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**Subject:** NI RHI Phase 2 - Policy Review templates  
**Date:** 25 March 2015 15:58:00  
**Attachments:** [Non domestic phase 2 policy review template - Other issues.DOCX](#)  
[Non domestic phase 2 policy review template - cost control.DOCX](#)  
[Non domestic phase 2 policy review template - Air Quality Standards.DOCX](#)

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Atika

My previous email from 26 February refers. I am now attaching 3 further policy review templates for initial Ofgem comment. You will note that under "cost control" future tariff reductions are being considered for the Regulations as a budgetary control measure.

In addition to these additional templates we are also looking at biomass sustainability although we have not completed a template yet pending a better understanding of how the GB system will operate. Our leaning at this point is towards adopting similar controls for the NI RHI.

We would welcome your initial consideration/views on these additional proposals.

Regards

Seamus

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## PROPOSAL OTHER ISSUES

### RATIONALE

There are number of other minor changes proposed in the consultation:-

**Dealing with annual inflationary adjustments** – Each year the tariffs are adjusted in line with the Retail Price Index (RPI) with the revised tariffs applying to existing accreditations as well as new installations This adjustment resulted in tariffs increasing by 3.1% in April 2013. The NI RHI Regulations currently specify that tariffs are rounded to the nearest tenth of a penny; this fact resulted in the smaller tariffs for larger technologies not being affected by the RPI adjustment. DETI consider that this could mean these both to the nearest tenth of the penny and the nearest twentieth of a penny and the tariff is adjusted to whichever is the greater value. In practice, this will have no impact on the tariffs for smaller technologies but will ensure larger technologies receive an inflationary rise. This proposal would have resulted in a large biomass tariff of 1.55 pence and a larger GSHP tariff of 1.34 pence.

**Defining an installation** – DETI proposes to revise the definition of an ‘installation’, in line with DECC, so a more pragmatic approach can be taken in the determination of what constitutes an installation. This is intended to remove the potential for owners replacing functioning auxiliary elements of technologies just in order to claim the RHI.

**Process within a building** – The NI RHI Regulations state that the heat generated by a renewable source for heating a space; heating liquid; or for carrying out a process must be used within a building. The building must be permanent and fully enclosed. DETI recognise that this leads to difficulty in accrediting some processes that cannot be carried out within a fully enclosed building i.e. drying of crops. DETI is therefore considering revising the Regulations to state that heat for carrying out certain processes (such as drying) does not have to be used within a building; this requirement would remain in regards heating a space or liquid.

**Allowing relocation of renewable heat plants** – Currently only ‘new’ installations are deemed eligible under the RHI, therefore second hand equipment is not allowed nor can a technology be accredited twice in two different locations. DETI has considered this issue and proposes to allow accredited systems to be relocated and remain eligible for support, providing it meets all other eligibility criteria at the new location. This should reduce the risk involved in projects by providing certainty that if a site can no longer use the accredited technology it can be resold or relocated and remain eligible for the ongoing support. The total length of time a single technology is incentivised will not exceed 20 years. Second hand technologies, which have not previously been accredited under the RHI, remain ineligible.

**Clarification on the use of ground water for GSHPs** – Currently the NI RHI Regulations specify that GSHPs must source their heat from surface water only. This will be revised to enable heat pumps to source their heat from both surface and ground water.

### CONSULTATION RESPONSES

- General welcome for the proposals.
- Biomass Energy welcomed the proposal to redefine processes to include the drying of

crops etc.

- Allowing the relocation of an accredited installation also welcomed highlighting that this should help encourage investment in renewable technologies.
- GSHO Assoc agreed the proposal for Ground Source Heat Pumps indicating that they are in the process of writing an “open loop” standard for pumps using ground or surface water.

## DISCUSSION

- Proposal to amend the inflationary calculation process will ensure a more equitable inflationary rise.
- Adoption of the DECC definition of an “installation” is a sensible position to take.
- There is a clear need now identified to facilitate the use of heat outside a building such as for drying processes.
- Allowing for the relocation of accredited systems providing that all eligibility criteria is still met will help to reduce risk in projects where a site change is required.
- Extending the eligible heat source for GSHP’s to ground water will help to encourage uptake of this technology.

## Ofgem COMMENT

### RECOMMENDATION To implement the proposed changes.

#### LEGISLATIVE CHANGES NEEDED

Amendment required to the following:-

Part 5 regulation 36 7 (b) amended to reflect the revised method of RPI inflationary calculation.

Part 2 [need to consider appropriate wording to define an installation as per DECC]

[need to review relevant references to heat usage and amend accordingly]

[need to amend relevant references to relocation of installations and update accordingly]

Part 2 chapter 2 regulation 8 (a) add “ground liquid”

Final policy agreed

Signed:

Date:

## PROPOSAL COST CONTROL

### RATIONALE

Given the introduction of tariffs for larger systems and the need to maintain confidence and consistency in the scheme DETI is proposing to introduce cost control measures that would ensure budgetary levels wouldn't be breached and to remove the need for emergency reviews or reductions in tariffs at short notice. DECC has introduced a system of tariff degression in GB whereby tariffs will automatically reduce when deployment levels reach set trigger points. DETI expect to introduce similar measures in the future but in the interim it is proposed that a simpler system is put in place.

The RHI is different in nature to the NIRO in that there is a finite budget for new installations and these budget limits cannot be breached. Whilst tariffs are designed to ensure that the budget is adhered to there is always a risk that renewable heat technologies might be deployed in greater numbers than what is forecast and payments exceed expectations. The risk of this increases as tariffs become available for larger technologies such as biomass over 1MW, biomass/bioliquids CHP and deep geothermal. Therefore DETI must retain the right to suspend the scheme if budget limits could be breached; however this will only happen at a last resort and, at this stage, is not envisioned to happen

In order to ensure confidence in the scheme continues DETI proposes to introduce a number of trigger points that will provide forewarning to potential applicants that the committed budget is nearing the set limit. The trigger points are set out in summary as follows, (detail in the consultation document).

Trigger 1 **50%** of annual budget committed – DETI will make public announcement on committed budget.

Trigger 2 **60%** of annual budget committed – DETI will make an announcement on committed budget and advise that the domestic RHI may need to close if next budget trigger point is reached.

Trigger 3 **70%** of annual budget committed – DETI will make an announcement on committed budget and begin procedures to close the RHI for the financial year.

Trigger 4 **80%** of annual budget committed – DETI will make public announcement on committed budget and formally advise administrator to prepare for closure.

Trigger 5 **90%** of annual budget committed – DETI will make a public announcement and begin actions to close the scheme for the financial year.

### CONSULTATION RESPONSES

- Trigger method of budget management could be viewed as a disincentive and cause further uncertainty in the market.
- DETI would need to clarify if any suspension of the scheme would impact only on new applications and not existing accreditations.
- Good clear advance warning with guidance and parameters would be needed for any cost control measures.

**DISCUSSION**

- The proposed tripper points are too proscriptive therefore DETI should have the flexibility and control to restrict/close the scheme to new applicants at any given point to help manage the budget.
- This needs to be provided for in the Regulations.
- On the wider issue of affordability/future tariff levels there is a lack of clarity over RHI funding beyond March 2015.
- Consideration should be given to plan for reduced tariffs now as part of the phase 2 review.
- The most popular tariff, (6.3 pence biomass), should be reduced at different intervals.

**Ofgem COMMENT**

**RECOMMENDATION To include tariff reduction for biomass in April 2017 and April 2018. The level of reduction to be determined,(probably looks like about 33% reduction on each occasion).**

**LEGISLATIVE CHANGES NEEDED**

Need to consider further before drafting.

Final policy agreed

Signed:

Date:

## **PROPOSAL AIR QUALITY STANDARDS**

### **RATIONALE**

DECC has recently introduced air quality standards for the RHI in England, Scotland and Wales and propose to introduce Regulations in due course to underpin these new standards. The intention of these new standards is to limit the pollutants associated with biomass heating and will apply to biomass installations smaller than 20 MWth. The maximum permitted emission limits will be 30 grams per gigajoule (g/GJ) net thermal input for particulate matter (PM) and 150 g/gj for NOx. These standards would apply to all new installations commissioned after the date the Regulations come into effect with applicants having to provide a certificate demonstrating that their installation has been tested and met these standards. Once installations are accredited they would not be expected to comply with any further changes to emissions limits.

DETI welcomed views on the issue of air quality standards; the limits set under the GB RHI and the understand the impact of implementing the standards proposed in GB both in terms of air quality and the deployment of biomass. The RHI is designed to achieve a level of 10% renewable heat by 2020 and it is expected that a significant proportion of that target will be met through biomass heating. It is therefore imperative that the impact of increased levels of biomass heating on air quality standards is understood and, if necessary, safeguards are put into place. It is also important that air quality standards set by the EU are adhered to. It is not DETI's intention for the RHI to unintentionally impact upon air quality standards, therefore, the issue of emission limits for biomass installations must be carefully considered.

### **CONSULTATION RESPONSES**

A range of comments were received

- ✓ Concern about the impact on the biomass industry and suggestion that proposal be postponed until the scientific basis is clear and boiler manufacturers have time to adjust their technology.
- ✓ Introduction should be longer term and phased.
- ✓ Under UK air quality requirements biomass plants of 500MW and below might not be eligible for RHI support. DECC is aware and plans to correct the error in GB but DETI would need to regulate to avoid this issue.
- ✓ Due to the rise of biomass contribution to the heat sector the impact on air quality and emission limits should be set and monitored.
- ✓ Biomass streams are different within Northern Ireland and GB so one size doesn't fit all.
- ✓ Clear guidance should be provided on the introduction and adequate notice to ensure that small producers are not disadvantaged.
- ✓ As biomass is a local product a local accredited test station should be available to test fuel.

### **DISCUSSION**

- There is no reason why the NIRHI shouldn't apply the same air quality standards/requirements for biomass heating as the GB Scheme.
- More information is needed on the GB requirements.

<b>Ofgem COMMENT</b>
<b>RECOMMENDATION Unless further research indicates otherwise the recommendation is to proceed and introduce the same air quality standards.</b>
<b>LEGISLATIVE CHANGES NEEDED</b>

Final policy agreed

Signed:

Date: