To: HOB (DETI HQ) / NDPBs

cc: Mr Sterling
Mr Lewis
Mr Thompson
Mr Cooper
Heads of Divisions, DETI

From: Jeff Partridge

Date: 17 April 2013

SUPPLY RESOLUTION (MAIN ESTIMATES) AND BUDGET BILL DEBATES 2013

ISSUE: To seek briefing material from Divisions / NDPBs for the Supply resolution debate and subsequent Budget Bill debates.

TIMESCALE: Material required by close of play Thursday 25 April 2013.

1. This letter seeks inputs to the debate on the Supply Resolution Main Estimates and Budget Bill at the NI Assembly.

2. The debate can be expected to be wide ranging since questions can be raised on any services covered by the Estimates.

3. The topics covered should focus on the "Main Issues" for your business area, relevant issues raised in previous Budget and Supply debates in the Assembly, any issues raised in AQs, etc, in the past few months, any new issues and any emerging issues in the weeks prior to the debate.

4. Relevance and quality of the briefing are of the essence with careful thought to ensure the right topics are covered (e.g. because they are 'live' issues or are known to arise frequently). It should be borne in mind, though, that the DFP Minister cannot be expected to respond to points relating to specific low profile topics within the responsibility of other departmental Ministers.

5. The briefing should be written from the perspective of the Finance Minister with strong 'Lines to Take'. The 'Lines to Take' should be clear, succinct and in a form which the DFP Minister can find and use easily at short notice. It should also be noted that while under pressure at a given moment <u>anything</u> that is written on a brief can be read out. **Only material that may be disclosed should be incorporated.**

6. In addition, if you had any "good news" stories for 2013-14 that I could use in the Minister's speech, I would be grateful if you could include these in your response.

7. I have attached (where appropriate)briefing that was supplied for the 2012-13 Spring Supplementary Estimates Debate and I would ask you to update this briefing **AND/OR** to provide any new briefing on **Annex A**, where applicable. (Divisions/NDPBs who did not submit any briefing in January 2013 will only receive an Annex A).

Summary of Information Required:

8. Relevance and quality are of the essence. Careful thought needs to be given to the **coverage, content** and **presentation** of Ministerial briefing so as to ensure that:

    - the right topics are covered (eg because they are “live issues” or are known to arise frequently). Generally, the briefing should focus on topical, high profile areas;
    - the brief contains the **right information** to deal with the most likely line of questioning (i.e. not just general background);
    - the brief is worded for use by the DFP Minister;
    - technicalities and ‘housekeeping’ points should be avoided;
    - it should be possible to relate figures quoted in the speech to the Estimates provision;
    - while the focus is on resources, reference should be made to the cash requirement, where appropriate.
    - **'Lines to take'** are the key elements of the briefing. They should be clear, succinct and in a form which the Minister can find and use easily at short notice and should take the form of one or more “snappy” sentences.
    - If **'background notes'** are essential, they should be kept very short and must come after 'lines to take' since the Minister does not have time during the debate to wade through supplementary information;
    - Tables should not be included in the briefing as the Minister cannot explain a table to the House;
    - Acronyms should be avoided or else spelt out fully, where used;
    - Does the briefing make sense when read out loud?

The briefing should be in the usual format of 1 ½ line spacing in Arial Size 14 with 'Point raised by:', 'Question:', 'Topic Name:', 'Line to Take:' And 'Background Note' (if necessary) – a template is attached..

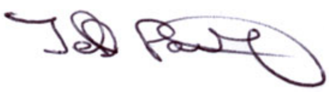
*- The lines to take and background notes should be on a single **A4 page** with clear concise headings/sub-headings and **1½ spacing**. The type fonts should be **Arial** and **size 14**. Care should be taken to ensure that there is a clear division between topics i.e. **no more than one topic per page, if possible**.*

Updating Speech and Briefing Material

9. The DFP Minister requires briefing on topics, which will probably be raised because of their current status or political interest. Likely issues may also be identified from recent Assembly Members' correspondence, Hansard records from previous debates and media coverage. If issues are raised in these areas, Finance Branch will request supplementary briefing or updates to material. These areas should be kept under review by divisions/NDPBs right up to the submission deadline and through the debates. Businesses must respond urgently to such requests.

10. **To enable Finance Branch to collate returns and obtain the necessary ministerial clearance, updates to existing and new briefing must be sent by email to financebranch@detini.gov.uk no later than by close on Thursday 25 April 2013. Nil returns are also required, where appropriate.**

11. Happy to discuss any issues, which may require clarification.



JEFF PARTRIDGE
Ext 29368

RAISED BY: ENERGY

TOPIC: CARBON PRICE FLOOR – EXEMPTION FROM TAX FOR NI GENERATORS

LINES TO TAKE:

- The Carbon Price Floor was designed to give greater investment certainty in low carbon generation for the electricity market in GB. Analysis indicates it will have the opposite effect in Northern Ireland. This is due to the different market structure in Northern Ireland, which shares a common wholesale electricity market with the Irish Republic.

- The tax will put Northern Ireland based generators at a competitive disadvantage to their Irish competitors, affecting investment in new plant and reducing security of supply for Northern Ireland.

- My colleague, Arlene Foster and I have engaged extensively with HM Treasury regarding this matter. We have secured commitment from the Chancellor in his Autumn Statement announcement that an exemption will be applied in Northern Ireland subject to confirmation from the European Commission that there are no state aid issues.

- Work to initiate engagement with the Commission has been completed and a detailed paper setting out the case for derogation prepared.

BACKGROUND

1. The UK government will introduce the Carbon Floor Price (CPF) from April 2013 as part of its Electricity Market Reform programme that will penalise fossil fuel generation to promote low carbon generation and improve security of supply in GB.

2. The tax was designed to create investment certainty to meet the UK's long-term decarbonisation goals. It meets the specific needs of the GB energy market due to impending closure of a number of older power plants and incentivising the programme for new nuclear power.

3. The tax will have an adverse impact on generators in Northern Ireland, and consumers on the island. The cost will have to be bid into the cross border Single Electricity Market, making Northern Ireland generators uncompetitive with power plants operating in the Irish Republic.

4. The Chancellor's announcement of commitment to exempt Northern Ireland generators from the tax is welcome but remains subject to EU Commission consideration of any state aid issue. Treasury officials have confirmed that as things current stand, the tax will come into effect in Northern Ireland from April 2013 in parallel with any ongoing discussions with the Commission.

5. The case for exemption is robust and has been developed with the support of a range of stakeholders including the Northern Ireland generators, the Single Electricity Market Operator (SEMO) and CBI.

Energy Intensive Industry Support

6. The UK Government has taken action to help Energy Intensive Industries remain competitive as a consequence of the higher energy costs associated with the CPF. The Chancellor announced in his 2011 Autumn Statement a £250m package of measures for industry to reduce the transitional impacts of energy and climate change policies including the Carbon Price Floor for those energy-intensive industries whose international competitiveness is most affected by these policies.

7. DETI sponsored a meeting between UK Government's Department of Business, Innovation and Skills (BIS) and CBI NI in April as part of the roll out of the £250m package by BIS and its call for evidence to identify the companies in GB and NI to be supported.

8. Exemption from Carbon Price Floor will negate any requirement for NI Energy Intensive Industries to seek compensation.

RAISED BY: ENERGY

TOPIC: PHOENIX NATURAL GAS – PRICE CONTROL 2012-13

LINES TO TAKE:

- I am aware of the publication in December 2012 of the Competition Commission's Final Determination on the price control for Phoenix Natural Gas.

- I recognise that this has important implications for the Northern Ireland gas industry and local energy consumers.

- I note that the Competition Commission's ruling has taken into account the fact that gas distribution is not yet a fully developed and mature industry in Northern Ireland.

- I also note that the Competition Commission's conclusions take account of the interests of current and future consumers, appropriate incentives and returns to regulated companies, and the need to encourage further investment and development in the gas network in Northern Ireland.

- I note the importance of regulatory certainty in energy markets which will support further growth of the natural gas industry in Northern Ireland.

- The Northern Ireland Executive has approved provision of government subvention up to a maximum of £32.5 million to facilitate provision of natural gas to main towns in the West and North-West of Northern Ireland.

- Further development of the natural gas industry in Northern Ireland will not only help to tackle fuel poverty but will also help to improve companies' competitiveness and reduce energy costs for many public sector bodies at a time when finances are currently, and likely to continue to be, under significant pressure.

BACKGROUND

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

2. The proposal to reduce "deferred capex" arose from PNG having been granted previous capital allowances for gas projects it had yet to complete or which were completed much later than expected. The proposal to reduce "out-performance" by £57.1 million from the company's regulated asset base arose 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.

3. 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. DETI had no powers to intervene.

4. The final Competition Commission determination was published on 19 December 2012. In its final determination, the Commission rejected the Utility Regulator's proposal to reduce the PNG total regulated value by £74.4 million. The Commission believed that some proposals by the Regulator to reduce the PNG regulatory asset base should not be accepted because the current arrangements are in the public interest. However, the Competition Commission considered that a £13.6 million adjustment relating to deferred capital expenditure and the funding of business rates expenses was warranted, but proposed no change to the PNG rate of return of 7.5%.

5. The Utility Regulator's price control proposals would have seen a small decrease in average household gas prices of around £1 per year, while the Competition Commission's final determination will result in an average increase in bills of around £11 per year. PNG's proposals would have resulted in increases of around £24 per year for household gas bills.

6. DETI did not seek to take sides in this matter, and the Department's submissions to the Competition Commission only provided clarification on issues such as gas network extension and importance of the final decision to benefit the gas industry and consumers.

RAISED BY: ENERGY

TOPIC: NATURAL GAS - ROLL OUT OF GAS

LINES TO TAKE:

- The 2010 DETI Strategic Energy Framework, which was approved by the NI Executive, recognises the scope for further extension of the natural gas network in Northern Ireland where it is economic to do so.

- Gas network extension will provide new energy infrastructure which will help lower energy costs for consumers, tackle fuel poverty, and reduce green house gas emissions.

- It will also support the competitiveness of existing businesses and create both short and long-term employment opportunities in the construction, engineering, and energy sectors.

- The NI Executive considered gas extension at its meeting on 10th January 2013 and, in support of the project, approved provision of government subvention up to a maximum of £32.5 million to facilitate provision of natural gas to the main towns in the West and North-West of Northern Ireland.

- DETI will continue to work with the Utility Regulator, who is planning to launch a public consultation exercise in early 2013 on the proposed method for conducting a competition for new gas licence(s) in the West and North West area.

- DETI will also work with the Utility Regulator in relation to arrangements for taking gas to towns in East Down, which it has been agreed will not be provided with Government subvention.

- The award of new licence(s) for towns in the West and North-West is anticipated around the end of 2013.

- Towns under consideration include Dungannon, Cookstown, Magherafelt, Coalisland, Omagh, Enniskillen/Derrylin and Strabane in the West/North West; and Hillsborough, Ballynahinch, Downpatrick, Crossgar and Saintfield in County Down.

- The project is dependent on sufficient gas loads in proposed new licence areas and the willingness of a gas company to construct and operate the new network.

- DETI, in consultation with the Strategic Investment Board, DFP, and HM Treasury has investigated the potential for the UK Loan Guarantee Scheme to assist with the gas extension proposals. The Guarantee scheme relates to financing rather than direct funding and it is too early be confirm if the scheme could be of assistance to a potential licensee.

BACKGROUND

1. DETI completed an Outline Business Case (OBC) on gas network extension to further towns in the North and West, and to East Down, in September 2012 which was considered by the Department's Casework Committee and DFP Supply. The NI Executive subsequently considered gas network extension on 10 January 2013 and approved provision of government subvention up to a maximum of £32.5 million to facilitate provision of natural gas to main towns in the West and North-West of Northern Ireland – overall, this project is expected to cost in the region of £200 million.

2. Due to lower projected gas volumes, the larger gas transmission pipelines will not be required in East Down and it has been agreed that government subvention should not provided for this area but instead that further consideration should be given to a number of alternative financing options for the new distribution network.

3. In parallel with DETI's work on gas network extension, the Utility Regulator issued a discussion paper on options for the design of a competition for new gas licences in 2012. The Regulator is now preparing a further licence consultation to issue in early-2013. It is anticipated that the new gas licences will be awarded for the West and North West around the end of 2013.

4. Following the award of new gas licences, the process to deliver gas network extension will involve completion of detailed network design by a new licensee; finalisation of planning approvals; and

completion of the wayleave process. It is anticipated that construction of new gas transmission networks for the West should commence during 2015, with gas distribution roll-out following thereafter within individual towns.

5. DETI also needs to consider any State Aid issues for the project, to avoid any breach of EU rules.

6. The UK National Loan Guarantee Scheme was launched by the UK Government on 20th March 2012, and HM Treasury advice notes that the scheme can help businesses access cheaper finance by reducing the cost of loans under the scheme. The scheme is operated by Infrastructure UK (part of HM Treasury), and there is a charge for the provision of the Guarantee, which would be on commercial terms. The scheme would not reduce the level of subvention, rather it could result in provision of a lower financing rate for the licensee charged with taking the project forward.

From: McCutcheon, Joanne
To: Dolaghan, Paul; Clydesdale, Alison
Cc: Hutchinson, Peter
Subject: FW: Energy Main Estimates Briefing for Supply Resolution Debate
Date: 25 April 2013 10:06:10
Attachments: 2013-14 Main Estimates Briefing Commissioning Letter - 17 April 2013.DOC
Main Estimates Briefing Annex A.DOC
Energy Attachment for Main Briefing.docx
image005.jpg
image006.png
Importance: High

Paul
Have added Renewable Heat to Alison's renewable electricity and have altered headings slightly – hope this is ok with you Alison.
Joanne

From: Clydesdale, Alison
Sent: 24 April 2013 21:27
To: Dolaghan, Paul
Cc: McCutcheon, Joanne
Subject: FW: Energy Main Estimates Briefing for Supply Resolution Debate
Importance: High

Sorry Paul – 2nd attachment now completed.

Joanne might want to add a bullet point on progress against the heat target to the renewable targets brief just so that it's all on one page – if not it would need changed to renewable electricity instead of energy.

Alison

From: Dolaghan, Paul
Sent: 24 April 2013 18:03
To: Clydesdale, Alison; McCutcheon, Joanne
Subject: FW: Energy Main Estimates Briefing for Supply Resolution Debate

Alison, Joanne,

Re: my e-mail below – can I please have your returns **by 11.00am tomorrow (Thursday)** please.

Thanks

Paul.

From: Dolaghan, Paul
Sent: 18 April 2013 17:22
To: Frazer, Fred; Stevenson, Bill; Clydesdale, Alison; McCutcheon, Joanne
Cc: Hutchinson, Peter; Forsythe, Nicola
Subject: FW: Energy Main Estimates Briefing for Supply Resolution Debate

All,

I have spoken with Fiona regarding the above request and she has indicated briefing should be provided on the following topics:

Gas Network Extension (Fred)
Security of Supply (Fred)
Large Energy Users Report (Bill)
RP5 (Bill)
Renewables (Alison/Joanne)

Please pay particular attention to the 'Summary of Information Required' section at para 8 of Jeff Partridge's note.

I would be most grateful if you could let me have your respective briefs **by close on Wednesday 24th April**.

Many thanks

Paul.

From: Martinos, Aideen
Sent: 17 April 2013 14:22
To: Hepper, Fiona
Cc: Dolaghan, Paul; Thompson, Sandra; McBriar, Trevor; Martin, Olivia; 'Stewart, Susan'; Stevenson, Bill; Chowney, Alan; Frazer, Fred; McAllister, Irene; Neth_Energy; Brankin, Bernie; Partridge, Jeff; Donaldson, Linda (DETI)
Subject: Energy Main Estimates Briefing for Supply Resolution Debate

Aideen Martinos
Finance Branch
Department of Enterprise, Trade & Investment
Netherleigh
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TOPIC: RENEWABLE ENERGY

Lines to Take:

1. DETI is committed to developing the renewable energy 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.

2. The Strategic Energy Framework includes targets of 40% renewable electricity and 10% renewable heat by 2020. These are stretching and challenging targets. The level of renewable electricity consumption is currently 14% and the level of renewable heat demand is estimated to be just over 2%.

3. The main mechanisms to incentivise the deployment of renewable energy are the Northern Ireland Renewables Obligation (NIRO) and the Renewable Heat Incentive (RHI). Both schemes provide investors in renewable technologies with long term financial support for the lifetime of technology. In addition, DETI has provided grant support for domestic consumers wishing to install renewable heat technologies – to date £1.38m of support has been committed for this sector alone.

4. There are changes expected to both schemes in the near future with the NIRO closing in 2017 and being replaced with a feed-in-tariff system, and the RHI being expanded shortly to support more innovative technologies and the domestic sector. DETI will consult on all major policy decisions before implementation.

Background Note:

- Northern Ireland’s Strategic Energy Framework has set a target of 40% electricity consumption from renewable sources and 10% renewable heat by 2020. The current figure of renewable electricity consumption in Northern Ireland stands at approximately 14%. Renewable electricity generation is incentivised through the Northern Ireland Renewables Obligation (NIRO) which places a legal requirement on all Northern Ireland licensed electricity suppliers to account for a specified amount of generation from renewable sources. Evidence of compliance with the Obligation is in the form of Renewables Obligation Certificates (ROCs) which are issued to electricity generators for each megawatt hour of eligible generation. The NIRO covers a wide range of technologies from microgeneration through to large scale.

- Future developments will see the closure of the NIRO to new accreditations from 1 April 2017 as part of UK-wide Electricity Market Reform. Large scale renewables (above 5MW) will be eligible for a Feed-In Tariff with Contracts for Difference and small sale generation will be supported under a Feed-In Tariff similar to that already operating in Great Britain.

- To support the uptake of renewable heat to a level of 10% by 2020 the main policy driver is the Northern Ireland Renewable Heat Incentive (RHI). The RHI provides ongoing financial support to those generating and utilising renewable heat in the non-domestic sector. Payments under this scheme are for the lifetime of the technology (up to a maximum of 20 years) and are dependent on the size of and type of installed technology with payments calculated on the metered heat output. Further information can be found at www.nidirect.gov.uk/rhi. DETI is currently finalising proposals for a second phase of the scheme that will consider the introduction of tariffs for more innovative technologies such as deep geothermal, air source heat pumps and combined heat and power. The second phase of the RHI will also consider extending the scheme to the domestic market.

- As the RHI does not currently apply to domestic customers, DETI launched the Renewable Heat Premium Payment (RHPP) scheme in May 2012 for householders wishing to install a renewable heat technology. The RHPP is an interim measure (before a domestic RHI) and those availing of the RHPP will remain eligible to apply for support under the domestic RHI when it is in place. To date, the scheme has received over 930 applications with DETI offering grant support of £1.38m equating to an investment in this sector of £4.4m.

Issue: Briefing for telephone call with Shaun Kingsberry, CEO of the Green Investment Bank. Mr Kingsberry wishes to discuss potential policy surrounding biomass CHP incentives in light of a proposed investment in Northern Ireland

Timing: **Desk Immediate – the call is scheduled to take place at 6pm on Tuesday 26th June.**

FOI Status: This briefing would not be discloseable on the grounds of policy development.

Recommendation: That you note the attached briefing. Lines to take are attached at **Annex A**.

Background

1. The Green Investment Bank (GIB) is considering an investment in a potential renewable energy project in Northern Ireland. The proposed project is to build a dedicated biomass combined heat and power (CHP) system at Lisahally, Londonderry.

2. It is understood that the project has received planning permission and pre-accreditation under the NIRO through Ofgem. GIB is now in final stages of assessing the provision of finance for the project. The proposed plant would be one of, if not the, largest single renewable installation in Northern Ireland if it goes ahead and would contribute significantly to renewable electricity and renewable heat targets.

Interaction between the NIRO and the RHI

3. The primary mechanism for incentivising CHP is currently the NIRO. As things stand, the type of system proposed would receive 2 ROCs per MWh under the NIRO. This ROC level is made up of 1.5 ROCs for the dedicated biomass

element and an 'uplift' of 0.5 ROCs as the system is good quality CHP (the site has already attained the required CHPQA certificate).

4. However, you will be aware from previous submissions, post 1st October 2015 the 0.5 ROC uplift is being withdrawn. This position is consistent with GB insofar that DECC intend to withdraw the uplift also; however they will do so earlier on 1st April 2015. DETI has already allowed an additional 6 month grace period for investors.

5. The reason for the withdrawal is that CHP installations will shortly be incentivised via the RHI as well as the RO. DECC has proposed that good quality CHP systems will receive a dedicated ROC level for the renewable electricity generated and a RHI tariff for the renewable heat used. Post 1st April 2015, new systems in GB will therefore receive 1.5 ROCs plus the proposed RHI tariff of 4.1 pence per kWhr.

DETI Proposals

6. It is planned that a submission will be with your office by close on Wednesday (26th June) regarding a public consultation on the second phase of the RHI. This consultation will deal with a number of issues (domestic RHI, new technologies etc) including proposed support and arrangements for CHP systems. Given the withdrawal of 'uplift' for CHP under the NIRO, officials in Energy Division have been assessing how CHP should be incentivised post 1st October 2015.

7. Firstly, DETI proposes to consult on two tariffs for CHP. For new CHP systems a tariff of 3.5 pence per kWhr would be available, this would be provided for the renewable heat output whilst 1.5 ROCs per MWh would be available for the renewable electricity generated. A lower tariff of 1.7 pence per kWhr would be made available for existing fossil fuel CHP systems converting to renewable CHP. This tariff is lower given the reduced capital costs involved in conversion rather than new-build. The converted plant could also avail of ROCs. **These figures are not yet in the public domain.**

8. It is expected that these tariffs would be in place in advance of 1st October 2015 (before the ROC uplift is withdrawn). New systems accredited before that date would have a choice of which incentive mechanism to avail of (2 ROCs or 1.5 ROCs plus RHI).

9. Further to this, the consultation will propose that systems accredited after 1st October 2015 will retain a level of choice providing they have already attained pre-accreditation with Ofgem and are in receipt of a certificate from CHPQA demonstrating that the plant is good quality CHP. The choice these systems will have will be 1.9 ROCs or 1.5 ROCs plus RHI. Post 1st October 2015 any systems that are accredited without having received pre-accreditation or CHPQA in advance of 1st October 2015 would not have a choice.

10. This option is proposed as it will given potential developers greater certainty regarding what incentives they might be eligible for and gives choice for new systems that may have begun the build process before these proposals crystallized. This is necessary given the long build time for these projects.

11. It is this proposal, to allow systems that have attained pre-accreditation and CHPQA status before 1st October with flexibility in regards being incentivised under the NIRO or the RHI, that GIB are most interested.

Telephone call with Shaun Kingsberry

12. GIB is in the process of assessing support for a potential dedicated biomass good quality CHP project in Northern Ireland. It is expected that this system could be accredited as early as April/May 2015 however there is a risk that delays in the build process would mean accreditation after 1st October 2015. Mr Kingsberry, Chief Executive of GIB, is therefore interested to learn more about how this system could be incentivised.

13. Michael Harris and I held a teleconference with GIB on Friday, 21st June, where we discussed these proposals and sought to give clarity on these issues. We did, however, stress that these proposals would be subject to Ministerial

approval; public consultation; Assembly legislative processes and EU State Aid consideration.

Briefing

14. Lines to take are attached at **Annex A.** The details for the telephone call are as follows;

- Dial in number: Irrelevant information redacted by the RHI Inquiry
- Participant code: Irrelevant information redacted by the RHI Inquiry

15. If further briefing or clarification is required I am happy to provide.

Peter Hutchinson
Renewable Heat Branch
Ext 29532

Cc: Fiona Hepper (o/r)
Joanne McCutcheon
Alison Clydesdale
Michael Harris
Glynis Aiken

Annex A

Lines to take

- Glad to be able to take the call and provide some clarity on the issues surrounding support for biomass CHP. Pleased that my officials have also been providing information and hope that this has been helpful.

- Firstly, DETI is very supportive of new renewable energy projects and has been active in the incentivisation of such projects via the NIRO and the RHI. It is important that new projects are developed and supported; I was therefore pleased to learn of the Green Investment's Bank intention to support a scheme in Northern Ireland.

- In terms of biomass CHP, the current situation is quite clear, systems accredited before 1st October would be eligible to apply for 2 ROCs per MWh. It is expected that following the introduction of a RHI tariff for CHP that there will be a choice for systems to receive this support (and a lower ROC level) instead of the 2 ROCs but this will be a choice for the owners of the system.

- To provide some flexibility and certainty for potential investors, I will be proposing that after 1st October 2015, any generating station that has received pre-accreditation with Ofgem under the NIRO and has attained CHPQA status in advance of 1st October 2015 will also have a choice as to which incentive mechanism to avail of. Post 1st October 2015 the choice will be 1.9 ROCs per MWh or 1.5 ROCs plus RHI.

- I believe that this proposal provides a much-needed choice for potential developers and is equitable given the fact that the build process for these plans can begin up to 2 years before accreditation. This proposal therefore gives developers a level of control over how they will be incentivised – providing they are either accredited or pre-accredited under the NIRO in advance of the 1st October 2015. I would expect this proposal to be generally welcomed given that it gives potential investors greater choice and confidence to go ahead with projects.

- These proposals are, of course, subject to public consultation; Assembly scrutiny and consideration of the EU Commission under State Aid rules. I therefore would not wish to pre-empt these processes by giving any greater assurances than I already have done.

Renewable Heat Input

DETI launched the NI Renewable Heat Incentive (RHI) in November 2012; the RHI mechanism provides long term financial incentives for businesses wishing to install renewable heat technologies such as biomass, ground source heat pumps, solar thermal etc. The overarching objective of the RHI is to support the attainment of a level of 10% renewable heat by 2020 against a 2010 baseline position of 1.7%. The development of this sector can also have real benefits in terms of increased energy security, a reduction of CO_2 emissions and opportunities for 'green jobs'.

The RHI tariffs are designed to cover all the additional costs involved in switching to renewable heat, in addition a rate of return of 12% is applied to make the tariffs more attractive towards investors. The scheme is administered by Ofgem and to date (31/7/13) they have received 33 applications and 19 systems have received full accreditation. The combined capacity of the applications is in the order of 6.2 MW. The RHI presents a real opportunity for businesses to move away from conventional fossil fuels and enjoy the many benefits of renewable heating with an **added incentive of significantly reducing their heating bills by receiving quarterly payments for the lifetime of the technology.**

DETI's support for the domestic market has so far been limited to the Renewable Heat Premium Payment (RHPP) scheme that offers grants to homeowners installing renewable heating – however this is changing with the development of Phase 2 of the RHI. The RHPP has been a useful 'primer' for the renewable heat industry and has seen significant interest with 1067 applications, relating to £1.6m of support offered and an investment in this sector of £5.2m. The capacity of the installed technologies in the domestic sector is 7.5 MW.

DETI is currently consulting on expanding the scheme to consider additional technologies such as large biomass, biomass and bioliquid CHP, deep geothermal and air source heat pumps. The proposals on the second phase of the scheme also include the introduction of a domestic and consideration of an uplift tariff for district heating schemes. The implementation of Phase 2 of the RHI will further support the development of this market and ensure that renewable heating becomes a viable option for all consumers, both domestic and non-domestic, considering how best to manage or reduce their energy costs.

Lines to take

Positive lines

- 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 baseline level of renewable heat is around 1.7%.

- 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'.

- The RHI is an opportunity for businesses to switch to renewable heating technologies and significantly reduce their ongoing fuel costs via the incentive payments available. Already 33 applications have been made and 19 systems have received accreditation by Ofgem and are receiving payments.

- The Renewable Heat Premium Payment scheme was launched on 24 May 2012 and provides grant assistance for domestic customers wishing to install renewable heating technologies. The scheme has attracted a high level of interest and to date there have been 1067 applications. DETI has committed £1.6m of funding. This grant funding represents nearly £5.2m of investment in this sector.

- Over the past 12 months DETI has supported new renewable heating capacity of nearly 14 MW. Much more needs to be done to reach the targets set, however DETI is committed to this sector and sees the RHI mechanism as an opportunity for businesses and domestic customers to switch to innovative technologies and enjoy lower heating bills as a result.

- DETI is currently consulting on expanding the commercial RHI and introducing a domestic RHI; these proposals will support the development of this sector and ensure that renewable heating becomes part of the mainstream energy mix.

Defensive Lines

- The RHI was introduced later in Northern Ireland compared to GB as the energy market in Northern Ireland is very different and therefore separate analysis, consultation and legislation was required. The tariffs for the NI RHI are therefore necessarily different to GB and reflect the high dependence on oil as a heating fuel in Northern Ireland.

- I am conscious that by using an oil counterfactual, tariffs tend to be lower than in GB, this reflects the fact that the cost difference between oil and renewables is less than between gas and renewables – GB require higher tariffs to move consumers away from gas. I am confident that the tariffs set for NI are appropriate and represent a reasonable return on the investment. Setting tariffs against a gas counterfactual would create over-generous tariffs and deliver less renewable heat against the set budgets. Indeed the financial benefits for consumers switching to renewables in NI will be similar to those experienced in GB when you factor in both the RHI payments and the ongoing fuel savings (which are greater in NI).