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From: Fiona Hepper

Date: 8th December 2010

To: 1. Andrew Crawford
2. Arlene Foster MLA

COR 579/2010: RENEWABLE HEAT INCENTIVE

Issue: Dr Alasdair McDonnell MP MLA has written to you with questions relating to the possible introduction of a Renewable Heat Incentive (RHI) in Northern Ireland.

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: Elements of this submission may be exempt under Section 35 of the Freedom of Information Act.

Financial Implications: HMT has advised that £25m of AME is available over the spending period should Northern Ireland choose to introduce a RHI.

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

Legislation Implications: The implementation of a RHI in Northern Ireland will require legislation. DECC has advised that the current "Green Economy and

Energy Security Bill” could be amended in due course to include primary powers for renewable heat for Northern Ireland.

Recommendation:

That you respond to Dr McDonnell using the attached draft at Annex B.

Background

Dr Alasdair McDonnell MP MLA has written to you in relation to the introduction of a Northern Ireland Renewable Heat Incentive (RHI). This letter follows on from a meeting of the Renewable Heat Sub Group of the Forum for Renewable Energy Development.

2. At this Sub Group meeting, held on 27th October 2010, a number of industry representatives voiced concerns about possible job and skills losses to the local renewable heat industry if no financial incentive mechanism is introduced. The Group agreed that the most suitable support mechanism would be a Northern Ireland Renewable Heat Incentive.

Renewable Heat Incentive

3. In his letter, Dr McDonnell seeks assurances regarding support for the renewable heat industry and specifically asks four questions;
 - i) Will a Renewable Heat Incentive be launched in Northern Ireland?
 - ii) When will it be launched?
 - iii) What tariff levels will apply and for how long?
 - iv) Will it be funded by Central Government or the Northern Ireland Executive?
4. From previous submissions and discussions on this issue you will be aware of the background to the renewable heat work, the study considering the development of the market and the impending economic appraisal of a RHI for Northern Ireland.
5. The recent AECOM / Pöyry study into renewable heat demonstrated that the current level of renewable heat in Northern Ireland is low (at 1.7%). However, the potential exists to reach 10% by 2020 providing there is Executive support in terms of policy and financial incentives. At the conclusion of the study you announced that DETI would consider introducing a tailored RHI, providing it was economically viable and appropriate funding was available. Your press release at the time also said that, should a RHI prove viable, that renewable heat installations installed from September 2010 would be eligible for support.

6. An economic appraisal is scheduled to begin w/c 13 December 2010 and conclude in February 2011. This will advise on the most cost-effective method of reaching the 10% target, provide various options for structuring a RHI and indicate the potential impact. I would then intend to seek your approval on an appropriate way forward before going to full public consultation on renewable heat policy and the design and implementation of a RHI.
7. You will be aware that HMT has indicated that funding of £25m will be made available for a Northern Ireland RHI should one go ahead. This funding is spread over the spending period with £2m in the first year, followed by £4m and £7m, with £12m available in the final year.
8. DECC intend to implement the RHI in GB from June 2011 with final details on its design, eligibility requirements and tariff levels being published shortly.

Recommendation

9. I recommend that you respond to Dr McDonnell using the draft attached at **Annex B**.

(SIGNED)

**FIONA HEPPER
ENERGY DIVISION
(Ext 29215)**

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HOUSE OF COMMONS

LONDON SW1A 0AA

Arlene Foster
 Minister for Enterprise, Trade and Investment
 Department of Enterprise, Trade and Investment
 Netherleigh
 Massey Avenue
 Belfast



23 November 2010

Dear *Arlene*

Re: Renewable Heat Incentive

The Forum for Renewable Energy Development has been developed to bring together representatives of the local renewables industry to facilitate discussion of the issues facing the industry, and to agree actions that we believe Government needs to take to support this emerging industry and to protect local jobs.

The Renewable Heat Group is a sub-group of the Forum and we held a meeting on 27th October 2010 which was attended by a wide cross section of the Renewable Heat Industry, NIE Energy and NI Energy Agency.

The Group spoke with one voice regarding the concerns for imminent job and skill losses in the industry if urgent action is not taken by the Northern Ireland Assembly to introduce a financial support mechanism for renewable heat. The Group agreed that the most suitable mechanism would be a Northern Ireland Renewable Heat Incentive.

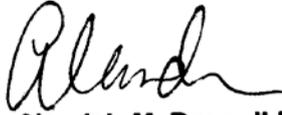
We would request that you provide some reassurance to the local industry by answering the following questions:

1. Will a Renewable Heat Incentive be launched in Northern Ireland?
2. When will it be launched?
3. What tariff levels will apply and for how long?
4. Will it be funded by Central Government or the Northern Ireland Executive?

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The Renewable Heat Group would like to thank you for the time and effort you have applied to the promotion of renewables within Stormont.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alasdair', written in a cursive style.

Dr. Alasdair McDonnell MP

Draft Letter

Dr Alasdair McDonnell MP MLA
South Belfast Constituency Office
120A Ormeau Road
Belfast
BT7 2EB

Dear

Thank you for your letter of 23 November 2010 in relation to the possible introduction of a Renewable Heat Incentive (RHI) in Northern Ireland. May I begin by assuring you that DETI is committed to the development of the renewable heat market in Northern Ireland, as demonstrated by the inclusion of a 10% target for renewable heat by 2020 in the Strategic Energy Framework (SEF). The development of the renewable heat market presents real opportunities to increase fuel security, decrease carbon emissions and create new 'green' jobs.

In response to your specific questions;

Will a Renewable Heat Incentive be launched in Northern Ireland?

Over the past 12 months my Department has carried out a study into the Northern Ireland renewable heat market and the potential to develop this market through available policy levers and financial support. This study came as a result of the EU Renewable Energy Directive, which included obligations on Member States to increase levels of renewable heating, and the developments in renewable heat policy in Great Britain, namely the proposed introduction of a RHI.

The study has demonstrated that there is significant potential to grow the share of renewable heat in Northern Ireland (currently at 1.7%) and that a tailored RHI would be the most appropriate method of developing the market.

I, therefore, made a statement in September 2010, attached for your information, indicating that my Department would begin work to develop such an incentive scheme.

When will it be launched?

In advance of a RHI being launched in Northern Ireland it is only prudent that a full economic appraisal is carried out. This is vital to ensure that any proposed scheme is the most appropriate and cost-effective method of reaching the 10% target set out in the SEF. The appraisal will also assist in determining the potential impact and cost of a Northern Ireland RHI. The appraisal has been tendered and is scheduled to begin shortly and conclude in February 2011.

The economic appraisal will be followed by a public consultation on the design and implementation of the Northern Ireland RHI and the development of appropriate legislation. DECC intend to have the RHI in place in GB by June 2011. The need for public consultation, engagement with stakeholders, consideration of responses and development of legislation may mean that a Northern Ireland RHI will not be in place by that date. However, I have already made clear that all eligible installations from 1 September 2010 will be able to avail of the RHI once it is in place.

What tariff levels will apply and for how long?

Levels and lengths of RHI tariffs will be determined by the aforementioned economic appraisal. These issues will be subject to full public consultation in due course.

Will it be funded by Central Government or the Northern Ireland Executive?

Her Majesty's Treasury (HMT) has informed OFMDFM and DETI that funding of £25m, over the spending period, is available should Northern Ireland choose to implement a RHI.

I trust that this letter has covered all your questions. My Department is committed to developing the renewable heat market and delivering a 10% share of renewable heat by 2020. Evidence has demonstrated that a RHI which takes into consideration the specific nature of the Northern Ireland heat market has the potential to grow the market and give confidence to businesses and consumers to invest.

Once the economic appraisal has been completed I will make a further statement on the future development of renewable heat policy.

ARLENE FOSTER MLA
Minister of Enterprise, Trade and Investment

Press Release – 20 September 2010

FOSTER RECOGNISES IMPORTANCE OF RENEWABLE HEAT INCENTIVE

Energy Minister Arlene Foster has today published the main findings from a significant study examining the potential for renewable heat in Northern Ireland.

The study has concluded that Northern Ireland has the potential to obtain 10% of its heat energy from renewable sources by 2020. It has provided a firm evidence base to allow decisions as to how the market can be most appropriately encouraged and developed.

Commenting on the conclusion of the study Arlene Foster said: **“I recognise the contribution that an increased renewable heat market in Northern Ireland could have, not only on wider energy policy goals such as fuel security and reduced carbon emissions, but also the tremendous opportunities this sector presents for green jobs.”**

Great Britain is currently planning to reward renewable heat installations from April 2011 through a Renewable Heat Incentive (RHI). Decisions on the final design of the RHI will be taken as part of the Government’s spending review.

The Department of Enterprise Trade and Investment study examined the need for a similar scheme and has concluded that a RHI which takes into consideration the specific Northern Ireland heat market should be developed, providing it is economically viable.

The Minister continued: **“The renewable heat industry in GB has been bolstered by the Government’s recent commitment to introduce an incentive scheme. I hope that my announcement today will give similar confidence to the renewable market in Northern Ireland.**

“The Northern Ireland heat market is very different to the market in GB and therefore a specific renewable heat incentive scheme needs to be developed here to take into account our unique circumstances. I believe an RHI model that would support renewable heat installations from September 2010 could work for Northern Ireland as it has the potential to provide long-term stable support and confidence for the market to invest.

“In light of the current financial constraints that government is facing it is important that a full appraisal is carried out on a Northern Ireland specific RHI to ensure that it is viable, economic and could be appropriately funded in the future.

“My Department will start this work as soon as possible.”

Notes to editors:

1. Renewable Heat is heating space or water through renewable sources or technologies. The most common domestic applications of renewable heat are biomass boilers, solar thermal hot water heating and ground source and air source heat pumps. On a larger scale heat can be created through the process of anaerobic digestion (AD) where biogas is produced and can be used to generate heat directly or can be injected into the gas network. Another example of large scale renewable heat technology is Combined Heat and Power (“CHP”) technology, under this process electricity and heat is produced by and be therefore be captured and used.
2. The Executive Summary of the report can be found at www.detini.gov.uk
3. For media enquiries, please contact DETI Press Office on 028 9052 9297. Out of office hours contact the Duty Press Officer via pager number Irrelevant information redacted by the RHI Inquiry and your call will be returned.