

**Copy Distribution List Below**

From: Fiona Hepper
Date: 9 August 2010
To: 1. Andrew Crawford
2. Arlene Foster MLA

COR/364/2010: RENEWABLE HEAT INCENTIVES

Issue: Mark Durkan MP MLA has written to you seeking an update on the Department's study into renewable heat and considerations regarding possible incentivisation for renewable heat.

Timing: Routine.

PfG implications: Not applicable

Need for referral to the Executive: Any future renewable heat strategy will require Executive approval in due course.

Presentational Issues: Not applicable.

Freedom of Information: This submission is exempted under Section 35 of the Freedom of Information Act.

Financial Implications: The funding mechanism for a RHI has yet to be agreed by HM Treasury. The likelihood is that it will be via a UK wide tax/levy. It is hoped this will be clarified in the October budget.

Statutory Equality Obligation: Compliant; there are no Section 75 implications.

Legislation Implications: DETI does not have statutory powers for renewable heat and therefore primary legislation will be required in due course.

Recommendation: That you respond to Mr Durkan using the attached draft at Annex A.

BACKGROUND

Mark Durkan, MP, MLA, has written to you seeking information on the recent study into renewable heat and the next steps in developing a possible incentive scheme for Northern Ireland (letter attached at **Annex A**). In his letter, Mr Durkan mentions that he has been contacted by representatives of the renewable heat industry about these matters. He also refers to two recent AQWs on this matter (attached at **Annex B**).

2. For information, a local representative of the renewable heat industry has informed us that Mark Durkan is likely to join the Energy and Climate Change Committee at Westminster.

RENEWABLE HEAT WORK

3. You will be aware from previous submissions on this matter (SUB 173/10) of the background to the Renewable Heat Incentive (RHI) scheme in GB and the recent study into renewable heat in Northern Ireland to determine the most appropriate method for developing the local market. This work has now completed and a detailed submission is with you (also dated 9 August).

Study into renewable heat

4. The study into renewable heat, referred to by Mr Durkan, was carried out by AECOM Ltd and Pöyry Energy Consulting and has just recently been completed. This study came about as a result of developments in Europe and GB regarding renewable heat policy, namely the EU Renewable Energy Directive and the GB Renewable Heat Incentive (RHI) scheme.
5. The study sought to establish up to date accurate statistics on heat and renewable heat usage in NI; benchmark the potential for renewable heat in NI against other European regions; present options on how to appropriately incentivise the local market, including possible short term measures; and determine an evidence based target for 2020.
6. The key findings are:
 - i) Achieving a 10% renewable heat share by 2020 is possible but will require **significant government intervention**.
 - ii) The achievement of a 10% renewable heat target **cannot be solely achieved by DETI**.
 - iii) Northern Ireland needs to develop a specific RHI scheme and further economic work is required to assess the actual incentivisation levels required.

- iv) In order to meet a 10% target Northern Ireland needs to decide to either agree that installations from 2009 will be eligible for support under a Northern Ireland RHI (as per the GB model), or, put in place short term financial measures to support the industry until such times as a longer term support mechanism is agreed.

Eligibility

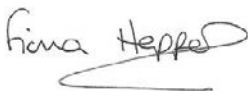
7. In his letter, Mr Durkan asks for early decisions to be made on the possible design of a NI RHI, specifically the eligibility requirements under the scheme. One element of the eligibility issue is indeed the date at which installations would be able to avail of the incentive (as discussed above). However there are other issues that will need to be considered in determining which heat installations would be eligible for RHI, these issues include the size and type of technology, how the heat is used and the method of installation.
8. All details relating to the design and implementation of a RHI for Northern Ireland would have to be subject to a public consultation in due course. However, it could be expected that many elements of the NI scheme, barring tariff levels, would be similar to the GB scheme.

Renewable Heat Incentive Scheme in GB

9. Consultation on the proposed design and implementation of the RHI in GB closed on 24 April 2010. Ministers and officials in DECC are now considering these responses in order to determine the next steps in the development of the scheme and the most appropriate method of funding. In the Annual Energy Statement in Westminster on 27th July 2010, Chris Huhne reiterated his commitment to developing an incentive scheme for renewable heat but acknowledged that decisions would have to be taken as part of the wider spending review.

RECOMMENDATION

10. A further detailed submission, which will be with you shortly outlines the options for moving forward with RHI but in the meantime it is recommended that you reply to Mark Durkan using the draft response at **Annex C**.



FIONA HEPPER
ENERGY DIVISION
(Ext 29215)

cc: David Sterling
 David Thomson
 Alison Clydesdale
 Ann Williamson
 Peter Hutchinson
 Dan Sinton
 Neth Energy
 Press Office

DT1/10/0072767



HOUSE OF COMMONS

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Our ref: MD/PC/2907101

29 July 2010

Arlene Foster MLA
Minister
Department of Enterprise, Trade and Investment
Massey Avenue
Belfast BT4 2 JP

Dear Arlene,

Re: Renewable Heat Incentives

I have been contacted by a number of renewable sector businesses in relation to the provision of incentives for the renewable heat industry in Northern Ireland.

I recall your reply to AQW 7949/10 and AQW4935/10 in relation to this issue in which you stated that your department was carrying out a study of this area to include consideration of the most appropriate ways of incentivising renewable heat in the Northern Ireland market. It would be appreciated if you would indicate when the findings of this study will be made public.

As you will appreciate, it is important for everyone involved in the renewable heat industry locally that a framework is promptly provided for future interventions in this sector. I am aware that various enterprises are awaiting confirmation of the future regulatory landscape before proceeding to invest in this area. In addition, it is clear that certainty about governmental intentions and investments would assist local businesses in securing support for investment plans for their banks.

I would also urge you to advance assistance for short term supports for the Northern Ireland renewable heat market given progress towards the Renewable Heat Incentive scheme in England, Scotland and Wales in April 2011.

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You may recall our previous conversation about the importance of giving some underlying certainty about the qualifying datelines for RHI's here even while other criteria are being considered and/or consulted on.

These measures will not only go towards fulfilment of this region's carbon reduction obligations but would also contribute to employment area in this growing industry sector, at a time of continuing economic difficulty.

I look forward to your reply.

Regards,

A handwritten signature in black ink that reads 'Mark'.

MARK DURKAN MP MIA

Department of Enterprise, Trade and Investment

ASSEMBLY QUESTIONS WRITTEN (AQW)

Due for answer on: 23 February 2010

AQW No: 4936/10
Put Down By: Willie Clarke
Political Party: Sinn Fein
Constituency: South Down

Question:

To ask the Minister of Enterprise, Trade and Investment (i) what communication she has had in relation to the proposed legislation on renewable heat incentive (as part of the Energy Bill) announced by the Department of Energy and Climate change; and (ii) if she has any plans to introduce similar legislation.

Answer:

The Department of Energy and Climate Change (DECC) has announced that it intends to incentivise low carbon heating technologies through a Renewable Heat Incentive (RHI) from April 2011. DECC has statutory powers to implement a RHI in England, Scotland and Wales via amendments to the Energy Act 2008, however Northern Ireland is not included in this measure.

The energy market in Northern Ireland is quite different to that in GB and therefore it is essential that any future method for encouraging renewable heat in NI takes this into account. In light of this, my Department has commissioned a significant piece of work to consider the potential for developing the renewable heat market in NI and assess options for encouraging the local market. If the evidence indicates that a RHI would be the most effective way of developing renewable heat in NI then a legislative timetable will need to be developed. My Department will also consider options for encouraging the market in the short term to ensure that NI is not unduly disadvantaged by the introduction of the RHI in GB and officials are maintaining close links with DECC colleagues as their proposals develop.


Arlene Foster MLA
Minister of Enterprise, Trade and Investment

Date: 24/2/10

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Department of Enterprise, Trade and Investment

ASSEMBLY QUESTIONS WRITTEN (AQW)

Due for answer on: 6 July 2010

AQW No: 7949/10
Put Down By: A Maginness
Political Party: SDLP
Constituency: North Belfast

Question:

To ask the Minister of Enterprise, Trade and Investment what plans she has to develop the renewables market at a small scale installer base in terms of (i) financial incentives to homeowners similar to the Renewable Heat Incentive initiative in Great Britain; and (ii) loans or tax credits to homeowners for changing to renewables, following the withdrawal of the Low Carbon Buildings Programme grant aid in May 2010.

Answer:

My Department is nearing completion of a study to investigate the potential for developing renewable heat in Northern Ireland and as part of this is considering the most appropriate way of incentivising renewable heat in Northern Ireland in the longer term. This will, of course, have to be addressed in the context of the current fiscal position and agreed by the Executive. In the wider context, the funding mechanism for the proposed GB scheme is far from clear at present. However, my officials are in discussions with the Department of Energy and Climate Change to ensure that Northern Ireland could benefit from any UK wide funding mechanism that may be introduced.

Following the closure of the Low Carbon Buildings Programme, my Department is considering if any short term support will be necessary to ensure that the market in Northern Ireland is not unduly disadvantaged. This will, however, be dependent on the availability of funding. As tax credits are a reserved matter, I have no plans to develop tax credits for homeowners changing to renewables.



Arlene Foster MLA
Minister of Enterprise, Trade and Investment

Date: 29/6/10.

DT1/10/0072767

Draft letter from Minister to Mark Durkan MP MLA

Mark Durkan MP MLA
Constituency Office
23 Bishop Street
County Londonderry
BT48 6PR

Dear

Thank you for your letter of 29 July 2010 in relation to renewable heat policy and the Renewable Heat Incentive (RHI) in Great Britain. I can assure you that I am committed to developing the renewable heat market in Northern Ireland and, as you rightly point out in your letter, there are many benefits in doing so such as increased fuel security, reduced carbon emissions and the opportunity in this sector for 'green' jobs.

In your letter you make reference to the study my Department has been undertaking into the potential development and deployment of renewable heat in Northern Ireland. This study has recently completed and will now be considered in detail by my Department.

The study came about as a result of developments in renewable heat policy both in Europe, through the EU Renewable Energy Directive (RED), and in Great Britain, in the shape of the proposed RHI scheme. The RED requires that the UK ensures that 15% of its energy consumption comes from renewable sources – for the first time this requirement extended beyond electricity to heating and cooling and transport. Northern Ireland is expected to contribute to the United Kingdom's share of this target and, therefore, I have included an indicative target of 10% renewable heat by 2020 in the draft Strategic Energy Framework.

In respect of the RHI, you are aware that this scheme, as it stands, only applies to England, Scotland and Wales. The reason for this is that at the time the amendments to the Energy Act were made to allow for a RHI, there was not sufficient time to pass a Legislative Consent Motion through the Northern Ireland Assembly for extension of powers. Further to this, there was a lack of evidence to suggest that a RHI would be the most appropriate method to incentivise the Northern Ireland heat market, which you will understand is quite different from the GB market.

This has been a comprehensive study and the report makes a number of recommendations that will need to be carefully considered and the potential options for incentivisation assessed. I am sure that you are aware that the funding mechanism for the GB RHI is still to be determined; and, given the financial position faced by the Northern Ireland Assembly, you will appreciate that it is only prudent to ensure that any new policies or potential incentive schemes are fully costed before commitments are made.

ARLENE FOSTER MLA

Minister of Enterprise, Trade and Investment