.e. 1. Andrew Crawford 2.
- > Arlene Foster MLA to reach Private office no later than close of play
- > 24 November 2011.
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- > Many thanks.
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- > Christine McLaughlin (Private Office)
- >
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- > OffName
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