

Mr Jim McManus
ETI Committee Clerk
Northern Ireland Assembly
Parliament Buildings
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7 July 2015

Dear Jim

SL1 – THE RENEWABLE HEAT INCENTIVE SCHEME AMENDMENT REGULATIONS (NORTHERN IRELAND) 2015

- 1.1 The Department of Enterprise, Trade and Investment (**the Department**) proposes to make a Statutory Rule in exercise of the powers conferred by section 113 of the Energy Act 2011.
- 1.2 The Statutory Rule will be subject to affirmative resolution in the Assembly.

Purpose of the Statutory Rule

- 2.1 The Northern Ireland Renewable Heat Incentive (RHI) was introduced on 1 November 2012, following the passage of the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012. This scheme provides long term incentive payments for new generators of eligible renewable heating in the non domestic sector.
- 2.2 The RHI scheme was extended to the domestic sector in December 2014 following passage of the Domestic Renewable Heat Incentive Scheme (Northern Ireland) 2014. This replaced the Renewable Heat Premium Payment Scheme which was introduced in May 2012 to provide interim financial support to domestic renewable heat customers.
- 2.3 The proposed Statutory Rule will provide the legislative basis for:
 - Extending the non-domestic RHI scheme to provide support for heat generated from combined heat and power (CHP) installations. This needs to coincide with changes in the ROC regime from October 2015 whereby ROC will no longer support heat generated by new CHP installations.
 - Reducing RHI incentives for non-domestic biomass installations to ensure affordability and value for money given the significant increased levels uptake of with this technology.

Consultation

- 3.1 The Department consulted on Phase 2 proposals for the RHI from 22 July 2013 to 14 October 2013. Consultation seminars were held in Armagh, Belfast and

Coleraine. A total of 50 responses were received and the vast majority of respondents were supportive of the Phase 2 proposals which included:

- Introducing a Domestic RHI Scheme in place of the interim RHPP scheme;
- Introducing cost control measures to manage RHI expenditure and ensure future scheme affordability and value for money;
- Introducing biomass sustainability and emissions requirements; and
- Expanding the non-domestic scheme to include a number of new tariffs and technologies (including CHP).

- 3.2 The Domestic RHI scheme was introduced in December 2014. We have taken account of the consultation feedback and prepared a final policy paper on initial cost control measures and the introduction of a new tariff for CHP. Further cost control proposals are still under consideration with the other Phase 2 proposals above and will be take forward separately at a later date. The attached final paper (**Annex A**) will be published on the DETI and NI Direct websites.

Position in Great Britain

- 4.1 DECC legislated for an incentive scheme in the Energy Act 2008 and laid the Renewable Heat Incentive Scheme Regulations 2011 before Parliament in November 2011. Again in April 2014 following Parliamentary agreement, the scheme was extended to the domestic sector through the Domestic Renewable Heat Incentive Scheme 2014. DECC have already introduced a system of tariff digression for both GB RHI schemes.

Equality Impact

- 5.1 In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, an equality screening exercise has established that the proposed Regulations do not have any significant equality impact.

Regulatory Impact

- 6.1 The Regulatory Impact Assessment, (**RIA**), completed and signed off for the Renewable Heat Incentive in April 2012 covers this phase 2 extension of new technologies and tariffs. The Regulations will support the implementation of the Renewable Energy Directive 2009/28/EC (**RED**) which requires the UK to ensure that 15% of its energy consumption comes from renewable sources including electricity, heating and cooling and transport.
- 6.2 The Department's preferred and previously agreed option is a specifically tailored NI RHI scheme. This has been determined as the most appropriate method of providing long term support to the local industry, with tariffs developed specifically for the Northern Ireland hat market which will utilise available funding most efficiently. The Department also anticipates that there will be secondary benefits to the development of the renewable heat market other than increased renewable uptake. These associated benefits include a reduction in CO₂ emissions as fossil fuels are displaced, an increase in fuel security as Northern Ireland's dependence on imported fuel reduces and growth for "green jobs" as companies benefit from the opportunities presented by renewable heat.

- 6.3 As the funding for the RHI scheme will come from direct Government expenditure there will be no impact on Northern Ireland consumers' energy bills.

Scheme Performance

- 7.1 Both RHI schemes are demand led and difficult to predict future uptake / spend. Up until late last year, uptake of the RHPP and RHI schemes had been low and the AME allocations were not spent. The Department's focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address these under spends. This included introducing the Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes.
- 8.1 Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), uptake of the non domestic scheme has increased significantly over the last 12 months. Total non-domestic RHI applications have increased from 200 to 700 during this period and we're now on course to meet the PfG 4% renewable heat target before the end of the year.

Financial Implications

- 8.2 This recent success however has put pressure on the NI RHI budget and we now need to implement cost control measures to manage future RHI expenditure. The proposed Statutory Rule will reduce incentives for biomass which currently accounts for nearly 99% of non-domestic RHI applications.

EU Implications

- 8.1 The Renewable Energy Directive requires the UK to ensure that 15% of its energy consumption comes from renewable sources. The requirement extends beyond electricity to heating and cooling and transport. Almost half of the final energy consumed in the UK is in the form of heat, producing around half of the UK's CO₂.
- 8.2 The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration level. However, while energy is a devolved matter for Northern Ireland, each devolved administration is expected to contribute as much as possible to the overall UK target.

Section 24 of the Northern Ireland Act 1998

9. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that the proposed Rule does not contravene the Act.

Section 75 of the Northern Ireland Act 1998

10. The Department has considered section 75 of the Northern Ireland Act 1998 and is satisfied that the proposed Regulations will have no negative implications or possible infractions under Section 75.

Operational Date

- 11.1 It is proposed that the Regulations will come into operation in September and apply to all new installations made from 3 November 2015.
- 11.2 I would be grateful if you would bring this matter to the attention of the Enterprise, Trade and Investment Committee.

Yours sincerely

STUART WIGHTMAN
Head of Energy Efficiency Branch
Energy Division

cc Human Rights Commission
Legislative Programme Secretariat