13 September 2012

ETI COMMITTEE BRIEFING ON THE RENEWABLE HEAT INCENTIVE

Gas

General

SPEAKING NOTE

You will recall you received both written and oral briefing on the introduction of the Northern Ireland RHI before the summer recess but it may be useful if I briefly recap on where we are in the process. The RHI is a long term approach to developing the renewable heat market which will pay incentives on a quarterly basis over a 20 year period to eligible installations. The incentives are in the form of pence per unit of heat and the tariff depends on the size and type of technology.

Initial proposals were put out for public consultation last year and the Department took account of the comments received in formulating the final scheme. The scheme will be introduced in two phases and the first phase has been approved by the DETI Minister and DFP. It also received EU State Aid approval in June. The EU State Aid approval is specific to the scheme as it was notified and any changes would require a resubmission for approval.

The first phase can therefore be introduced as soon as the necessary legislation is passed by the Assembly. This phase is for non domestic installations and for a range of eligible technologies - the technologies included in this phase are those which are most well understood and developed within the market.

The Northern Ireland tariffs have been calculated to cover the total cost difference between a heating system using oil, which is our predominant fuel, and a renewable alternative. This is in contrast to GB where gas is the predominant fuel. As gas is a cheaper fuel than oil, the incentive required to promote a switch to renewable heat is inevitably less. When comparing the NI and GB tariffs the important point to remember is - that NI consumers although receiving lower tariffs overall, will have greater savings on fuel costs. We need to remember that the total monetary benefit to the consumer is the tariff **PLUS** the fuel savings. You will also wish to note that the rate of return within the NI scheme is the same as in GB – 12%.

The final tariffs for the scheme have been publically available since July 2012 and we have received very little feedback on them. However, it was very pleasing to note the public support of the scheme from Action Renewables.

As you are aware from the SL1, it is our intention to proceed to seek Assembly approval for the necessary legislation, with the view to introducing the first phase of the scheme as soon as possible. Indeed, if the legislation is passed we would hope to be able to open the scheme around the end of October.

It might also be useful to update you on Phase 2 - the development work has just commenced; this phase will potentially

include additional technologies and will extend the scheme to cover domestic installations. In particular, consideration will be given during this stage to possible tariffs for air source heat pumps, bioliquids, geothermal and landfill gas. Consultants will be engaged to conduct an economic appraisal of the options and advise the Department on the way forward. A public consultation on the proposals will be held which will give all interested parties an opportunity to provide evidence to inform the final policy. Once again, EU State Aid approval will be required for this second stage and so it is likely to be Summer 2013 at the very earliest before implementation.

In the meantime domestic consumers can benefit from the Renewable Heat Premium Payment Scheme which was introduced at the end of May. This scheme provides a one off payment to anyone wanting to switch to an eligible renewable heat technology prior to the introduction of the RHI. Those taking part in this scheme will remain eligible for any incentive under Phase 2 of the RHI although future payments will adjusted to ensure that all customers are equally incentivised. We are pleased with the response to this scheme having received 209 applications to date, which represents support of £281,000 on a total expenditure of £1.1 million (this would need checked and updated nearer the time).

The Minister first announced the possibility of an RHI in September 2010. Since then we have secured £25million of funding and developed a scheme which we believe will let us achieve our target of 10% renewable heat by 2020. The renewable heat market is eagerly awaiting the start of the scheme and phase 1 will provide an important signal of our commitment to the market. Phase 2 will then let us explore the further potential that exists in a wider range of technologies.

Q&A

Northern Ireland Renewable Heat Incentive (RHI)

Subject to the passage of appropriate legislation in autumn 2012, DETI will introduce the Northern Ireland Renewable Heat Incentive for the non-domestic sector. The tariffs that will be implemented are detailed below.

Tariff name	Eligible Technologies	Size range (kW)	NI RHI tariff (pence per kWh)	Length of tariff
Biogas injection	Biomethane injection and biogas combustion, except from landfill gas	Biomethane all scales, biogas combustion less than 200kWth	3.0	20 years
Biomass boilers	Solid biomass; Municipal solid waste (inc. CHP)	Less than 20kWth	6.2	20 years
		20 kWth and above up to but not including 100 kWth	5.9	20 years
		100 kWth and above up to but not including 1000 kWth	1.5	20 years
GSHP	Including	Less than	8.4	20 years

Tariff name	Eligible Technologies	Size range (kW)	NI RHI tariff (pence per kWh)	Length of tariff
	water source heat pumps and deep geothermal	20kWth		
		20 kWth and above up to but not including 100 kWth	4.3	20 years
		100 kWth and above	1.3	20 years
Solar Thermal		Below 200 kWth	8.5	20 years

Further guidance, including detailed Q&A, will be released in due course; however, some key elements of the RHI are detailed below. If you have further queries please contact ni.rhi@detini.gov.uk.

What is the Northern Ireland Renewable Heat Incentive?

The Northern Ireland Renewable Heat Incentive (RHI) is a DETI scheme that provides financial support to non-domestic renewable heat generators and producers of biomethane.

Why is the scheme being introduced?

The primary objective for the Northern Ireland RHI is to increase the uptake of renewable heat to 10% by 2020 (baseline position of 1.7% in 2010). The 10% target for renewable heat equates to 1.6TWh (or an additional 1.3 TWh when considering existing

levels). This target was included in the Strategic Energy Framework and an interim target of 4% renewable heat by 2015 has been included in the Programme for Government.

In addition to achieving the set target, it is expected that the RHI will have a number of other wider benefits in terms of fuel security, lower emissions and 'green jobs'.

Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies.

Without the RHI in place Northern Ireland will not achieve either the targets set for renewable heat by the Northern Ireland Executive in the SEF or be able to contribute to the UK target set under the Renewable Energy Directive.

How have the tariffs been designed?

The RHI aims to compensate investors for the additional costs of renewable heat compared to traditional fossil fuel systems. For each technology, we have taken into account all the various types of costs involved (including capital, financing, barrier, fuel and operating) to produce a pence per kWh cost figure – this is known as a levelised cost methodology.

The RHI tariff setting methodology also includes the provision of a rate of return in order to stimulate interest in a developing unknown marketplace and to provide compensation for financing costs of

making the necessary investment in capital projects. In most instances a rate of 12% has been set. Solar thermal receives a lower rate of return as it is a well-known technology, it's relatively easy to install and it will not displace the same level of fossil fuel as the other technologies. In addition solar thermal heat is, at present, more costly per unit of energy than other technologies.

Why are the tariffs lower than those available in GB?

The Northern Ireland tariffs tend to be lower than those offered in the GB scheme as the NI tariffs are designed against an oil counterfactual rather than a natural gas counterfactual, as in GB. This reflects the heat markets in the two areas with oil the dominant heating fuel in NI at 75%+ and natural gas the dominant heating fuel in GB 70%+. Setting the counterfactual position against oil within the NI scheme reflects the likelihood that the majority of people switching to renewable heat will be displacing oil. As oil is a more expensive fossil fuel, less of an incentive is required to switch to renewable heat.

DETI does not think that NI consumers will be disadvantaged in comparison to GB consumers, as whilst the tariff levels are lower the ongoing savings that can be expected from switching to renewable heat will be considerably higher for NI consumers. Therefore the overall benefit for the consumer is similar.

Why is there no support for biomass installations over 1MW in size?

Biomass installations over 1MW in size will not receive a tariff under the current banding proposals. The reason for this is that, analysis has shown that it should be cost effective for these sites to switch to renewable heat by 2020 and therefore an additional incentive is not required. Indeed, when calculating a tariff for these technologies, using the same methodology as for the others, the calculated value is negative i.e. no tariff is required.

DETI is however willing to examine any alternative evidence as part of the second phase of RHI.

Why aren't bioliquids covered from the start?

DETI is not supporting bioliquids from the outset of the scheme. We recognise there are valuable uses of bioliquids in renewable heat generation and combined heat and power, including those developed from wastes such as used cooking oil and those made from advanced technologies. There may also be potential to use bioliquids for domestic heating and that this could have significant impact in Northern Ireland given the prevalence of home heating oil.

However, there are complex issues we need to better understand and be able to address. These include potential competition for feedstock with other sectors and sustainability reporting commitments under the Renewable Energy Directive (RED). We will consider supporting bioliquids under Phase 2 of the scheme.

Why are air source heat pumps not being supported?

Further work is required to better understand the costs of air to water heat pumps at the commercial scale before committing long-term support for it. DECC has already worked with industry to gather relevant data and DETI will liaise with DECC to consider this matter going forward. At this stage, DETI intend to look to extend eligibility for air to water source heat pumps in Phase 2.

For air to air heat pumps we also have to overcome the practical problems of measuring the heat they generate and ensure we do not incentivise the installation of air conditioners.

How will payments be made?

Payments will be made on a quarterly basis by the scheme's administrator, Ofgem. Payments will be calculated by multiplying the actual metered heat output of the technology over that quarter with the designated tariff.

Will heat be metered?

Yes, all technologies installed under phase 1 of the NI RHI must have an appropriate heat meter installed. (Heat meters must fall within the accuracy of class 2 of Annex MI-004 of the EU Measuring Instruments.)

Will tariffs change over time?

Once an installation is accredited under the scheme they will receive a fixed level of support which will be adjusted annually in line with inflation. However, to ensure the scheme is cost effective the tariffs will be reviewed over time and the new tariffs will be applied to anyone joining the scheme. The tariffs will be amended annually to reflect the Retail Price Index.

Who is eligible to apply for the scheme?

The scheme is available to generators of heat and producers of biomethane that meet the eligibility criteria that are based in Northern Ireland.

At the start of the scheme only non-domestic sectors will be supported. We intend to introduce a second phase of support which will establish support for the domestic sector as well as a number of other technologies and fuel uses that we are unable to support from the outset. The non-domestic segment includes businesses; public sector; charities and not-for-profit organisations; and industry.

A non-domestic installation is a renewable heat unit that supplies heat to anything from large-scale industrial heating to small business and community heating projects. This includes small businesses, hospitals, schools etc as well as district heating schemes (e.g. one boiler serving multiple homes).

When will the scheme close to new applications?

It is expected that the scheme will remain open to new installations until March 2020. A review of the RHI will take place in 2014/15.

How long will the incentive payments last?

RHI support for the first phase is for the lifetime of the technology to a maximum of 20 years.

I have already installed a renewable heat technology, am I eligible?

Eligible equipment commissioned on or after 1 September 2010 will be able to avail of the RHI, however a suitable heat meter must be installed.

Why are domestic installations not included at this stage?

A second phase of support will be introduced for some areas that won't be supported from the outset, including domestic installations. There are a number of important factors, specific to the domestic sector, that we need to consider further before we can launch a full RHI scheme for domestic buildings and ensure we pursue the most cost-effective way of increasing renewable heat at this scale. These include issues about how renewable heating systems operate in various types of homes and in combination with solar thermal panels; what the impact of changing the heating system is on the householder in terms of different behaviour; how long the RHI payback period should be,

given the frequency with which people move house and the ways in which households raise and pay back finance; and how payments could be made, either through metering or a 'deemed' approach.

What support is currently available for the domestic market?

The Northern Ireland, Renewable Heat Premium Payment (RHPP) scheme is a government support scheme to help domestic householders install renewable heating and hot water systems in their homes.

Individuals will be able to apply for a voucher which will be issued if their application is successful. When the qualifying technology has been installed the voucher can be exchanged for grant money.

The scheme was launched by the DETI Minister on 24 May 2012. Please read the eligibility criteria listed on the DETI website (http://www.detini.gov.uk/deti-energy-index/northern_ireland_renewable_heat_premium_payment_scheme_.htm) to make sure you are eligible for the scheme before making an application. If you don't have access to the internet you will be able to apply by calling an advisor on 028 9052 9219.

The voucher values for each of the technologies are listed below.

Technology	**Voucher Value**
Air Source Heat Pump	£1,700
Biomass boiler	£2,500

Technology	Voucher Value
Ground Source or Water Source Heat Pump	£3,500
Solar Thermal Hot Water	£320

DETI has confirmed that renewable heat installations installed in homes since 1 September 2010 will get the Renewable Heat Incentive once it comes in, provided they meet the eligibility criteria. They have also confirmed that this will include those who receive support under the N Ireland RHPP scheme, though the term of the incentive will be reduced to factor the grant paid.

What issues will DETI consider as part of phase 2 of the RHI?

Some of the issues that DETI wish to consider as part of phase 2 of the RHI are;

- Extension of the scheme to the domestic sector;
- A specific tariff level for deep geothermal heating (currently treated like ground source heat pumps);
- The introduction of tariff for Air Source Heat Pumps, Bioliquids; Solar thermal above 200kw;
- The need for support for large biomass installations; and
- The potential development of an 'uplift' to for community or district heating schemes.

There may be further issues that DETI wish to consider relating to land fill gas, direct air heating and large biogas.

What is the timescale for phase 2?

At this stage DETI is keen to implement phase 2 in summer 2013.

A public consultation on this matter will be held in early 2013.

RENEWABLE HEAT INCENTIVE FOR NORTHERN IRELAND

- DETI is committed to developing the renewable heat market in Northern Ireland as there are many benefits in doing so such as increased fuel security, reduced carbon emissions and the opportunity in this sector for 'green' jobs.

- The Strategic Energy Framework includes a target of 10% renewable heat by 2020. This is a stretching and challenging target considering the current level of renewable heat is around 1.7%.

- DETI has made clear proposals for a Northern Ireland Renewable Heat Incentive and hopes to introduce the scheme shortly, following the passage of appropriate legislation. The decision on the scheme followed detailed independent analysis, public consultation and the submission of evidence to the EU Commission.

- The scheme will initially be open to the non-domestic sector and will support the most well established technologies. A second phase of the RHI will consider the extension of the scheme to domestic consumers and support levels for emerging / innovative technologies. Phase 1 of the RHI will act as a primer for phase 2.

- The RHI represents financial support of up to £25m for the renewable heat market up to 2015, and total support of around £180m for the lifetime of the scheme. It is expected that the RHI will support an increase of renewable heat to above 10%

as well as reducing NI carbon emissions and creating opportunities for ‘green jobs’.

RENEWABLE HEAT PREMIUM PAYMENTS

FIGURES TO BE UPDATED 10/09/12 BY DAN SINTON

- The Renewable Heat Premium Payment scheme was launched on Thursday, 24 May and provides grant assistance for domestic customers wishing to install renewable heating technologies such as biomass boilers, ground source or air source heat pumps and solar thermal panels.

- The scheme has attracted a high level of interest and to date there have been 220 applications. Solar thermal is the most popular technology and accounts for 46% of applications, Biomass Boilers account for 27% and the rest is made up of heat pumps.

- To date, DETI has committed £281,800 of funding. This grant funding represents a nearly £1.2m of investment in this sector.

- DETI expects further interest once targeted marketing activity is carried out in Autumn 2012 that highlights the opportunities within the RHPP.

- The scheme is a forerunner to the longer term Renewable Heat Incentive (RHI) and is expected to remain in place until the policy position relating to extending the RHI to the domestic market is made clear – work will soon be underway in this area.

- Those availing of support under the RHPP will remain eligible for future incentives.

SUSTAINABLE ENERGY PROMOTION – COMMUNICATIONS

- In October 2011, DETI has launched a new 'brand' for sustainable energy messaging via a media campaign aimed at offering advice and guidance to energy consumers, both domestic and business, on how to use energy better and cut costs.

- The campaign is under the branding 'EnergyWise' and includes television advertising, billboards and an online presence at NI Direct.

- The campaign followed on from Executive agreement that all Government funded communications, in relation to sustainable energy, should be unified and has a consistent approach in terms of branding and delivery.

- DETI will soon embark of further marketing activity under the *EnergyWise* branding. This campaign will focus on communicating the benefits of renewable energy and explaining support mechanisms to potential investors.

NIRO SUPPORT FOR RENEWABLES

- The Northern Ireland Renewables Obligation (NIRO) supports a wide range of technologies and sizes – from domestic solar PV panels through to large wind farms which has proved very successful.

- Since the introduction of the NIRO in 2005 renewable electricity generation has increased from a baseline of 3% to approximately 14% for the year ending 31 March 2012.

- Following a UK-wide Banding Review across all three Renewables Obligations (RO), the Department published its response to the consultation on the 2 August 2012.

- The focus of the banding changes is on large scale renewables (above 5 megawatts) with the majority of changes applying across all three ROs. UK-wide changes include:

- A 10% reduction for large-scale onshore wind to 0.9 ROCs.
- Support levels for wave and tidal will more than double from 2 ROCs to 5 ROCs per MWh, subject to a 30MW limit per generating station.

- In addition to UK-wide banding changes, the NIRO response confirms that, support for electricity generated from landfill gas will continue to be supported at 1 ROC until 2015 (this band has closed in GB).

- Proposals to increase support for solar photovoltaic panels up to 10kW from 4 ROCs to 5 ROCs will not be implemented due to significant reductions in the costs of this technology.

- Our response also confirms the lifetime of the NIRO will be extended from 2033 to 2037, in line with all the ROs.

- Changes to ROC levels and extending the NIRO to 2037 will be contingent on obtaining State Aid approval from the European Commission and legislative approval from the Assembly.

- There will be further consultation later this year on support for large scale solar PV and biomass sustainability.

- There will also be a UK-wide call for evidence on onshore wind costs.

ELECTRICITY MARKET REFORM (EMR)

- On 22 May 2012, the Minister announced that Northern Ireland would implement a number of the UK-wide Electricity Market Reform (EMR) measures.
- This includes:
- Closure of the NIRO to new generation from 1 April 2017
- Introduction of a UK-wide Feed-In Tariff with Contracts for Difference
- Administration of the Contracts on a UK-wide basis
- Emissions Performance Standard for any new coal-fired power stations.
- The Minister's May announcement followed approval by the Executive for DETI to table a Legislative Consent Motion (LCM) in order to extend powers for electricity market reform to Northern Ireland via the DECC 2012 Energy Bill.

- This will take place in late October/early November.
- The Minister has received assurances from the DECC SofS that if this Assembly agrees to the introduction of a UK-wide FIT in Northern Ireland then the costs associated with its operation are spread across all UK consumers as currently happens with the NIRO.

RENEWABLE ELECTRICITY TARGETS

12% PfG target by 2012

- PfG target of 12% renewable electricity consumption by 2012.
- We both met and exceeded this target by achieving approximately 14% of electricity generated by renewables in the year ending 2011/12.

20% PfG target by 2015

- We are confident that we will meet this target given the number of applications for renewable energy plants currently in the planning system.

- The Department receives data on renewable electricity generation on a monthly basis and from this information it is useful to note that 2011/12 was a very good year for renewables generation:
    - We have had a number of months where renewables generation significantly exceeded 12% including as recently as December – almost 19%
    - The rolling 12 month average to end July stands at just over 14%.

- Majority of renewables generation is from onshore wind.

- But starting to see increasing levels of non-wind renewables in technologies such as anaerobic digestion and biomass CHP.

40% target by 2020

- The 40% target equates to approximately 1400-1800 MW of renewable generation by 2020.
- The majority will be met by on shore wind.
- NIAUR has approved expenditure to allow clustering and upgrade of the 110kV network to facilitate approximately 800MW of on shore wind by 2017 and some off shore capacity – this equates to approx 20% renewable electricity consumption.

- Further reinforcement of the 275KV network is required to accommodate more on shore wind and large volumes of off shore generation which are required to meet the 40% target.

- NIE /SONI have issued consultations on proposals for 275kV reinforcement to the Regulator, however no decision has yet been taken. This is major infrastructure and will, in all reality, be subject to the same planning issues as the N-S interconnector. [DN: this may require revision before the ETI meeting]

- The Utility Regulator is responsible for the scale and magnitude of grid development – however without additional reinforcement to the 275 kV network the 40% target cannot be met.

- The changes to the NIRO for small scale wind and anaerobic digestion have resulted in increased volume of these technologies – this generation will connect to the distribution network (33kV and below).

- The distribution network requires significant upgrade quickly to allow connection of this magnitude of decentralised generation.

- DETI have established a grid sub group of the SEIDWG which will work with the Regulator, SONI and NIE to facilitate grid development in Northern Ireland.

STRATEGIC ENERGY FRAMEWORK – 40% RENEWABLES TARGET

- Electricity prices depend on wholesale market prices which are predicted to continue to rise in the period to 2020.

- The cost to consumers of renewable electricity to 2020 will depend on a number of factors, including the exact mix of technologies at that date.

- DETI has estimated that the combined cost of renewable electricity installations, together with the cost of the grid investment necessary to meet the 40% target, could be between £49 and £83 per household on an annual basis at current prices.

- These costs would only arise incrementally however as new grid and new generation is installed.

- In the longer term having a higher percentage of our electricity produced from renewable sources will increase security of supply and insulate us against further wholesale price rises.

SMALL-SCALE FEED-IN TARIFF

Non-introduction of a Feed-In Tariff in Northern Ireland

- We did not introduce a small scale Feed-In Tariff at the same time as the rest of the United Kingdom because we did not have the necessary legislative powers.

- There were additional concerns that the costs associated with introducing and administering a FIT could increase the cost to electricity consumers.

- It is important to remember that the costs of incentive mechanisms such as the NIRO and the FIT are ultimately borne by all electricity consumers.

Outcome of DETI study on the appropriateness of a Feed-In Tariff

- A joint DETI/Utility Regulator study undertaken last year concluded that both the current NIRO mechanism or a small-scale FIT would allow us to meet our 40% target by 2020.

- The study also concluded that the cost of meeting the 40% target would be more under a small scale FIT than under the NIRO.

- However, the decision by the Coalition Government to move away from the Renewables Obligation completely by 2017 as part of Electricity Market Reform, will have a direct affect on the

NIRO and will require a move to a FIT in Northern Ireland for both large scale and small scale electricity generation.

- A separate small scale FIT will be needed and the recent consultation on the NIRO sought views on this proposal. Not surprisingly, there was widespread support for the introduction of a small scale FIT.

Consultation on Policy Proposals for an Energy Bill

- The Department launched a consultation on policy proposals for an Energy Bill on 19 June 2012 which considers among other issues, the primary legislation to enable Northern Ireland to introduce small-scale feed-in tariff powers.

- The actual detail, including tariffs will be included in subsequent secondary legislation.

Closure of the Renewables Obligation

- The Coalition Government has taken the decision to close the England and Wales Renewables Obligation to new generation from April 2017.

- After this date all new generation must be accredited under the new Feed-In Tariff with Contracts for Difference. A recent study on behalf of the Department and NIAUR has concluded that the FIT proposed for Great Britain would work in Northern Ireland under the SEM.

- In May 2012, the Minister confirmed closure of the NIRO in 2017 and a move to a FIT with Contracts for Difference.

CONNECTION CHARGES

High cost / delays of connecting renewables to the grid

- NIE operates under a regulatory framework determined by the Utility Regulator and as detailed in their licence.

- NIE is required under this licence to provide a connection offer to all generation connecting to the distribution system in line with their connection charging statement.

- This statement is monitored and enforced by the Utility Regulator.

- I understand that NIE has recognised the need to have adequate resources in place to meet the increasing number of connection requests.

- I understand NIE has responded to the rise in applications by recruiting a number of staff to the generation connections team as well as managerial and administrative staff.

GRID DEVELOPMENT

Investment in the Grid

- The electricity network in Northern Ireland is facing unprec**edented demand fo**r the connection of new sources of renewable generation.

- The achievement of the SEF 40% renewable electricity target will require investment in additional renewable power generation, and significant upgrading of the electricity grid, which could involve around £1bn of network expenditure.

- It is assumed that the majority of the renewable energy required to meet the target by 2020 is likely to come from large scale (>250kW) on shore wind generation.

- Up to 800MW of on shore wind generation can be accommodated by the grid in the short medium term (up to 2017). However the realisation of the North South Interconnector and further reinforcement of the 275KV network is required to meet the 40% target.

- The Utility Regulator has assured me that he will facilitate the delivery of the 40% target. I welcome this and appreciate his ongoing commitment as it is important that the Utility Regulator is fully committed to help deliver the NI Executive's policy in this area.

- NIE, as grid owner, has been developing plans for strengthening of the electricity, and this is likely to occur in the West and North-West where the majority of new renewable generation is expected to be located.

- Upgrading of the electricity grid is likely to be carried out over a number of years to 2020 and beyond on a phased basis, subject to the conclusion of the current price control (RP5) process that is being undertaken by the Utility Regulator. This involves the Regulator considering in detail, investment proposals from the grid owner NIE.

- It is planned that initial work is likely to be undertaken to maximise the potential of the existing electricity networks to transmit higher levels of renewable generation, followed by more significant works to upgrade the network. Grid strengthening plans will require the necessary approvals, including environmental consideration, and planning consent. Communication with stakeholders will be a key part of any grid strategy and DETI are working closely with NIE to ensure that a robust communications plan is put in place.

If pressed on costs:

- As part of the RP5 submission, I understand that some £682m in capital expenditure to upgrade parts of the grid which are coming to the end of their life has been proposed by NIE, along with some £215m to absorb higher levels of renewable generation, and an amount for operational costs. The Utility

Regulator has proposed a reduced allocation and we await the outcome of the consultation on RP5.

- Once grid investment has been approved by the Regulator, the cost of the investment will ultimately be recovered from consumers; however this will be staged over the investment period. Actual costs, including impacts on consumer bills, will depend on the scale and period agreed by the Regulator for grid upgrading.

- My Department has established a group on Grid Development & Renewable Energy to identify key issues for future grid development planning. It has been set up as a sub-group of the Sustainable Energy Interdepartmental working group and includes representatives from DETI, DOE, DRD, Invest NI, NIAUR, NIE and SONI. The sub-group was established in October 2011 and the next meeting has been arranged for 14 September 2012.

ONSHORE RENEWABLE ELECTRICITY STRATEGIC ACTION PLAN

- DETI has developed a draft Onshore Renewable Electricity Action Plan (OREAP) which aims to optimise the amount of renewable electricity generated from onshore renewable sources in order to enhance security of supply, reduce carbon emissions, contribute to the 40% renewable electricity target by 2020 and beyond and develop business and employment opportunities for NI companies.

- The OREAP was subject to a Strategic Environmental Assessment which considered the environmental impacts of increased levels of onshore renewable generation across Northern Ireland. The draft OREAP and associated environmental assessment also acknowledges that this increased development will have an impact on the electrical grid infrastructure which is likely to require significant upgrading over the coming years. It also references the impact of landing offshore renewable energy, which has been identified in the Offshore Renewable Energy Strategic Action Plan, onto the onshore electricity network.

    - An indicative renewable energy mix by 2020 is :-

	2020 estimates from the SONI 2011-2020 capacity statement (baseline data as at September 2010)	Installed Generating Capacity (MW) to meet the 40% (based on data available to SONI at September 2011)	Maximum Installed Generating Capacity by 2020 (based on date available to SONI at September 2011)
Onshore wind	1030	994	1240
Offshore Renewables	803	350	1000
Small Scale Hydro	3	3	3
Solid Biofuels	300	90	90
Landfill Gas	27	27	27
TOTAL	**2163**	**1464**	**2360**

- The draft OREAP, along with the Environmental Report and Non-Technical Summary was issued for public consultation on the 24th October 2011 for a period of 12 weeks. This consultation has now closed and the Department is currently considering the responses received.

- The Department was also obliged to complete a Habitats Regulation Assessment of the Plan in accordance with the EU Habitats Directive. This assessment is currently being completed and the results, along with the consultation responses, will inform the finalisation of the OREAP.

OFF SHORE RENEWABLES

- DETI has been leading cross departmental work to develop offshore renewable energy (wind and tidal) in Northern Ireland waters to contribute to the SEF 40% renewable electricity 2020 target and beyond.

- This work has provided the key strategic framework within which The Crown Estate launched the first Offshore Renewable Energy Leasing Round in Northern Ireland waters on 15th December.

- A single developer is being sought for the 600MW of offshore wind off the South East coast.

- Recognising the current status of tidal technology, The Crown Estate is offering potential leases for small scale arrays up to 10MW as well as larger leases for up to 100MW around Rathlin and Torr Head.

- Expressions of interest have recently been sought by The Crown Estate and I understand that there has been a very positive level of interest.

- Over the next few months, The Crown Estate will continue its assessment process and development rights are likely to be offered by late summer 2012.

- Developers then need to undertake an Environmental Impact Assessment to seek the necessary marine and electricity consents.

- This process will involve further surveys / research over the next couple of years and considerable consultation with stakeholders. If licences are granted, initiation stages for projects could be expected from 2015/16 onwards.

- The Department is currently developing a regulatory regime for Offshore Renewable Energy Installations in Northern Ireland waters, similar to that already in place for installations in GB waters and including issues such as decommissioning, safety zones and navigational rights as well as offshore transmission issues. A policy consultation will issue in due course.

Only if raised

Rathlin oil and gas exploration V Rathlin tidal developments

- There is some potential for the discovery and development of oil and gas resources in NI waters. The Department for Energy and Climate Change (DECC) is responsible for the licensing of oil and gas exploration in all UK waters.

- As part of its most recent Licensing Round, DECC announced in December 2011 the offer of a frontier exploration licence in the North Channel and Rathlin Basins to Providence Resources

- It has not been proven that the offshore Rathlin Basin contains commercial accumulations of oil or gas but, through this licence, Providence will undertake a number of technical studies over the next few years to try and locate any specific exploration targets within the licence area.

- DETI will work with DECC to ensure that our tidal development plans and possible oil and gas opportunities are both taken fully into account for the optimum benefit of Northern Ireland.

ELECTRICITY PRICES

- Significant reduction of 14.1% in domestic electricity tariffs announced by Power NI to take effect from 1st October this year. An average saving of £83 savings per year will come as extremely good news to householders particularly under current economic conditions and as we move into the winter period when electricity demand is greatest.

- Small business customers will also see a similar percentage reduction (between 10.4 and 15.1%, depending on the frequency of their billing); Power NI farming customers will also see a decrease of over 14%; and the Economy 7 (E7) domestic tariff will be subject to a smaller, albeit still a significant, overall reduction of 8.1%.

- Long run trend is for electricity prices in NI to be approx 10% higher than those in GB. The tariff reduction, **at this point in time,** means that the Power NI domestic tariff is now **lower than the GB average**. Also, NI prices are now **amongst the lowest in Europe**. (Lower than Netherlands, Portugal, Austria, Sweden, IRELAND, Belgium, Spain, Italy, Germany and Denmark).

- In terms of the make up of the tariff - there have been decreases across most of the cost areas. In particular, in Wholesale costs (which includes generation and capacity costs) - down a forecasted £51m from October 2011. The main driver is the fall in the cost of carbon, which has lead to more coal being utilised in the market (coal generation is generally cheaper than gas).

- There has been no indication from Airtricity that they will not continue to offer a discount of up to 14% on Power NI tariffs. Worth noting that Budget Energy and Electric Ireland have also entered the domestic electricity supply market, offering discounted tariffs compared to Power NI. Budget energy has indicated its intention to review their prices and an announcement will be made shortly

- The Utility Regulator is keeping tariffs under regular review.

- DETI has no direct influence on electricity prices but has supported the introduction of market innovations such as the Single Electricity Market, mutualisation of energy asstes and the introduction of supply competition to minimise the effect of increases in wholesale fuel costs. The Ultility Regulator has also cancelled some long term generation contracts in recent years and this should act to put downward pressure on electricity prices.

- DETI will continue to co-operate with the Regulator and other stakeholders to minimise energy prices.

NIE Price Control (RP5)

- NIE Transmission and Distribution (NIE T&D) investment proposals submitted to the Utility Regulator for RP5 period (2012-2017)

- Proposed expenditure requirements circa £1.1bn (£776m for "business as usual" capital expenditure, £291m for infrastructure to support development of renewable generation and further interconnection and £40m for pension deficit)

- UR Draft Determination paper allows £314.7m for "business as usual", £257 for operational costs and £22.3m for NIE pensions and deficit repair contribution. Up to £308m ring-fenced for renewable with projects assessed on case-by-case basis

- Impact of RP5 expected to deliver small savings to domestic and small business consumers and small increase for large energy users

- Utility Regulator hosted workshop events during June 2012 in advance of the closing of the consultation on 19th July 2012.

- A final price control determination expected before the end of the year.

GAS PRICES

- Following its autumn review of gas tariffs, Airtricity Gas Supply, formerly Phoenix Supply, announced that there will be no change in gas tariffs from 1st October 2012 for gas customers in the greater Belfast licensed area.

- This announcement follows an 8.5% reduction in Airtricity's gas prices earlier this year which was effective from 1st April 2012. The company previously increased its gas prices by 39.1% from 1 May 2011.

- *firmus energy*, who entered the domestic gas supply market in greater Belfast as a competitor to Airtricity in November 2010, increased gas prices by some 35% from 1 October 2011. The company, however, continues to offer a 10% reduction against Airtricity's tariffs for the first year and 5% in the second year for new customers.

- The gas supply market in Greater Belfast is fully open to competition and all gas customers in this area, including all pre-payment meter customers, can switch suppliers if they wish to do so.

- In the 10 Towns licensed area outside Greater Belfast, *firmus energy* currently has supply exclusivity. The ''large industrial and commercial'' gas market in this area will open to competition in October 2012, and the"domestic and small industrial and commercial" market will open in April 2015.

- *firmus energy* increased gas prices in the 10 Towns by 28.4% for domestic consumers and 30.2% for smaller business customers from 1 October 2011.

- Following its autumn 2012 price review, *firmus energy* has decided that there will be no change in the gas tariffs for the 10 Towns.

GAS NETWORK EXTENSION

- The Department is encouraged by the ongoing work by Phoenix Natural Gas in the Greater Belfast gas licensed area and by *firmus energy* in the 10 Towns licenced area outside Belfast to provide new natural gas network and connect new customers.

- The Department is committed to extending the provision of natural gas to as many customers as possible in Northern Ireland in line with the 2010 Strategic Energy Framework which was approved by the Northern Ireland Executive.

- Extending the provision of natural gas should help to reduce fuel poverty, bring greater fuel choice for consumers, enhance security of energy supply, and help shift dependence on coal and oil for businesses and household heating.

- Natural gas provides an option for businesses and domestic consumers to use a fuel which is cleaner, more efficient, and generally cheaper than oil.

- Natural gas can also contribute to reducing CO2 and other harmful emissions, and provides for businesses to consider generating electricity on-site from a gas fired Combined Heat and Power unit.

- In April 2012, the Department commissioned independent consultants to develop a detailed business case for extending natural gas to further towns in the West and North West, including Dungannon, Cookstown, Magherafelt, Omagh,

Eninniskillen/Derrylin and Strabane, and to new areas in East Down.

- The business case has just been completed and the Department is considering its findings which will facilitate key decisions on gas network extension, particularly in respect of how any new gas networks should be financed.

- Alongside this, the Utility Regulator is considering how best to take forward a competition for new gas licences.

- The process to deliver gas network extension will involve awarding new licence(s); completion of detailed network design by a new licensee; finalisation of planning approvals; and completion of the wayleave process. This means that construction of new gas transmission networks is unlikely to commence before spring 2015, with gas distribution roll-out following thereafter within individual towns.

- The Department considers new natural gas infrastructure to be an investment for the future. New gas pipes also provide the future option for renewable energy sources such as biogas.

- Ultimately, however, further extension of the natural gas network will depend on the availability of sufficient gas loads in respective towns and willingness of a gas company to undertake construction of the new network.

COMPETITION COMMISSION

PROVISIONAL DETERMINATION ON PHOENIX NATURAL GAS PRICE CONTROL

- The Department has noted the Competition Commission's provisional ruling on the 2012-13 price control for Phoenix Natural Gas.

- This is an important determination for both the Northern Ireland gas industry and local gas customers.

- At this stage, the determination is in draft form and the Competition Commission has invited comments on their provisional findings with the aim of finalising their report by 28 September 2012.

- The Department has confidence in the Competition Commission's role as an independent and fair adjudicator on the price control and welcomes their statement that the provisional ruling has been guided by the long-term interests of customers who will benefit from further expansion of the gas network as well as the need for confidence in the regulatory system on the part of investors.

- The Department recognises that this process is not over yet and that careful consideration must be given to Competition Commission's full analysis which was published on 6 August

2012. However, we are sure that, as in any process of this type, there will be lessons to be learned.

Background

1. As part of the 2012-13 price control, the Utility Regulator proposed a reduction in Phoenix Natural Gas (PNG)'s asset value of around £74.4m. This consists of £17.3m of "deferred capex" and £57.1m which is classified as "out-performance'' by PNG.

2. The proposal to reduce "deferred capex" arises from PNG having been granted previous capital allowances for gas projects it has yet to complete or which were completed much later than expected. As PNG receives a regulated return on its investments, this has resulted in customers effectively paying for assets which have not been built. The Utility Regulator's proposal was to remove the value of the assets which have not been built from the PNG "regulated asset base" (RAB). The Regulator's proposal also meant that PNG would have limited incentive to defer capital projects.

3. The proposal to reduce "out-performance" by £57.1 million from the RAB arises because, between 1996 and 2006, PNG overall spent less than the allowances set in regulated price controls for that period. "Out-performance" arose due to PNG being more efficient than expected, e.g. in delivering new gas infrastructure. The Utility Regulator accepted that PNG should be rewarded for this efficiency but feel that, in line with

regulatory practice elsewhere, this reward should only be for a defined period which is generally considered to be 5 years.

4. PNG rejected these proposals and, on 28 March 2012, the Regulator referred this matter to the Competition Commission for decision under Article 15(1) of the Gas Order. The Department had no powers to intervene.

5. Following detailed consideration, the Competition Commission published a summary of their provisional ruling on the PNG price control on 3 August 2012. The full (provisional) determination was published on 6 August and comments have been invited before the Competition Commission report is finalised by 28 September 2012.

6. The provisional ruling found that some adjustment to PNG's RAB in respect of "deferred capex" was reasonable (£13.9 million). However, the ruling stated that, taking account of overall public interest, including drawing a balance between protecting current customers and ensuring ongoing development of the gas industry, the Utility Regulator was not justified in retrospectively altering the total regulatory value for PNG that was included in the 2006/07 price control in respect of "out-performance". As the Utility Regulator had previously given no indication that this could happen, the Competition Commission considered that such action risked damaging investors' confidence in the regulatory system and increasing the cost of debt for PNG.

7. The Competition Commission's provisional decision would, according to preliminary indications, increase average household gas bills by around £2 a year. The Utility Regulator had estimated that its proposals would have reduced bills by £10. The Competition Commission will examine the impact on household bills more closely before finalising their determination.

MOYLE CABLE FAULTS

- During June 2012, a fault occurred on the north cable of the Moyle Interconnector (pole 2) causing it to come off load.

- The Interconnector is now operating on a single cable delivering 250MW capacity. Mutual Energy, who own and operate the cable, have identified that the fault is located offshore and are now focusing on pinpointing the exact location of the fault.

- This latest fault is the latest of four similar cable faults experienced on the Moyle cables since September 2010. The number and the nature of the faults is disappointing and deemed abnormal for underground cables, these consistent faults raise questions on the reliability of part of the cables. However, if the current fault aligns with a previous repair then the company has warranty insurance cover of circa £5m, with the cost of repair options in the region of £8m.

- Mutual Energy's preference is not to continue to repair offshore faults. Instead it has sought agreement from the Utility Regulator to mitigate the impact of such faults whilst examining the cost of replacement options. The Utility Regulator is supportive of this approach.

- Mutual Energy is proceeding on this basis and has entered into negotiations to source a vessel to locate and raise the cable for necessary reconfiguration as a solution in respect of the latest fault.

- The Moyle Interconnector came into service in 2002. Up until this year, the sales of capacity have covered its costs. However, in 2012 it is expected to have a shortfall in its income. This is due to:
    - increased bond payments due to indexation;
    - introduction of a new interconnector in the SEM; and
    - loss of sales due to outages.

- Under the terms of its licence, this shortfall is collected by SONI, via System Support Service charges that then pass it onto Mutual Energy who own the Moyle Interconnector. The amount to be collected in the tariff year 2012/13 is £14.5 million.

ENERGY BILL

- DETI plans to introduce a Bill to improve the sustainability and security of energy in Northern Ireland and to streamline and improve various energy market processes.

- The policy consultation was issued on 19 June and will close on Friday 14 September.

- Energy officials are proposing to hold 4 consultation seminars – one in Lisburn on 31 August; one in Cookstown on 3 September; on in Londonderry on 6 September; and a final event in Belfast on 7 September to facilitate stakeholders.

Energy efficiency measure

- Energy efficiency can help tackle fuel poverty, improve health, reduce energy costs, reduce greenhouse gas emissions, increase the green economy, help improve energy security and make meeting renewables targets easier and less expensive – so it can help with many of the Executive's energy goals.

- A large-scale energy efficiency measure could achieve the step change in energy efficiency in Northern Ireland that is needed.

Feed-in tariff powers for small-scale renewable electricity generation

- DETI Minister's recent statement on the UK's electricity market reform stated that it would see the closure of the main

mechanism for incentivising renewable electricity generation in Northern Ireland, the Northern Ireland Renewables Obligation (NIRO), to new generation (and additional capacity) in 2017.

- This is part of a UK-wide move to new long-term contracts (Feed-In Tariff with Contracts for Difference) the purpose of which is to provide stable financial incentives for investment in all forms of low-carbon electricity generation.

- The closure of the NIRO will also necessitate the introduction of a separate Feed-In Tariff for small scale renewable electricity generation as the Feed-In Tariff with Contracts for Difference will only apply to generation above 5MW.

- This Bill will introduce the powers for the Feed-in Tariff for small scale renewable electricity generation.

- Powers for the wider UK-wide Feed-In Tariff with Contracts for Difference will be taken through Westminster legislation.

Gas storage issues

- Northern Ireland is highly dependent on <u>imported</u> natural gas for power generation, industrial, commercial and domestic energy use.

- There are currently no gas storage facilities in Northern Ireland, however there is increasing interest in the development a gas storage facility in the salt strata under East Antrim.

- DETI proposes to update gas storage provisions to ensure clarification of existing legislative and consenting provisions to ensure they are sufficient to facilitate the construction, operation, and decommissioning of a gas storage facility in Northern Ireland, either on land or under internal waters such as Larne Lough.

Transfer/assignment of electricity licenses

- No existing provision in Electricity Order to enable assignment of licenses which might be required as a consequence of company merger, acquisition or restructuring – provision does exist in Gas Order for such assignments.

- Licenses are the individual property and possession of a legal entity and cannot be bought or sold separately to that legal entity.

- DETI proposes to amend Electricity Order to make provision for assignment of electricity licenses and to seek views on further amendment of Order to replicate additional provision under GB legislation for prior notification to Health and Safety Executive in respect of proposed assignments.

- Amendment of Order will streamline process and reduce costs for electricity companies and Regulator and for consumers who bear the monetary cost.

Duties and obligations of the department and the regulator

- The Department wishes to ensure that its own powers and those of the independent Utility Regulator remain fit for purpose in the light of increasing need to ensure the sustainability of energy in Northern Ireland.

Enforcement provisions

- Current enforcement provisions in the Energy (Northern Ireland) Order 2003 permit the Utility Regulator to issue provisional and final orders to secure compliance with relevant requirements of the Energy Order and to impose financial penalty for breach of these obligations.

- Grounds by which a party aggrieved by the imposition or amount of a penalty or date by which it must be paid can appeal to the High Court are currently limited.

- DETI proposes to amend the Energy Order to extend the jurisdiction of the High Court for a full appeal process.

BACKGROUND

1. The Executive's strategic aim is for a more sustainable energy system in which energy is used as efficiently as possible; where much more of our energy is from renewable sources; and where energy is as competitively priced as possible.

2. Moving away from our dependence on fossil fuels and ensuring that NI has a secure and sustainable energy future must be the key priorities. The Executive's Strategic Energy Framework envisions Northern Ireland's energy future over the years to 2020 with key energy goals of:

   a. building competitive markets,
   b. ensuring security of supply,
   c. enhancing sustainability and
   d. developing our energy infrastructure.

3. In order to pursue these goals, DETI proposes the introduction of new provisions to allow for new sustainable energy measures, additional regulatory measures relating to natural gas and electricity, as well as a number of amendments to existing legislation through a new Energy Bill. Six main issues have been identified for possible inclusion, subject to consultees' views, and these are:

   - an energy efficiency measure;
   - feed-in tariff powers for small-scale renewable electricity installations;
   - gas storage provisions;
   - transfer and assignment of licences;
   - duties and obligations of the Department and the Regulator; and
   - amendment of enforcement provisions in the Energy (Northern Ireland) Order 2003.