

From: [Atika Campbell](#)
To: [Hughes, Seamus](#)
Cc: [Wightman, Stuart](#); [Nadia Carpenter](#); [Edmund Ward](#); [Teri Clifton](#); [Katy Read](#); [Gareth John](#)
Subject: RE: NI RHI Phase 2 - Policy Review templates
Date: 26 March 2015 16:16:46

Dear Seamus and Stuart,

Thank you for sending us your proposals for legislative amendments to the NIRHI Non domestic scheme for our initial thoughts and comments. I note you have sent a number of additional proposals – we will review these over the next few days. We have reviewed your initial proposals with a view to letting you know our preliminary, high level thoughts at this point with regards to administrative impact – any further work with regards to doing a full feasibility study is dependent on budget/funding discussions between DETI and Ofgem. With regards to potential operational and development costs associated with these changes, we have not provided detailed estimates in line with the above. It is also important to note that cost impact is dependent on volumes of applications expected/received – therefore we would need an indication of potential volumes in the areas below to ascertain costs.

For a rough idea regarding costs, when we added functionality for ASHP last year, the costs for introducing this new technology were roughly estimated as follows (based on 1000-1500 ASHP applications in the first year):

- IT development (application, PDS and reporting amendments): £20k to £50k dependant on level of automation and complexity.
- Year 1 operational costs (costs of accrediting applications for new technology, handling enquiries, PDS submissions, audit & compliance): £300k to £370k.

I have included our comments below, dividing them into ‘new territory’ (changes which have not already been implemented on the GB scheme) and changes which have already been made in GB. Thanks to Nadia for pulling this together. It would be great to get an idea of next steps etc – we are happy to discuss at our next catch up, which is tomorrow.

Thanks

Atika

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New territory

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Bioliiquid tariff

- Bioliquids are not currently supported on the GB scheme although DECC continue to consider their inclusion. The reason DECC have not included bioliquids is largely due to concerns that this would divert necessary bioliquids away from the transport industry. You can read more about this issue in DECC’s Non-Domestic RHI ‘Improving Support, Increasing Uptake’ policy document, paragraphs 119 – 147
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265855/Non-Domestic_Renewable_Heat_Incentive_-_Improving_Support_Increasing_Uptake_-_PUBLISHED.pdf .
- Introducing bioliquids as a new category of support is likely to incur more substantive development, operational and IT costs – including the creation of new regulatory provisions for detailed review (as there is no GB precedence or drafting to replicate).
- Our experience in implementing and administrating changes to the Non domestic RHI scheme to date has also shown that when introducing a new category of support it is very often the case that issues arise which cannot be predicted, which can increase costs. We saw this most recently with the introduction of air to water heat pumps. Therefore, the degree of risk for introducing a change to the scheme which does not already have GB precedence is

increased.

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Biomass and Bioliiquid – Combined Heat and Power

- Our experience of implementing a revised tariff and requirements for solid biomass CHP systems has not been straightforward. Drafting regulations to reflect policy intent has been one particular area that has caused problems – due to the complex nature of the requirements.
- We have little experience on how the live operational environment will respond to CHP applications as we have not received any yet.
- Although some work on solid biomass CHP has been completed on the GB scheme, we have not previously had to consider provision for bioliiquid CHP.
- (As above) Bioliiquids are not currently supported on the GB scheme although DECC continue to consider their inclusion. The reason DECC have not included bioliiquids is largely due to concerns that this would divert necessary bioliiquids away from the transport industry. You can read more about this issue in DECC's Non-Domestic RHI 'Improving Support, Increasing Uptake' policy document, paragraphs 119 – 147
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265855/Non-Domestic_Renewable_Heat_Incentive_-_Improving_Support_Increasing_Uptake_-_PUBLISHED.pdf.
- As above, our experience in implementing and administrating changes to the Non domestic RHI scheme to date has also shown that when introducing a new category of support it is very often the case that issues arise which cannot be predicted, which can increase costs. We saw this most recently with the introduction of air to water heat pumps. Therefore, the degree of risk for introducing a change to the scheme which does not already have GB precedence is increased.

District Heating Systems of 200KW and above

- There is no uplift for district heating systems under the GB scheme so we would be covering new ground with regards to changes to the IT system, guidance and operational processes. This is likely to result in higher development and operational costs - – including the creation of new regulatory provisions for detailed review (as there is no GB precedence or drafting to replicate).
- You would need to think carefully about how you choose to define 'district heating'. The proposed definition in the policy paper could cause issues – specifically, as many current applications are for installations that heat two or more buildings. Therefore, a large proportion of applications (nearly ALL) would potentially be eligible for a district heating uplift – which does not seem in line with the policy intent. We suggest that not all installations that heat 2 or more buildings should be considered 'district heating' systems (they could simply be a farmhouse and an outbuilding for example). The regulations would also need to be clear how you would like applicants to evidence that they are operating district heating systems – it is not clear how this would currently be evidence and it is important to note that adding any additional evidence requirements into the scheme will increase ongoing operational costs. You could consider whether there is a third party assessment/certification already existing which could be used.
- Our opinion is that this proposal could open another opportunity for fraud and/or gaming the scheme – as it is likely that applicants may try and exploit the regulations to gain extra compensation via the uplift.

Changes already made in GB

Air source heat pumps (Air to water)

- Support for air to water heat pumps was introduced in the GB scheme in May 2014. Air to air has not been supported.
- We have experienced a long processing time for air source heat pump applications due to the complexity of requirements and subsequent application review time – an increase in

these applications would therefore increase operational costs. The internal processes are nonetheless already established if you intend to use the same eligibility criteria as the GB scheme and some operational learning exists.

- Question for DETI: Please clarify if it is your intention to replicate GB criteria? If not, development and operational costs are likely to be higher and the same concerns as above may apply.

Deep Geothermal tariff

- Although geothermal has been supported since the beginning of the GB scheme, originally sharing a heat pump tariff and later, since 28th May 2014, having a dedicated deep geothermal tariff, there is yet to be a single application submitted to the GB scheme.
- The IT system is set up but having not yet received an application, operational processes are still to be explored and established. Therefore we have little experience on how the live operational environment will respond to geothermal applications as we have not received any yet.
- Question for DETI: Are you intending to use the same definition/eligibility criteria for deep geothermal as used on the GB scheme? If not, development and operational costs are likely to be higher and the same concerns as above may apply.

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Large biomass (over 1MW) tariff

- You state in your proposal that you are aware of a number of large installations which could potentially make use of the scheme – please could you let us know approximately how many? The volume of applications will directly inform potential operational costs.
- The GB scheme currently supports large biomass over 1MW so there is an existing process which can be used. It is likely that extending >1MW installations to NIRHI will incur operational costs due to the increase in applications and requirement to develop IT system capability.
- Do you intend to use the same requirements for large biomass installations as the GB scheme (e.g. regarding contaminated fuel limits and ancillary fossil fuel use)? If not, development and operational costs are likely to be higher and the same concerns as above may apply.
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Extension of Biomass 6.3 pence tariff up to 200KW

- This proposal would bring the NIRHI scheme more in line with the GB scheme as small scale biomass runs up to 200KW in the GB scheme. Therefore, existing precedence and processes from the GB scheme could be used. It is likely that extending the tariff will incur operational costs due to the increase in applications (as they are open to a wider range of stakeholders) and requirement to develop IT system capability..
- Please note that, even after implementing this proposal, you may of course still see gaming of the system with multiple 199KW boilers being installed on the same site where heat demand is higher. This may simply be a consequence of having tariff bandings.

Proposals not currently being considered

You have indicated that the following proposals are not currently being considered. We have therefore not provided comment on these.

- Challenge Fund Alternative
- Large Solar tariff
- Large Biogas over 200KW and Landfill Gas tariffs
- Biomass Direct Air Heating tariff
- Air to air heat pump tariff

From: Hughes, Seamus [mailto:Seamus.Hughes@detini.gov.uk]

Sent: 26 February 2015 09:50

To: Atika Campbell

Cc: Wightman, Stuart; Nadia Carpenter

Subject: NI RHI Phase 2 - Policy Review templates

Atika

As discussed in our telecom yesterday afternoon I am forwarding to you a number of template documents which set out the DETI proposals for amendment to technologies and tariffs under our phase 2 review of the NI RHI arising from the 2013 consultation. At this stage we would welcome initial comments from Ofgem which we can factor into our ongoing consideration and ultimate agreement on the way forward with our Minister.

Over the coming days I will also draft a project plan/timeline document for the proposed changes. There are also a number of other non technology based proposals around setting standards, improving performance and cost control for which templates are under development and we will share these with you in due course.

Many thanks

Regards

Seamus

Seamus Hughes

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