



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

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Dear Kate

**SA.47501 Renewable Heat Incentive Amendments Pre-Notification**

Please see below responses from the Department for the Economy (DfE) to further questions raised in relation to SA 47504 Renewable Heat Incentive Amendments following our teleconference call on 28 February 2017.

**Effect of November 2015 change in the upper limit of the Medium Biomass tariff**

As you have correctly identified, a large biomass installation, which was accredited on or before 18 November 2015 and which had an installed capacity of between 100kWth and above but less than 200kWth, would move to the medium biomass tariff, as a result of the changes made in the Renewable Heat Incentive Scheme (Amendment) Regulations (Northern Ireland) 2017.

However, while in theory this does mean that these installations receive a greater level of support from the RHI scheme, there are no installations that fall into this sub-set which are owned and operated by undertakings.

**CHP tariff methodology**

In June 2013 Cambridge Economic Policy Associates Ltd and Ricardo – AEA report (CEPA) provided advice to the Department on a number of different questions in relation to the NI RHI scheme, including the appropriate tariff levels for CHP.

As the report is 132 pages long and most of the content does not relate to CHP, I am only attaching Annex G, which is the section that deals specifically with the setting of the CHP tariffs.

As you will see CEPA's recommendations are based on its conclusions that the counterfactual fuels for 'new' and 'conversion' CHP installations in Northern Ireland would be natural gas and coal.

During the conference call you explained that, as the inclusion of CHP in the NI RHI scheme was not previously notified, DG Comp has to assess the compatibility of this aid against point 131 of the Guidelines on State aid for environmental protection and energy 2014-2020 (the Guidelines).

We understand that point 131 of the Guidelines state that for energy from renewable sources other than electricity, operating aid will be considered compatible with the internal market if the following cumulative conditions are met:

- a) the aid per unit of energy does not exceed the difference between the total levelised costs of producing energy ('LCOE') from the particular technology in question and the market price of the form of energy concerned;
- b) the LCOE may include a normal return on capital. Investment aid is deducted from the total investment amount in calculating the LCOE;
- c) the production costs are updated regularly, at least every year; and
- d) aid is only granted until the plant has been fully depreciated according to normal accounting rules in order to avoid that operating aid based on LCOE exceeds the depreciation of the investment.

Unfortunately, in 2013, when CEPA produced the report, we were not aware of these conditions and hence were not able to ensure the CEPA report was structured in a way that makes it clear the four cumulative conditions in point 131 are met.

Having reviewed the CEPA analysis, we are satisfied that the CHP tariffs would have met all four conditions.

Therefore, if required, we would be happy to revisit the CEPA analysis and provide an addendum to the report that tests the CHP tariffs against the conditions in point 131 of the Guidelines.

However, this would clearly take some time and we are keen to avoid any activities that might delay the Commission from adopting a no objection decision.

As no CHP installations have yet been accredited, if the Commission requires an addendum as outlined above, the Department would be happy to commit to not accrediting any CHP installations until an addendum, to the Commission's satisfaction, has been agreed.

Best Regards

**Stephen Moore**