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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 15 February 2017:

A. Rates of Return

In your response to this topic, you state that "The following chart [...]. These returns are based on assumptions of capex and running costs [...]".

Q1. *Could you indicate the point in time that these assumptions of capex and running costs reflect?*

A1. The assumptions on running costs used in the modelling were based on estimates in the period June / July 2015.

B. Quantum of the Tiered Tariff

You kindly provided us with some data demonstrating the quantification of the tiered tariff (which was set at 1.5p/kWh).

Q2. *Could you explain why LPG was the appropriate cost comparator for heat installations in Northern Ireland?*

A2. Liquid Petroleum Gas (LPG) was used as the cost comparator as intelligence from CAFRE¹ suggested that LPG was the original fuel being used by the majority of RHI participants at that point in time. In fact, in relation to the tariff changes in November 2015, at the time the decision was taken to implement the 1.5p/kWh tariff, biomass heating systems in the 21-99 kW band made up 775 (or 97%) of all the applications received. Of these, many related to 99kW installations for the poultry sector because biomass heating offered a lower cost and more productive alternative to LPG. Productivity is improved because moisture levels in the poultry houses are less with a biomass system. Poultry houses in Northern Ireland were traditionally heated using LPG air blown heaters, which are located within the poultry house and, as combustion occurs within the heater, these contributed moisture to the poultry house. By contrast, in a biomass heating system, the biomass boiler is usually separate from the poultry house and provides hot water to heaters in the poultry house. Consequently, as there is no combustion within poultry house, no moisture is contributed and, as a result, the chicken litter is kept drier, reducing ammonia levels, boosting growth and improving bird welfare.

Q3. *Could you indicate the point in time that the DARD analysis reflects?*

A3. The DARD analysis was undertaken in July 2015.

C. Re-banding of the Medium Biomass Tariff

There are some minor discrepancies on the original upper tiers of the Biomass bands (20 -100 and 100 - 1000 in the 2012 State aid decision cf. 20 – 99 and 20 - 199 in the pre-notification paper.

Q5. *Could you let us know which figures are correct?*

A5. The figures in the pre-notification paper are correct.

¹ CAFRE is an integral part of the Northern Ireland Department of Agriculture, Environment and Rural Affairs' Food and Farming Group. The College supports the Agri-Food sector through industry training, knowledge & technology transfer, benchmarking and business development planning.

Q6. *We would also like to know what the upper bands (the maximum installed capacity for eligible installations) is to be eligible for receipt of biomass and ground source support is.*

A6. As detailed in the table at point 58 in the pre-notification paper, the 'upper' bands in the NI non-domestic RHI scheme for biomass and ground source heat pumps are:

Biomass - 200 kWth and above up to but not including 1,000 kWth.

Large heat pumps – 100 kWth and above.

For the purposes of clarity, we would confirm that there are no plans to provide any support from the NI RHI scheme for biomass installations with a capacity that is 1,000 kWth or above and, in relation to large heat pumps (i.e. 100 kWth and above), there is no maximum capacity.

D. Eligible technologies

From the phone conversation we understand that CHP installations using biomass have always been eligible for the scheme but that in October 2015 they were split out into a separate CHP category.

Q7. *Could you confirm whether this is correct and let us know the basis on which the tariff for this new CHP category was set?*

A7. Yes, this is correct. CHP installations using biomass (up to but not including 1000kWth) have been eligible since the scheme was brought into operation, but separate CHP tariffs were then introduced on 18 November 2015, for new installations, as detailed on page 58 of the pre-notification document.

The basis on which the tariff for the new CHP category was set is as follows.

The 3.5 p/kWh tariff for new biomass and bioliquids CHP systems assumed an investment lifetime of 10 years and a plant lifetime of 20 years. A discount rate of 12% was used and the revenue from ROCs for electricity was included and factored in to the tariff calculation. A counterfactual position of natural gas was used, because it was expected that the new CHP sites in 2020 are likely to have access to natural gas as a fuel.

The 1.7p/kWh tariff, introduced for existing fossil fuel CHP systems that wished to convert to renewable CHP, was developed in the same way as the new build CHP tariff, however with different assumptions on capex.

We also understand that the CHP tariff introduced in 2015 is not intended to be varied or tiered under the auspices of this notification but that CHP installations in receipt of the medium biomass tariff (because they entered the scheme before the CHP tariff was split out as a separate category) will be subject to the pre-notified amendments.

Q8. *Is that understanding correct? Please explain.*

A8. I can confirm the CHP tariffs introduced on 18 November 2015 were not intended to be varied or tiered. In relation to any CHP installations in receipt of the medium biomass tariff, I can also confirm these will be subject to the pre-notified amendments. Therefore any CHP installation that was eligible for the medium biomass tariff will, as a result of the Renewable Heat Incentive Scheme (Amendment) Regulations (Northern Ireland) 2017, be placed on the tiered tariff for medium biomass.

E. Eligible RES heat

From the phone conversation we understand that the review mechanism which is envisaged to take place in 2017 will have a dual purpose:

- (i) The investigation and subsequent remedy of any instances of support for non-eligible heat load; and*
- (ii) An information-gathering exercise so your authorities can update their assumptions and inform future amendments to the scheme.*

You have further explained that:

- (i) The [DfE] will procure independent consultants to conduct onsite inspections*
- (ii) Onsite inspections will be carried out of all installations in the NI RHI scheme by the end of 2017*
- (iii) Each installation will be assessed for compliance against the NI RHI Scheme.*

- (iv) *Enforcement action will follow and best endeavours will be made to ensure that Ofgem takes such enforcement action.*

Q9. *Could you please specify and provide commitments to the enforcement action, in particular in the event that the inspections find non-compliance with the scheme and in view of the best endeavours to ensure that Ofgem takes such action.*

A9. Regulations 43 to 47 of the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012 confer powers to take enforcement action in the event the inspections find non-compliance with the scheme.

Suspension of payments to investigate non-compliance

Where a participant is suspected of failing to comply with an ongoing obligation, all or part of that participant's payments can be temporarily withheld for up to six months to allow investigation to take place. Where an investigation concludes that the participant has failed to comply with an ongoing obligation, appropriate action can be taken – permanent withholding of all or part of payment or revocation of accreditation.

Failure to Comply

Where a participant has failed to comply with an ongoing obligation, payments may be suspended for up to one year to allow the participant to take the necessary steps to address their failure. If within six months, the participant has taken the necessary steps, all suspended payments will be made within 28 days. Otherwise participant have no right to recover suspended payments.

Decision to revoke accreditation

Where there has been a material or repeated failure to comply, the powers exist to permanently withhold a portion of the payments, which correspond to the payment period during which the participant failed to comply or to reduce payments for that period or the period following up to a maximum of 10% of the payment period in question.

Accreditation may also be revoked for the installation concerned and any other installation owned by the participant. Where accreditation has been revoked, there is the right to refuse future applications for accreditation by the participant in question.

Recovery of Payments

Where a participant has received a support payment which exceeds their entitlement or has received a support payment whilst failing to comply with an ongoing obligation, that participant can be required to repay the support payment as a civil debt or offset the support payment against any future support payments.

Best Regards

Stephen Moore