



Kate Kelliher
State Aid Case Handler
European Commission
DG COMPETITION
State Aid: Energy and Environment
Place Madou 1
B-1049 Brussels/Belgium

10 March 2017

Dear Kate

SA.47501 Renewable Heat Incentive Amendments Pre-Notification

Please see below responses from the Department for the Economy (DfE) to the further queries you raised during our telephone discussion and your subsequent email on 6 March 2017, which relate to the justification for the changes made to the biomass tariff in 2015 and, in particular, the analysis that justifies the approach.

I also think it would be helpful to clarify the position on the CHP applications to the scheme, as it is now clear these do not need to be included in the Commission's decision.

The Department's decision to introduce a two tier biomass tariff

The Department introduced a two tier biomass tariff to:

1. Address concerns over the increased rate of return from small and medium sized biomass installations;
2. Reduce the risk of 'gaming' and installations being operated over and above the required kilowatt hours just to generate RHI income;
3. Manage the affordability of the scheme going forward; and
4. Ensure the biomass tariffs still provided a sufficient incentive to ensure uptake of the technology.

The Department's decision to set the biomass tier at 1,314 hours

The decision to set the tier at 1,314 hours was because:

- (a) At that time, the GB scheme tier was set at 1,314 hours and there was a desire to keep the NI scheme aligned to the GB scheme as much as possible;
- (b) As in GB, most biomass boilers in the NI scheme were expected to run for more than 1,314 hours per year (i.e. a 15% load factor) and it was considered unlikely that a tier at this load factor would lead to overcompensation or 'gaming'.

You may also recall from my letter dated 13 February 2017 that our evidence to date shows that average load factor for all biomass boilers installed is 43%.

Finally, in relation to measures to prevent overcompensation, in November 2015, the Department also introduced an additional safeguard in the form of annual cap on eligible kilowatt hours (at 400,000kWh) above which no further incentive is paid. The GB scheme had no such cap in place.

Confirmation that the CHP tariffs do not need to be included in the current decision

As indicated in my last letter, dated 3 March 2017, no CHP installations have yet been accredited. But I can now clarify further that these CHP schemes are under consideration for preliminary accreditation.

Preliminary accreditation is only available for installations greater than 200kW in size that have not yet been commissioned. Under this process, individuals or organisations can submit plans and evidence demonstrating that once built, an installation would meet the eligibility criteria of the scheme. If Ofgem are satisfied that the eligibility criteria would be met, that it is likely renewable heat will be generated at the plant and that certain planning requirements are met, they will grant preliminary accreditation, which may include conditions.

There are no time limits on the validity of preliminary accreditation. However, receipt of preliminary accreditation is not a guarantee that a future full accreditation application will be approved nor that the tariff at the time of the preliminary accreditation will be available.

None of the CHP schemes in the Preliminary accreditation are likely to be eligible for full accreditation before 31 March 2018, therefore, since the Department is only seeking the Commission's approval for the current financial year (i.e. up to 31 March 2018) and will be submitting a fresh pre-notification to DG Comp later this year, in relation to the non-domestic RHI scheme from 1 April 2018 onwards, it is concluded that the Commission could exclude CHP from the scope of decision.

Best Regards

Stephen Moore