From:	Wightman, Stuart
To:	Partridge, Jeff
Cc:	Cooper, Trevor; Hughes, Seamus; Brankin, Bernie; Thompson, Sandra; Dolaghan, Paul
Subject:	FW: Briefing for meeting with J Pocklington - 28 May 2015
Date:	27 May 2015 17:56:51
Attachments:	RHI Background and LTT for Permanent Secretary 21 May 2015 (2).docx ELECTRICITY MARKET REFORM (EMR) - MEETING WITH THE DECC MINISTER.EML Briefing for perm sec meetig with J. Pocklington 28 5 15.DOCX

Jeff, I attach a copy of the 'RHI Briefing' we've sent to the Permanent Secretary for his meeting with DECC officials tomorrow. You will see from Seamus's earlier email that DECC officials have again simply referred to us to Sam Smyth Murray in HMT. Sam previously referred us to DFP. The focus of our lines for the Perm Sec is therefore on opening up dialogue with DECC over potential options of NI securing more RHI funding through the DECC AME forecasts. We'll also need to ensure DFP liaise with HMT to see:

(i) if there are opportunities to spend previous RHI AME underspends

(ii) whether NI RHI allocations can be based on our current forecasts (i.e. £23.2m in 2015/16) or 5% of DECC's allocation rather than 2.98%.

Unfortunately, we've received confirmation that for legal reasons Ofgem cannot queue RHI applications. The only realistic option for managing future demand/budget is through tariff reductions which require legislation and cannot be made under Oct. The revised forecasts submitted yesterday factor this in.

Please ring me if you wish to discuss.

Thanks, Stuart

From: McCoy, Laura **On Behalf Of** Mills, John (DETI)
Sent: 27 May 2015 17:06
To: McCormick, Andrew (DETI)
Cc: Clydesdale, Alison; Wightman, Stuart; Stewart, Chris (DETI); Hill, Janice; McIlwrath, Linda
Subject: Briefing for meeting with J Pocklington - 28 May 2015

Andrew

I attach briefing on EMR matters plus the submission and draft letter seeking a meeting. Also attached is the RHI briefing.

Note also the Queen's speech (today) reference to an energy bill which will, inter alia, include measures to give more planning control to local authorities. DECC lines include the following: "The commitment to end new subsidy for onshore wind farms will be delivered separately, and DECC will be announcing measures to deliver this soon."

Do you need a hard copy?

From:	**John Mills** **Energy Division**	**Tel No:**	29215
Date:	**21 May 2015**	**cc:**	*Copy distribution list below*
To:	**1. Timothy Cairns** **2. Jonathan Bell MLA**		

ELECTRICITY MARKET REFORM (EMR) - MEETING WITH THE DECC MINISTER

Issue:	**The future of government support for renewables in NI.**
Timing:	**Urgent – meeting needed early June.**
Executive Committee Referral:	**Executive approval needed before the summer recess.**
PFG Implications:	**High likelihood that NI will not meet the Executive's longer term 40% renewable electricity under EMR.**
Presentational Issues:	**The renewable energy industry is seeking clarity on EMR. Investment decisions are now beginning to be impacted.**
FOI Implications:	**Not Disclosable – policy development.**
Financial Implications:	**The cost of supporting renewables through consumer bills will increase 3 fold by 2020 if EMR is implemented as DECC proposes.**
Legislation Implications:	**NI transition legislation timelines at risk of delay.**
Statutory Equality Obligations:	**N/A.**
Recommendation:	**That you agree to write to the DECC SoS, Amber Rudd MP, to request a meeting on EMR implementation in NI.**

Background

1. The EU's 20-20-20 climate and energy package mandated that member states set targets for renewable energy consumption by 2020. The UK target is 15% and includes electricity, heat and transport. In practice, the UK is expected to require at least 30% of electricity to come from renewable sources to meet the overall target and estimates suggest there is a sufficient pipeline of projects to meet the target.

2. In 2010 the Northern Ireland Executive set a target of 40 % renewable electricity consumption by 2020 and the current Programme for Government has a target of 20% renewable electricity by 2015. This target has been achieved.

Current Support Mechanisms

Renewables Obligation (RO) / Northern Ireland Renewables Obligation (NIRO)

3. The UK wide mechanism for incentivising renewable electricity (wind, solar biomass etc) is called the Renewables Obligation (RO), with the Northern Ireland element called the NIRO. It provides a non competitive subsidy to these technologies which would otherwise not be able to compete with conventional (oil, gas, coal) generation. Under the RO scheme, costs are spread across all UK consumers. At the outset of the RO, and continuing to the present day, NI's contribution was set at roughly half that of GB in recognition of NI consumers having the highest levels of fuel poverty in the UK. Thus, in NI, domestic consumers pay around £15 p.a. to support renewables and our largest users could be paying around £150k p.a.

4. The scheme has been very popular with developers over the last 13 years (10 years in NI). In an attempt to control the increasing costs of renewable subsidies HM Treasury has put a cap on these and other "green payments" called the Levy Control Framework.

5. As a consequence, DECC is ending the RO from March 2017 and replacing it with a competitive scheme called Electricity Market Reform (EMR) – also referred to as a Feed in Tariff (FIT) or Contracts for Difference (CfDs).

Electricity Market Reform

6. EMR is a UK wide competitive scheme for large scale renewables (over 5 Megawatts) operating within a yearly fixed budget to 2021 – project developers have to bid for a share of the available budget, the point being that this benefits consumers because only the best value projects across the UK will win contracts. But it also follows that NI projects will have to compete for contracts and there is no guarantee of local renewable deployment. The scheme is already operating in GB and NI will join in 2017. DECC is leading the implementation project across the UK including NI's entry.

7. Like the Renewables Obligation, funding for EMR is levied on electricity bills. EMR offers a solution whereby the costs to consumers (which will be spread across all UK consumers once NI joins) are capped and known, unlike the RO where there was no cost control. There will be no reduced contribution level to take account of NI's high fuel poverty levels.

8. EMR is a fundamental change from the RO as it means that renewables generators no longer have a guaranteed subsidy. It is anticipated that the funding available will not cover the entire pipeline of projects and so more expensive projects are unlikely to be supported.

9. There are a number of consequences of EMR policy in NI. The key issues are:

- A threefold increase in the element of consumer bills attributable to support for renewable by 2020 (which, in the case of large users could be an increase of hundreds of thousands);

- No guarantee of renewable deployment in NI, and hence detrimental impact on the Executive's 40% renewable electricity target (in practice, EMR removes any power for NI as a region to secure the delivery of a renewable electricity target) ;

- the issue of "grace periods": DECC's proposed transitional arrangements for NI developers who have initiated work on projects under the existing NI Renewables Obligation scheme, will disadvantage NI developers because ofour more constrained infrastructure which leads to longer connection times. This may make it impossible for some projects which have been in planning for several years to compete within the proposed DECC timetable, which only allows a one-year grace period;

- Lack of a future of small scales renewables (EMR only concerns large scale).

Previous Ministerial Action

10. Your predecessor met with the previous DECC SoS in February to raise these issues but the only concession was to include NI in a review of the GB small scale incentivisation scheme. The Minister warned that she may face a choice between putting the NI renewables industry out of business or putting increased costs on NI manufacturers which could put some of NI's biggest employers out of business.

Current Position

11. Faced with this unenviable choice, the Minister agreed to publish a strategic issues discussion paper on the implementation of CfDs in NI in parallel to DECC's call for evidence on CfD implementation in NI. She said she would take a decision on whether to advise the Executive to proceed with EMR in NI following consultation.

12. The strategic issues paper has produced 70 plus substantive responses the majority of which call for CfD implementation to go ahead. The main calls for the CfD not to go ahead are from the manufacturing sector and consumer organisations.

13. The former Minister also issued a consultation on closure of the existing RO setting out transition arrangements to the new scheme. A key element of the transition is the need for a set extension period (known as a grace period) for projects that are encountering delays not of their own making (typically this would be a grid delay). The consultation suggested a 12 month "grace period" for NI developers to implement their projects, as DECC insisted, rather than the 24 months sought be local developers. Not unexpectedly the majority of the consultation responses state that 12 months is not enough to allow for the lengthy NI grid connection process, which typically takes between 3-5 years for large wind farms.

Time Constraints

14. Following a meeting with DECC officials last week, it is clear that the timeline for implementing CfDs by 2017 is very challenging. CfDs cannot proceed (by 2017) if there is no NI decision by 9 July. Failure to make a decision in this timescale will mean that CfDs cannot be implemented in NI until 2018, at best. This would mean that there would be no support for renewable electricity projects (large and small scale) from 1 April 2017. Such a gap in support will lead to a loss of new investment.

15. However, there is an even more pressing requirement for legislative certainty on transitional arrangements from large scale renewable developers. They have already made a significant financial commitment to projects that had anticipated connecting under the NIRO regime. They need legislative certainty as soon as possible to give assurance to their funders.

Bombardier Project

16. The most pressing case is the Bombardier waste to energy plant which will provide power to Bombardier's Belfast Harbour Estate plant. Bombardier, along with their funders, met with your predecessor in March and advised that the company could not achieve financial close on the project until legislation setting out the grace periods (the NIRO Closure Order) was passed by the Assembly. The Minister committed to having the legislation passed by summer recess.

17. Bombardier's funders (Green Investment Bank (GIB) Bank of Ireland (BOI) and Allied Irish Bank (AIB)) have stated that the passing of the legislation before the summer recess will determine if the project proceeds or not.

18. Bombardier will be writing to you on this matter. This is a key project in reducing Bombardier's energy costs and improving their competitiveness in relation to other Bombardier plants throughout the world.

Way Forward

19. As a minimum, the renewable industry and consumer groups will expect you to lobby the new DEC SoS to discuss special arrangements for Northern Ireland (longer grace periods, ring fenced development and cost mitigation). Obtaining such concessions would be highly desirable but unlikely. Efforts to achieve a better outcome for NI have to be balanced against the timetabling pressures highlighted above. Andrew McCormick has a meeting in London on 28 May with the senior official in DECC responsible for this area, to explore the mandate DECC has from its new Ministerial team, and to seek to identify, where there might possibly be merit in seeking some concessions (though the signals from last week's meeting suggest that there will be limited scope).

Recommendation

20. That you write to the DECC Minister seeking a meeting as soon as possible, preferably early June. A draft letter is attached at **Annex A** for your consideration. Further briefing will be provided closer to the time.

JOHN MILLS
Energy Division

cc: Andrew McCormick
Chris Stewart
Alison Clydesdale
Alan Smith
Michael Harris
Trevor McBriar
Sean Kerr
Press Office
Ian McCrea MLA, APS

ANNEX A

The Rt Hon Amber Rudd MP
Secretary of State
DECC
3 Whitehall Place
LONDON
SW1A 2HD

May 2015

Dear

ELECTRICITY MARKET REFORM – EXTENSION TO NORTHERN IRELAND

Firstly, let me congratulate you on your appointment. I wish you well in what will undoubtedly be a challenging post. I look forward to engagement with you and your Department on energy issues pertaining to Northern Ireland.

I am writing specifically to request a meeting with you in London to discuss the transition from the Northern Ireland Renewables Obligation (NIRO) to the Contracts for Difference mechanism.

Our predecessors met earlier in the year and my Department has recently consulted on these issues. DECC has also just closed consultation on the implementation of CfDs in Northern Ireland. I would like to discuss the outcome of our consultations as soon as possible.

EMR

I am grateful for the work that DECC has done to develop EMR in NI. However, it raises fundamental issues for Northern Ireland's devolved energy policy which are of great concern to me. Implementing CfDs in NI will bring limited benefit for NI and, in the UK region with highest fuel poverty and some of the highest electricity costs for industry in Europe consumers will see their bills increase threefold by 2020.

Northern Ireland has unique arrangements for energy policy and market regulation, including a wholly separate regulatory regime under the NI Utility Regulator, and a wholesale market linked to the Republic of Ireland (the "Single Electricity Market"). Hence many aspects of UK energy policy have different consequences, and being part of a relatively small and isolated market makes it much harder to secure low prices for consumers.

Under EMR there is no guarantee that any development will actually occur in NI. While the NI Assembly is committed to playing its part in decarbonising the UK power supply the new government's statements on onshore wind (albeit as represented in the media) must add to our concerns as this comprises the vast majority of Northern Ireland's renewable generation.

I would ask you to reflect that the devolution of energy policy in NI needs to be balanced with DECC's (understandable) desire for a completely unitary scheme across the UK. However our differing connection regime, grid limitations and the fact that we are in a different market all need to be recognised.

NIRO closure

Our most pressing concern is the closure of the existing Northern Ireland Renewables Obligation. The negative impacts of EMR will be compounded if we cannot connect our pipeline of onshore wind projects. In GB DECC has given projects and additional 12 months to connect to the grid without losing access to their funding.

In the interests of parity, my Department recently consulted on the implementation of a 12 month grace period. However almost all respondents argued that the proposed 12 months is insufficient to take account of grid issues which are unique to Northern Ireland and which could not have been foreseen or changed since the EMR policy began to evolve. This reaction was anticipated and reinforces, I believe, the unique grid connection process in NI, (where wind farms must connect to common cluster substations). To accommodate the existing pipeline of projects in NI a 24 month grace period is needed.

I am therefore asking that, given the weight of evidence presented through the consultation process, serious consideration is given to a 24 month grace period for eligible projects in Northern Ireland to take account of the unique and different connection arrangements.

We estimate that the maximum cost of this is around £13m/ year – this is minimal in the context of the multibillion pound UK wide budget that funds these initiatives. To put it in context the cost of a 24 month grace period equates to only a few weeks of funding for the DRAX biomass plants in Yorkshire.

Whilst I appreciate the constraints of the Levy Control Framework, I believe that this matter does need to be urgently revisited. Otherwise, Northern Ireland is at risk of losing several hundred MW of generation – a very small figure within a UK-wide context, but critical to generation and security of supply in Northern Ireland.

For NI to contribute to the UK Government's key policy aim of decarbonisation we need to strengthen our infrastructure. Clustering is the only affordable way to do this especially given the limits of interconnection.

Going forward as part of a UK wide EMR scheme has raised such fundamental issues for Northern Ireland that I think we need to meet as soon as possible to engage on the issues of EMR costs, allocation and, most urgently, NIRO grace periods.

Yours sincerely

JONATHAN BELL
MINISTER FOR ENTERPRISE TRADE AND INVESTMENT

TOPIC: RENEWABLE HEAT INCENTIVE

Lines to Take:

- I wanted to mention our ~~The NI~~ Non-domestic RHI scheme (I believe this falls under Clive Maxwell's directorate)~~and Domestic RHI Schemes were introduced in Nov 2012 and Dec 2014 respectively~~.
- The RHI is funded through AME and the assumption has been that we would receive around 3% of DECC budget (in 2015/16 -£420m).
- However, our scheme has taken off massively recently and we're running at 5% of GB totals.
- I appreciate that this is ultimately a matter for HMT but would welcome dialogue with DECC to assess options (for example will DECC underspend in which case NI could use this funding; we've previously underspent, has DECC been able to carry money over?)
- ~~After a slow start, uptake of the Non-domestic RHI scheme has increased significantly over the past 11 months with total application numbers trebling. We are now on course to achieve our interim 2015 renewable heat target of 4% before the end of the year. However this success unfortunately comes at a price.~~
- Grateful for any help or shared knowledge on this.

~~To date, NI RHI funding has been allocated on the basis of the Barnett's formula with NI receiving 2.98% of the DECC RHI AME budget. However, the number of non-domestic RHI applications/month in NI are currently running at 5% of GB applications, meaning that the 2.98% allocation is no longer appropriate.~~

~~The increase in applications has seen committed monthly non-domestic RHI payments (for the next 20 years) rise from £430k to over £1.5m over the last 11 months. Forecast RHI expenditure in 2015/16 is now £23.2m. We await confirmation of the 2015/16 NI RHI AME allocation, but under the Barnett formula, we could expect to receive around £12.8m which is just over half what we need. Tariff reductions to curb demand are planned for Oct 2015 but these require legislation and cannot be introduced any sooner. Suspending the non-domestic scheme to new applications would leave my Department open to legal challenge and is not therefore a viable option.~~

~~HMT have previously confirmed that future budget will be made available to cover committed RHI payments (for the next 20 years) associated with any installations accredited onto the NI RHI during the current budget period.~~

~~To date, NI RHI funding has been allocated on the basis of the Barnett's formula with NI receiving 2.98% of the DECC RHI AME budget. However, the number of non-domestic RHI applications/month in NI are currently running at 5% of GB applications, meaning that the 2.98% allocation is no longer appropriate.~~

~~understand that Clive Maxwell is the DECC Director General with responsibility for RHI but can I please ask that officials in his team work closely with DETI officials to ensure that the current DECC AME forecasts that have to be submitted to inform the Chancellor's July budget factor in the current NI AME forecasts. The DETI officials for RHI are John Mills and Stuart Wightman. I understand that Clive Maxwell is the DECC Director General with responsibility for RHI but can I please ask that officials in his team work closely with DETI officials to ensure that the current DECC AME forecasts that have to be submitted to inform the Chancellor's July budget factor in the current NI AME forecasts. The DETI officials for RHI are John Mills and Stuart Wightman.~~

Background

- The Executive's Strategic Energy Framework (SEF) includes targets to increase renewable electricity generation to 40% and renewable heat generation to 10% by 2020.

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It also includes interim 2015 targets of 20% and 4% respectively.

- 20% of our electricity needs are already met by renewables. This has been achieved through the Northern Ireland Renewables Obligation (NIRO) where generators of renewable electricity receive Renewable Obligation Certificate (ROC) payments for 20 years. These are funded by electricity consumers. During 2015, we also expect to achieve the 4% target for renewable heat. The increase in renewable heat can be attributed to the introduction of the NI Renewable Heat Incentive (RHI) in 2012.
- The RHI provides an ongoing financial incentive for non-domestic generators of renewable heat for 20 years. DECC operates a similar scheme in Great Britain. Phase 2 of the NI RHI extended the scheme to the domestic sector in December 2014 and will later expand the list of technologies / applications incentivised in the non-domestic sector.
- Like the NIRO, the RHI is a demand led scheme with owners of renewable heating systems eligible for payments for up to 20 years provided their installations meet pre-requisite standards. This makes it very difficult to manage demand for the scheme and in turn to manage RHI spending. However, unlike the NIRO, the RHI is funded by Government through a 'form' of AME funding from HMT. Making changes to the RHI scheme (including tariff reductions) requires subordinate legislation to be taken through the Assembly via the Affirmative Procedures which can take up to 6 months. This makes it difficult to react quickly to demand and reduce tariffs to manage spending.

NI RHI Budgets

- When the Non-domestic RHI was first introduced in 2012, HMT initially provided £25m of funding for the 4 year period (2011/12-2014/15). This was based on the Barnett's consequential (2.98%) of the DECC RHI funding for the same period. Due to a delay in getting the non-domestic RHI scheme introduced (Nov 2012) together with slow uptake initially, there has been around £15m of an under spend during this period. However an unprecedented increase in uptake of the scheme during the past 11 months has seen monthly application numbers ~~double from June14 to May15. This has seen the total number of applications~~ increase from 208 (30 June 2014) to 651~~ in 11 months~~.
- This success will ensure we achieve our 4% renewable heat target before the end of 2015 and can largely be attributed to the poultry industry which is switching from LPG to biomass heating systems. In addition, biomass heating systems are also being installed in all the new poultry sheds being constructed as part of Moypark's current expansion.
- However, this success comes at a price. The increase in applications has seen committed non-domestic RHI payments (for the next 20 years) rise from £430k to over £1.5m over the last 11 months. Forecast RHI expenditure in 2015/16 is now £23.2m. We await confirmation of the 2015/16 NI RHI AME allocation, but under the Barnett formula, we could expect to receive around £12.8m which is just over half what we need.
- Previous 2015/16 forecasts made in 2014 (based on a smaller sample of 200 applications) had assumed an average monthly increase in non-domestic payments of £60k which would have put total 2015/16 RHI expenditure within the proposed £12.8m budget. However non-domestic RHI payments are currently increasing by over £100k a month. Previous RHI budgets had been underspent so there was nothing to suggest there would be such a large increase in uptake over such a short time.

Introducing Tariff Reductions to Manage Demand

- Changes to the Non-Domestic RHI Scheme including tariff reductions are planned to be introduced in October 2015 but these require legislative changes and are unlikely to be introduced sooner. Suspending the non-domestic scheme now until these changes can be made will leave the Department open to Judicial Review as investors will have already committed expenditure/finance on renewable heating systems on the basis of the current

RHI tariffs. Introducing changes from 1 October will enable a 3 month notice period to be given for the proposed tariff changes. This means monthly RHI payments are likely to continue increasing by over £100k over the next 3 months. The revised AME forecast of £23.2m for 2015/16 factors this in.

Need for clarity over RHI Budgets

- ~~DECC~~ HMT have previously confirmed that future budget will definitely be made available to cover committed RHI payments (for the next 20 years) associated with any installations accredited onto the NI RHI during the current budget period.
- Although our current forecast of RHI expenditure (£23.2m) in 2015/16 is nearly twice the budget we're likely to receive, total expenditure during the 5 year (2011-2016) period will still be well within the allocated NI budget of £37.8m (£25m + £12.8m). Clarification is therefore needed if we can carry any of the unspent AME budget (£15m) from previous years through to 2015/16. We also still trying to seek confirmation from HMT on what the 2015/16 NI RHI budget allocation will be. If we're allowed to carry over the £15m of under spends and receive a budget of £12.8m, we will be able to meet our forecast RHI commitments of £23.2m in 2015/16.
- We will be submitting our revised RHI AME forecast as part of the current exercise to inform the Chancellor's July budget. We need to ensure HMT approve the NI RHI AME forecast and don't just allocate NI 2.98% of DECC's budget. Application numbers for the NI scheme are currently running at 5% of the GB scheme so the 2.98% allocation isn't appropriate going forward.
- If the future NI RHI budget is going to continue to be calculated as 2.98% of the DECC budget, we need to explore if there would be any opportunity/scope for DECC to increase its forecasts to either (i) ensure the NI consequential budget is in line with our forecast; or (ii) to enable surplus DECC RHI budget to be transferred to NI.
- DETI energy and finance officials have been trying to get clarity over the NI RHI budget from DECC/DFP/HMT for some time. Although HMT are ultimately responsible for future AME allocations, opportunities might exist for more funding to be secured for NI through DECC forecasts. The first opportunity to do this is through the current AME exercise to inform the Chancellor's July Budget.~~Clive Maxwell is the DECC Director General with responsibility for the GB RHI. Your meeting with other senior on Thursday 28/5/15 provides a timely opportunity to raise these NI RHI budget issues directly with DECC officials.~~

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NIRO Grace periods

- DECC position is that no further costs can be added to GB consumer bills to pay for special conditions for NI
- DETI consultation on Transition from the NIRO to CfD and Grace Periods

  - 33 responses received;
  - General tenor of responses:
    - longer grace period required;
    - no account taken of cluster delay;
    - concern over CFD transition choice of scheme proposals.

Cost of NI grace period

- Estimated at £40m/yr total cost for a 24 month grace period for large scale.

- Approximately £27m/yr will fall into the first 12 month grace period.

- Further £13m/yr is estimated as the additional cost of a further 120MW wind that is likely to fall into the 2nd year.

- In 13/14 1.8million ROCs where issued to NI – this equates to between £63-72m /year (assuming a ROC value of £35-£40/ROC).

- In comparison in the period April-Oct 14, Drax was issued 4.7 million ROCs which equates to £165m/year (at £35/ROC)

Cluster connections

- Cluster connection policy is unique to NI. DETI has no role. Policy is set by NIE and approved by UR.
- Grid reinforcement costs of £62m have been approved (and verified by the Competition commission inquiry into RP5) to facilitate the connection of renewable generation (already in the pipeline) to a level of 27% in NI. This is based on the clustering process whereby NIE will group or "cluster" generators (generally on shore wind farms) so that they will share network infrastructure.
- Cluster build out delayed by awaiting final agreement on cluster policy between the Regulator and NIE. (Some projects held up since 2010).
- 3 Clusters expected to build out by 2017 (Mid Antrim, Gort, Tremoge) – 300MW
- Further 2 to build out 2017-2019 (Garvagh and Drumquin) – approx 160MW.
- Where there is insufficient potential generation in an area to justify a cluster, then generators would continue to be connected on an individual basis to the 33kV system.

EMR PUBLICATIONS – SUMMARY

- **DETI Strategic Issues Discussion Paper**

  - 70+ substantial responses received to date

  - 150+ template responses

  - General tenor of responses

    - Majority of respondents want Cfds to be implemented
    - Many of the respondents want CfD implementation but with special NI conditions e.g. separate NI pot, separate NI auctions
    - Manufacturing NI, Consumer Council and Federation of Small Businesses calling for CfDs not to be implemented.

  - Responses being sent to DECC today

  - **DECC Call for evidence**

  - 18 responses received

  - DECC have just shared responses with us today.

LEVY CONTROL FRAMEWORK

- This is the budget pot that funds all decarbonisation policies.

- Currently it funds :

    - Renewable Obligation (RO) (UK wide)
    - CfD including early investment projects (UK wide)
    - Small Scale Feed in tariff (SS FIT) (GB only)
    - Electricity Demand Reduction (GB only)

- Currently it is £4.6bn/year rising to £7.6bn/year in 20/21.

- The RO and SS FIT account for £3.5bn and £1.6bn respectively. This will continue during the period of the LCF.

- Post 20/21 the LCF will also cover nuclear and Carbon Capture and Storage (CCS).

- No budget has yet been agreed for the period post March 21.

- Although DECC have assured us that NI will only pay for the UK wide elements of EMR (i.e. RO and CfD) it is not yet clear on the mechanism for this. This will need clarified in due course.

Allocation rounds – budget availability

- DECC SoS is obligated under legislation to give notice of and subsequently publish a budget notice for each yearly allocation round for Cfds – this normally happens in August (give notice) and October (publish) each year.

- The budget notice sets out the overall budget which is available for each delivery year, and the division of the overall budget by "pot".

- The technology groups are as follows:

    - Pot 1 (established technologies): Onshore wind (>5MW), Solar Photovoltaic (PV) (>5MW), Energy from Waste with CHP, Hydro (>5MW and <50MW), Landfill Gas and Sewage Gas

    - Pot 2 (less established technologies): Offshore Wind, Wave, Tidal Stream, Advanced Conversion Technologies, Anaerobic Digestion, Dedicated biomass with CHP, and Geothermal. Scottish Islands, which is subject to state and clearance, may be added – see over page.

    - Pot 3 (biomass conversion).

- In 2014 Pot 1 received £65M and Pot 2 £235m. No allocation was made for Pot 3 in 2014.

- The allocation process then invites bids in all the available delivery years and successful applications are those which are the cheapest, affordable projects irrespective of their delivery year.

- Each delivery year will close when the next lowest strike price bid project in that year would be unaffordable. This may result in different clearing prices for each delivery year.

- In theory, budget for future delivery years could be allocated in earlier allocation rounds.

- But the expectation is that accepted projects might miss milestone dates or reduce in size thus releasing capacity.

- It would also appear that budgets are interchangeable between the various Pots.

Scottish Islands

- The cost of renewables in the Scottish islands is significantly higher than comparable projects on the mainland, even when taking into account higher load factors on the Scottish islands.

- This is mainly because of the expensive subsea transmission links that would be required to connect to the GB grid, but also due to significantly higher operation costs.

- For onshore wind, projects on Orkney and Shetland are around 25% more expensive than their mainland equivalents – DECC and Scottish Government worked collaboratively on an evidence base to support this.

- DECC has argued that there are a particular set of circumstances that exist in relation to projects in the Scottish island, and in particular in relation to the renewable energy resources on and around the Scottish islands.

- DECC argued that these characteristics mean that the development of onshore wind on the Scottish islands constitutes a separate class of renewable generation that warrants separate treatment and potentially a different level of support from other onshore projects

- DECC noted the limited opposition from elsewhere in the UK, arguing that the additional support for renewables on the Scottish islands is unjustified. However, in DECC's view, insufficient evidence was provided to support the claim that other areas of the UK have comparable characteristics and warrant similar treatment as a result.

- Scottish islands projects will be in Pot 2 – less established technologies.

- This means that, initially, they may not be subject to competition but it is likely that Pot 2 technologies will have to compete for limited budget.

- State Aid approval for the Scottish islands strike price is still awaited.

COST SHARING PROPOSALS – YET TO BE AGREED

- Northern Ireland will be required to share the costs associated with the set-up and operational costs of introducing EMR in Northern Ireland.
- The Minister has not been formally advised of these costs as negotiations are ongoing with DECC to finalise figures and the method(s) of payment/recovery.
- The revised proposals to extend the CfD scheme to NI represent a very significant increase in costs to NI consumers and to DETI.
- Indicative figures are approximately:
  - £1m of set up and operational cost to be recovered from consumers between 15/16 and 17/18
  - £900K (legal consultancy and capital funding) to be provided by DETI between 15/16 and 17/18
- Advancement of these proposals will be extremely challenging in terms of Ministerial support and internal approvals of the monies required.

From: Wightman, Stuart
To: Partridge, Jeff
Cc: Cooper, Trevor; Hughes, Seamus; Mills, John (DETI); Thompson, Sandra; Dolaghan, Paul
Subject: FW: DECC Meeting
Date: 28 May 2015 13:25:26

Jeff, please see update from Andrew McCormick on his meeting with DECC this morning. We'll continue to try and engage with DECC officials to see if we can ensure our RHI forecasts are aligned. But in terms of DFP engaging with HMT on our behalf, they should maybe highlight the point made by DECC below that the NI RHI allocation shouldn't be limited by Barnett.

Happy to discuss.

Thanks, Stuart

From: Clydesdale, Alison
Sent: 28 May 2015 12:40
To: Wightman, Stuart
Subject: FW: DECC Meeting

To see re RHI

From: McCormick, Andrew (DETI)
Sent: 28 May 2015 12:25
To: Mills, John (DETI)
Cc: Stewart, Chris (DETI); Hill, Janice; Clydesdale, Alison; Cairns, Timothy
Subject: DECC Meeting

No surprises. Declan was with Jeremy.

They are not yet clear on how the Conservatives' commitments on onshore wind will be taken forward and what implications could arise from political tactics re Scotland. They acknowledged the urgency of decisions and appeared sympathetic to the request for a Ministerial meeting asap.

They indicated that any pressure at Ministerial level with them was for a tight attitude to Grace Periods. Also some respondents had raised the infraction risk if we opt out so that is maybe more of a worry though they saw reasonable defence if we move slowly towards a non-UK renewables scheme in due course if we opt out of EMR.

They said it was right and valid for us to raise the range of requests we had discussed so no reason to hold anything back in our briefing for Minister Bell.

On RHI the steer was that as an AME issue it should not be limited by Barnett and the key was to give HMT early warning of the increased demand - but JP deferred to Clive Maxwell's side for authoritative advice - suggest you speak to them.

Hope this helps.

Many thanks.

Sent from my BlackBerry 10 smartphone.