

From: [Hepper, Fiona](#)
To: [Private Office DETI](#)
Cc: [Thomson, David](#); [Cooper, Trevor](#); [Brankin, Bernie](#); [McCutcheon, Joanne](#); [McCune, David](#); [Martin, Olivia](#); [McBriar, Trevor](#); [Hutchinson, Peter](#); [Stewart, Susan](#); [Aiken, Glynis](#); [Neth Energy](#); [Press Office](#); [Ross, Alastair](#); [Baxter, Clare](#)
Subject: THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE - BRIEFING FOR THE ETI COMMITTEE AND LETTER TO MINISTERIAL COLLEAGUES
Date: 17 June 2011 15:03:37
Attachments: [NI RHI Briefing to ETI and Min Colleagues.DOC](#)
Importance: High

Private Office

See attached for consideration

Fiona

Fiona Hepper

Senior Management

Department of Enterprise, Trade & Investment

Netherleigh

Massey Avenue

Belfast, BT4 2JP

Tel: 028 9052 9215 (ext: 29215)

Textphone: 028 9052 9304

Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?



Copy Distribution List Below

From: Fiona Hepper

Date: 17th June 2011

1. Andrew Crawford
2. Arlene Foster MLA

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE – BRIEFING FOR THE ETI COMMITTEE AND LETTER TO MINISTERIAL COLLEAGUES

- Issue:** To provide written briefing to the ETI Committee on the proposed design of the Northern Ireland Renewable Heat Incentive (RHI) in advance of consultation. A draft letter to Ministerial Colleagues is also attached.
- Timing:** This written briefing is scheduled to be tabled at the ETI Committee meeting of 30 June and therefore needs to issue to the Committee Clerk no later than Thursday 23 June.
- PfG implications:** Not applicable
- Need for referral to the Executive:** Not at this stage, although a Ministerial colleagues letter is attached should you wish to inform the Executive of progress and the forthcoming consultation.
- 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 for a Northern Ireland RHI.
- Legislation Implications:** Energy Division is currently working with colleagues in the Department of Energy and Climate Change (DECC) in London to finalise the legislation to extend renewable

heating powers to Northern Ireland. This will be followed, in due course, by subordinate legislation in the Assembly.

PSA/PFG Implications: None at present, but it is likely that new PSA targets in relation to renewable heat will have to be developed.

Statutory Equality Obligations: Not applicable

Recommendation: That you note this submission and agree to the letters to the ETI Committee Chair and Executive Colleagues issuing, along with the appended overview of the preferred approach.

Background

Following our meeting of Tuesday, 14 June, as agreed this briefing provides a more detailed overview of the preferred approach to a Northern Ireland Renewable Heat Incentive (RHI) and attaches a paper to be shared with the ETI Committee and Executive Colleagues. The ETI Committee are scheduled to consider the issue of a Northern Ireland RHI at their meeting on Thursday, 30 June.

Support for the Northern Ireland Renewable Heat market

2. In my previous submission on the economic appraisal of the Northern Ireland RHI, several options were presented for dealing with financial incentives for the local renewable heat industry. These options were;
 - i. Do nothing
 - ii. A Renewable Heat Challenge Fund
 - iii. A 50% Capital Grant Scheme
 - iv. Implementing the GB RHI
 - v. Implementing a specific RHI for Northern Ireland.

3. Following consideration, you agreed that a Northern Ireland RHI should be designed and implemented; officials are currently drafting a consultation document to this end. The Northern Ireland incentive measures will have three elements;
 - i. A RHI scheme, similar in administration and eligibility to the GB scheme, for the non-domestic sector to be in place by 1 April 2012.
 - ii. Interim support for the domestic sector in the form of capital grants, similar to the GB "Renewable Heat Premium Payment" scheme.
 - iii. Support for heavy industrial sector, with this sector to be treated outside of the mainstream RHI with different eligibility and accessibility requirements.

4. In addition, the proposed consultation document will include a discussion section on the establishment of a renewable heat strategy group and a call for evidence into the barriers (both financial and non-financial) of deep geothermal energy.
5. An overview of the proposed scheme and the consultation, in the form of a briefing paper for the ETI Committee, is attached at **Appendix I**.

Northern Ireland Renewable Heat Incentive (RHI)

6. The Northern Ireland RHI will be broadly similar to the GB RHI scheme. However, it will be specifically tailored for Northern Ireland in terms of technologies and tariff levels. The scheme should be in place, pending necessary legislation, by 1 April 2012. It will be open to all non-domestic customers, barring those heavy industrial sites defined as being sufficiently large to be covered by the EU Emissions Trading Scheme (EU ETS), with the domestic sector introduced by October 2012, this is in line with GB commitments.
7. The methodology behind the tariff levels will be similar to that used by the Department of Energy and Climate Change (DECC), i.e. a 12% rate of return for all technologies barring solar thermal which will receive a 6% rate of return. As previously discussed, the major difference between the actual tariff levels is that the Northern Ireland levels in GB and Northern Ireland will be based on a counterfactual position of oil as it is the predominant heating fuel in Northern Ireland. The GB counterfactual position was natural gas. The higher starting cost for heating energy in Northern Ireland means that less of an incentive is actually required to encourage the switch to renewable heat.
8. It has been important to have this counterfactual position as, taking a different position which resulted in higher tariff levels, could lead to existing gas customers being encouraged to switch to renewable heat. This would have negative consequences on the existing gas market which DETI, under statute, is obliged to develop and maintain. This would especially be true in large-scale applications and could impact on gas distribution costs.
9. The final tariff levels and final list of eligible technologies is currently being considered by Energy Division. At this stage it is likely bioliquids will receive a tariff under the Northern Ireland scheme, unlike the GB scheme. There is also consideration being given to the inclusion of air-source-heat-pumps (ASHPs) which are not scheduled to be incentivised in the GB scheme. The call for evidence into deep geothermal may also allow a specific tariff to be set of that technology in advance of implementation.

Interim support for the domestic market

10. As in GB, the domestic market will not be eligible for RHI payments from the outset of the scheme but will be phased into the scheme by October 2012. The reason for this is the difficulty in measuring actual heat use in domestic households and the costs of heat metering. DECC will shortly begin work on delivery of phase 2 of the RHI in GB, this work will include an assessment on how to support the domestic market.

11. In the interim, DECC has announced the introduction of 'Renewable Heat Premium Payments' which will provide capital grant funding for domestic customers in advance of October 2012. The levels of grant available in GB are as follows;
- a. Solar Thermal - £300 per unit
 - b. Air Source Heat Pump - £850 per unit
 - c. Biomass Boiler - £950 per unit
 - d. Ground Source Heat Pump - £1250 per unit
12. DETI has funding of £2m for this year and when we met on the 14 June we discussed utilising this funding in a similar method, if possible. This proposal will be included in the consultation along with proposed levels of funding. As per your press release of September 2010, those who have installed since 1 September 2010 will also be able to claim grant.

Support for the heavy industrial sector

13. Given the nature of the heavy industrial sector (17 sites accounting for 22% of total heat demand) they will be treated outside of the mainstream RHI with differences in eligibility and accessibility. This will include DETI considering applications for support from those within this sector and determining whether support will be granted. By applying the same eligibility standards to this sector there could be danger that schemes that are unsustainable, in terms of fuel supply, or already cost-effective, would be supported.
14. In addition, DETI, as already mentioned, has an obligation to develop and maintain the growing natural gas industry. Industrial heat loads, in many cases, are vital to the existing and future gas market. DETI does not wish to incentivise large scale sites that might be key to the viability to the existing, or future, gas network.

Briefing to the ETI Committee

15. The (past) ETI Committee has shown an interest in the development of a RHI for Northern Ireland and included it as recommendation within their inquiry into renewable energy. The (new) Committee are scheduled to consider the issue at their meeting of 30 June 2011 and written briefing is attached at **Appendix I**, a covering letter to the Committee Chair is attached at **Annex A**.
16. The ETI Committee will receive copies of the consultation paper once it is issued and will be invited to any consultation events, should any be held. The Committee will then be briefed again on the responses to the public consultation in advance of the implementation of a final scheme.

Ministerial Colleagues Letter

17. At this time, I suggest it is appropriate to inform Ministerial Colleagues of the progress in this work and the impending consultation, as the RHI will be introduced in support of an Executive endorsed target. A Ministerial Colleagues letter is attached at **Annex B**, the briefing paper (**Appendix I**) for the ETI Committee should also be shared with Ministerial Colleagues. The letter

outlines the progress on this issue and also advises on the need for a renewable heat strategy group to consider wider issues, such as;

- i. Biomass sustainability;
- ii. Opportunities for public sector;
- iii. Need for increased renewable skills;
- iv. Opportunities in social housing and fuel poverty;
- v. Green jobs; and
- vi. Linkages with the Sustainable Development Plan.

18. Currently the Sustainable Energy Inter Departmental Working Group (SEIDWG) has a working group focussed on bioenergy issues. I would propose expanding this groups remit and membership to consider wider issues relating to renewable heat also. The next meeting of this group is 18 October 2011, and by way of this letter Departments are asked to nominate additional representation.

Legislative Position

19. You will be aware that an amendment has been tabled to the DECC 2011 Energy Bill that will extend powers for renewable heat to Northern Ireland and allow for the Northern Ireland RHI to be introduced via subordinate legislation in due course. The amendment is still subject to House of Commons approval. Energy Division's legal advisors, Arthur Cox, have however started work on drafting appropriate subordinate legislation so an early copy of the regulations can be included in the public consultation.

Consultation Process

20. The consultation documents should be drafted by Friday 1 July and will be sent to you for approval along with an appropriate press release.
21. With your approval, the consultation process will last for 10 weeks. This is less than the standard 12 weeks but will allow for work on designing and implementing the final scheme to begin in early September.
22. Consultation events can be held over the summer if there is a strong interest amongst stakeholders.

Recommendation

23. I recommend that you note this submission and agree to the follow documents issuing;

- **Annex A** – letter to the ETI Committee Chair
- **Annex B** – Ministerial Colleagues letter
- **Appendix I** – Overview of the Northern Ireland RHI (to issue with both the letter to the ETI Chair and also to Ministerial Colleagues)

24. I also ask that you agree to the consultation period lasting 10 weeks.

25. I am happy to discuss any issues within this submission as required.

(signed)
FIONA HEPPER
ENERGY DIVISION
(Ext 29215)

Distribution List:

cc: David Thomson
Trevor Cooper
Bernie Brankin
Joanne McCutcheon
Olivia Martin
Trevor McBriar
Clare Baxter
David McCune
Peter Hutchinson
Susan Stewart
Glynis Aiken
Neth Energy
Press Office
Alistair Ross, MLA, APS

DRAFT LETTER TO THE CHAIRMAN OF THE ETI COMMITTEE

Alban Maginness
ETI Committee Chair
Northern Ireland Assembly
Parliament Buildings
Belfast
BT4 3XX

Dear

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)

You are already aware of the work that my Department has been carrying out over the last 12 months or so to assess the potential of the Northern Ireland renewable heat market and to develop an appropriate incentive scheme for the local industry. I now wish to provide you with a further update on this work and advise that DETI intend to launch a full public consultation on the design of a Northern Ireland RHI in July. Following this, and assuming all appropriate steps are taken and legislation passed, I would anticipate implementation of the RHI in April 2012.

The final design of the (draft) scheme is still being worked on by officials in my Department but I wanted to give you an outline of my proposals at this stage, in advance of consultation and the summer recess. A full written briefing is attached at **Appendix I** which gives background to the work, the GB position, the proposed Northern Ireland scheme and consultation paper and the necessary next steps for full implementation.

It is proposed that the Northern Ireland RHI would have three elements;

1. A Renewable Heat Incentive for the non-domestic market to be in place by April 2012. The domestic market will be supported in phase 2 of the process, with a scheme for the domestic sector to be in place by October 2012, in-line with GB proposals.

2. Interim grant support for domestic installers, with £2m available for householders until 1 April 2012, this will not prevent their inclusion in a future incentive scheme. However, if a grant is accepted, any future incentive would be adjusted accordingly to ensure that applicants were not over-rewarded.
3. Support for the heavy industrial sector in the form of incentive payments however with different eligibility requirements than the mainstream RHI for the rest of the non-domestic sector.

The rationale for this approach is provided in more detail in the appended overview. However, in short, I believe that this approach provides the most appropriate approach for Northern Ireland. The most commercially viable installations will be incentivised first, the domestic market will receive up-front support for installations (in essence a front-loading of support) and the heavy industrial sector will be supported where installations are technically viable, provide value for money and can be sustainably developed without impacting negatively on the emerging gas market.

The RHI that will be in place in Northern Ireland will be quite similar in terms of eligibility requirements and administration; the major differences will be within the technologies incentivised and the tariffs available. At this stage, in addition to the technologies supported in GB, I am also considering the inclusion of some air-source-heat-pumps and some bio-liquids within the Northern Ireland scheme. The tariffs for all of the technologies are currently being finalised. These will be based along similar lines to GB (i.e. 12% rate of return for all technologies, barring solar thermal which will have a 6% rate of return). Northern Ireland tariffs will, however, be based on a counterfactual position of oil, rather than natural gas.

In the consultation I will be including a call for evidence into the potential for deployment of deep geothermal schemes in Northern Ireland, the costs of these schemes and the barriers, both financial and non-financial, that developers face. As the scheme stands, deep geothermal will be eligible for similar tariffs as ground-source-heat-pumps. However, I would be keen for more evidence to be gathered on this technology, given the potential resource in Northern Ireland, and to ensure an appropriate tariff level is set. I am sure you will support me in this.

Subordinate legislation which will prescribe how the scheme will be administered will be necessary in due course and my officials will be engaging with the Committee on this issue after the summer recess. The future legislation is, however, subject to the amendment tabled to the GB 2011 Energy Bill, relating to renewable heating powers for Northern Ireland, being successful. At this stage, I am hopeful that the amendment will be passed before Parliament rises for the summer.

In terms of next steps, my officials are currently in the process of finalising the consultation document with a view to this issuing in early July; unfortunately I am not in a position to share this document with you at this stage. I therefore propose to ensure that copies of the consultation and relevant appendices are sent to the Committee for your consideration as the consultation is launched. If any consultation events are held over the summer to gather early views on the scheme I will ensure that the Committee is notified and invited – although at this stage I do not anticipate any.

The consultation will last 10 weeks, this will allow final policy decisions to be taken in a timely manner and for work on implementation to begin. The Department will provide the Committee with an overview of the responses to public consultation and advise on the shape of a final scheme well in advance of implementation.

I trust that you find this letter and the attached overview useful and look forward to hearing the Committee's comments on the proposed scheme in due course.

ARLENE FOSTER MLA
MINISTER OF ENTERPRISE, TRADE AND INVESTMENT

FROM: Arlene Foster MLA

DATE: xxx JUNE 2011

TO: MINISTERIAL COLLEAGUES

DEVELOPMENT OF THE NORTHERN IRELAND RENEWABLE HEAT MARKET AND ESTABLISHMENT OF A CROSS-DEPARTMENTAL RENEWABLE HEAT STRATEGY GROUP

You will be aware that in September 2010 the Executive approved the Strategic Energy Framework (SEF), which included a target of 10% renewable heat by 2020. Currently only 1.7% of Northern Ireland's total heat demand is met by renewable sources with there being an over-reliance on imported fossil fuels. To increase the level of renewable heat and therefore increase Northern Ireland's fuel security, my Department intends to introduce a Renewable Heat Incentive (RHI) for Northern Ireland, as well as other policy measures.

In Great Britain (GB), the Department of Energy and Climate Change (DECC) intend to introduce a RHI shortly, once relevant subordinate legislation is passed at Westminster. Research carried out by Department has demonstrated that the GB RHI would not be appropriate in Northern Ireland and would have the potential to over-incentivise some renewable heat technologies, whilst excluding others. The GB RHI could also have an adverse affect on the emerging gas industry which my Department has an obligation, under statute, to maintain and develop. It was for this reason that in September 2010 I announced my intention to introduce a specifically tailored RHI for Northern Ireland. An economic appraisal on this issue has recently completed and I shortly intend to launch a public consultation on the matter. In advance of this I wanted to notify Executive Colleagues of DETI's proposals.

In determining the most appropriate method of support for the renewable heat market a number of options were considered, they were;

- i) Do Nothing
- ii) Renewable Heat Challenge Fund
- iii) 50% Capital Grant Funding
- iv) Implementing the GB RHI scheme
- v) Specific NI RHI scheme

More information on these options and background to the work on renewable heat is available in a briefing paper that my Department has provided to the ETI Committee. I have attached this paper at **Appendix I** for your information.

Following consideration of the various options I propose that the Northern Ireland renewable heat market would be best incentivised through a specific Northern Ireland RHI. My officials are currently working on a consultation document outlining the design and implementation of such a scheme, this will issue in July.

It is proposed that the Northern Ireland RHI would have three elements;

1. A Renewable Heat Incentive for the non-domestic market to be in place by April 2012. The domestic market will be supported in phase 2 of the process, with a scheme for the domestic sector to be in place by October 2012, in-line with GB proposals.
2. Interim grant support for domestic installers, with £2m available for householders until 1 April 2012, this will not prevent their inclusion in a future incentive scheme. However, if a grant is accepted, any future incentive would be adjusted accordingly to ensure that applicants were not over-rewarded.
3. Support for the heavy industrial sector in the form of incentive payments however with different eligibility requirements than the mainstream RHI for the rest of the non-domestic sector.

The rationale for this approach is provided in more detail in the appended overview. However, in short, I believe that this approach provides the most appropriate approach for Northern Ireland. The most commercially viable installations will be incentivised first, the domestic market will receive up-front support for installations (in essence a front-loading of support) and the heavy industrial sector will be supported where installations are technically viable, provide value for money and can be sustainably developed without impacting negatively on the emerging gas market.

The RHI that will be in place in Northern Ireland will be quite similar in terms of eligibility requirements and administration; the major differences will be within the technologies incentivised and the tariffs available. At this stage, in addition to the technologies supported in GB, I am also considering the inclusion of some air-source-heat-pumps and some bio-liquids within the Northern Ireland scheme. The tariffs for all of the technologies are currently being finalised. These will be based along similar lines to GB (i.e. 12% rate of return for all technologies, barring solar thermal which will have a 6% rate of return). Northern Ireland tariffs will, however, be based on a counterfactual position of oil, rather than natural gas.

In the consultation I will be including a call for evidence into the potential for deployment of deep geothermal schemes in Northern Ireland, the costs of these schemes and the barriers, both financial and non-financial, that developers face. As the scheme stands, deep geothermal will be eligible for similar tariffs as ground-source-heat-pumps. However, I would be keen for more evidence to be gathered on this technology, given the potential resource in Northern Ireland, and to ensure an appropriate tariff level is set. I am sure you will support me in this.

It should be noted however that there are a number of factors outside of DETI's remit that will impact on the success of the Northern Ireland RHI, indeed for opportunities to be maximised and for the optimum potential of the local renewable heat market to be reached there needs to be a cross-departmental approach. To this end, I would propose the establishment of a Renewable Heat Strategy Group to consider issues relating to the development of the renewable heat market such as; biomass sustainability; opportunities for the agri-sector, for the public sector, for businesses, for homes, for jobs; the need for increased skills in this sector; consideration of the impact on fuel poverty; and linkages with existing cross-departmental strategies such as the Sustainable Development Plan.

This new group will sit under the Sustainable Energy Inter-Departmental Working Group (SEIDWG) which I chair. There already exists an inter-departmental group that focuses on bio-energy issues, I am proposing that this group is expanded and re-named the Renewable Heat Strategy Group. Existing members of this group will be expected to continue in their roles, this includes DARD, DoE, DFP (both Central Procurement and Corporate Services), DRD and Invest NI.

By way of this letter, I am asking for additional nominations from Departments to be part of this group, specifically from DSD, DEL and OFMDFM but from all Departments and/or agencies as appropriate. The first meeting of this group will take place on 18 October 2011 in Netherleigh. If your officials have any questions about this group they should contact Peter Hutchinson, DETI Renewable Heat Branch, in the first instance.

I look forward to this group becoming established and considering issues relating to bio-energy and the wider renewable heat market.

I trust that this letter and the appended overview has been useful in advising of the work underway on the development of the renewable heat market and the proposed Northern Ireland RHI scheme. I will ensure that you each receive copies of the public consultation once it is launched and I will keep you informed of progress over the coming months.

ARLENE FOSTER MLA
Minister of Enterprise, Trade and Investment

OVERVIEW OF PROPOSED DETI SUPPORT FOR THE RENEWABLE HEAT MARKET – CONSULTATION SCHEDULED JULY 2011

Introduction

1. Renewable heat is simply heat produced from renewable sources such as solar radiation, biomass materials, heat pumps, geothermal energy, anaerobic digestion and waste materials.
2. The EU Renewable Energy Directive (2009/28/EC)¹, published in the Official Journal of the European Union on 5 June 2009, set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020. This requirement extends beyond electricity to heating and cooling and to transport. Northern Ireland is expected to contribute to the UK's share of the EU target and therefore DETI has carried out significant research into how best the local Northern Ireland renewable heat market could be encouraged, developed and incentivised.

The GB Renewable Heat Incentive (RHI)

3. The Department of Energy and Climate Change (DECC) has set a target of 12% renewable heat for England and Wales by 2020, this target, coupled with the 30% target for renewable electricity consumption, will assist in Great Britain meeting its requirements under the Renewable Energy Directive. Scotland has a separate target of 11%, although is included under the wider GB RHI.
4. In order to achieve this target, DECC has made clear plans to introduce a RHI in Great Britain from July 2011². The RHI in Great Britain will initially only be open to the non-domestic sector, DECC has recently initiated research to consider how the domestic sector should be incentivised with a view to supporting that sector from October 2012. In the interim, domestic consumers wishing to install renewable heating technologies can apply for 'renewable heat premium payments' to support the capital cost of the installation.
5. The RHI is seen as a ground-breaking initiative which will provide the necessary financial support to increase the level of renewable heat generation significantly. Over the next 4 years, DECC anticipate that £860m will be invested in new renewable heat installations, this investment will go beyond 2015/2016 as new installations are supported for 20 years under fixed tariffs. The tariffs set by DECC are designed to provide a rate of return of 12% (considering the capital costs, operating costs and non-financial 'hassle' costs) across each technology, barring solar thermal which will have a rate of return closer to 6%.
6. The scheme will be open to new applicants until 2020 and will be administered by Ofgem.

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:EN:PDF>

² <http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/Energy%20mix/Renewable%20energy/policy/renewableheat/1387-renewable-heat-incentive.pdf>

Tariff Name	Eligible Technology	Eligible Sizes	Tariff Duration (years)	GB Tariff Levels (pence per kWh)
Small Biomass	Solid biomass; Municipal solid waste (inc. CHP)	Less than 200 kWth	20	7.6 (1.9 after a certain level)
Medium Biomass		200 kWth and above; less than 1,000 kWth	20	4.7 (1.9 after a certain level)
Large Biomass		1,000 kWth and above	20	2.6
Small Ground Source	Ground-source heat pumps; Water-source heat pumps; deep geothermal	Less than 100 kWth	20	4.3
Large Ground Source		100 kWth and above	20	3
Solar Thermal	Solar thermal	Less than 200 kWth	20	8.5
Biomethane	Biomethane injection and biogas combustion, except from landfill gas	Biomethane all scales, biogas combustion less than 200 kWth	20	6.5
Likely levels of support for RHI Premium Payments for the domestic sector				
Solar Thermal		£300/unit		
Air Source Heat Pumps		£850/unit		
Biomass boilers		£950/unit		
Ground Source Heat Pumps		£1250/unit		

The Northern Ireland Renewable Heat Market

- Northern Ireland is not included as part of the wider Great Britain RHI. There are many differences between the heat and renewable heat markets in Great Britain and Northern Ireland that mean that it is appropriate for a separate assessment to be taken on how the local market can be developed. These differences include Northern Ireland's high dependency on oil, with an emerging gas market, in comparison to GB's developed gas market and minimal use of oil. There are also differences in the heat density with Northern Ireland being much more rural in nature. Finally, variances in energy costs have meant a separate assessment was required.
- In December 2009, DETI commissioned research into the existing heat and renewable market so an assessment could be made on the optimum growth potential of the market, methods for developing the market and an appropriate target for 2020. The study was carried out by AECOM Ltd and Pöyry Energy Consulting and was part financed by the European Regional Development Fund

under the European Sustainable Competiveness Programme for Northern Ireland.

9. This study demonstrated that Northern Ireland is almost wholly dependent on imported fossil fuels for heating demand, with only 1.7% of heating demand coming from renewable sources. The total heat demand in Northern Ireland has been estimated at 17,362 GWh per year, this compares to 668,000 GWh per year in the United Kingdom as a whole and 64,534 GWh (heat consumption) per year in the Republic of Ireland.
10. The overwhelming heating fuel in Northern Ireland is heating oil. Oil accounts for over 87% of the heating demand in the domestic sector and around 77% of the entire heat demand overall. This is a very different situation in comparison to Great Britain where the natural gas market is prevalent and accounts for 68.8% of heating demand with heating oil only accounting for 10%. This mix of heating fuels in Northern Ireland is detailed below.

Fuel / Energy type	Domestic (GWh)	Industrial, Commercial and Public (GWh)	Total (GWh)
Oil	9,241	4,103	13,444
Gas	973	1,991	2,964
Economy 7 Electricity	176	41	217
Renewables	No information on split	No information on split	290
Coal	110	438	547
TOTAL			17,362

11. Looking towards 2020, analysis undertaken indicates that Northern Ireland's overall heat demand is predicted to fall from 17.4 TWh per year to 16.7 TWh with rises in demand from new development being outweighed by reductions in demand and energy efficiency improvements. Taking into account the existing 300 GWh of renewable heat already present a target of 10% for 2020 equates to an additional 1.3 TWh or 1300 GWh of renewable heat.

Economic Appraisal of a Northern Ireland RHI

12. In February 2011, DETI commissioned Cambridge Economic Policy Associates (CEPA) and AEA Technologies to carry out an economic appraisal of various methods of potential financial assistance for the renewable heat industry. Funding of £25m over the next 4 years has been made available to DETI from Her Majesty's Treasury (HMT) for the development of renewable heat in Northern Ireland. The options considered were as follows;
 - i. **Do Nothing**
 - ii. **A Renewable Heat Challenge Fund** – A competitively awarded grant where applicants would be ranked on the amount of renewable heat produced and the cost-effectiveness. Capital grant funding would be made available to successful applicants and the process repeated on a yearly basis.

- iii. **50% Capital Grant** – Similar to the scheme run by the ‘Reconnect’ scheme administered by DETI between 2006-2008, successful applicants would be awarded 50% grant funding for eligible installations. Unlike the challenge fund concept this would be on a ‘first come first served’ basis rather than competitively awarded.
- iv. **Implement the GB RHI** – Implementation of the existing GB scheme with no specific alteration for Northern Ireland.
- v. **Specific RHI for Northern Ireland** – A scheme that would be similar in nature, design and administration to that of the GB scheme, however with specific consideration of the nature of the Northern Ireland renewable heat market in terms of tariffs, technologies and other issues.

Proposed approach

13. Following consideration of the various options it was concluded that the best approach for Northern Ireland was the introduction of a specific RHI, tailored to suit the needs of the Northern Ireland heat industry. This approach is in line with the GB view that long-term consistent support is required to grow this important industry, rather than stop-start grant funding. This approach is also similar to the experience of the Northern Ireland Renewables Obligation (NIRO) which provides long term support for renewable electricity generation and has supported a trebling of renewable electricity generation since its introduction.
14. The public consultation will therefore set out the measures required to develop the renewable heat industry and to utilise the funding provided by HMT. Within the consultation there will be various elements raised, as follows.

RHI for Northern Ireland

15. A RHI will be introduced in Northern Ireland from 1 April 2012 for all non-domestic customers, barring the heavy industrial sector which will be treated separately. The RHI will incentivise a range of technologies by providing tariffs for actual renewable heat generated; these tariffs will last for 20 years.
16. At this stage, the scheme will be open to new applicants until 31 March 2015, at which stage there will be a review. However it is anticipated that the scheme will be extended to 2020, with any required modifications, in line with GB. HMT has confirmed to DETI that funding will be provided to cover the 20 year tariff payments for all those who enter the scheme before 31 March 2015.
17. The tariffs and eligible technologies are still being finalised. The tariffs are based on providing a 12% rate of return for all technologies, barring solar thermal which will receive a 6% rate of return, against a counterfactual position of heating oil. All established technologies will be supported from the outset and consideration is being given to the inclusion of bio-liquids and air-source-heat-pumps (both excluded from the GB scheme) from the beginning of the scheme.
18. The consultation will also include consideration of the treatment of anaerobic digestion (AD) systems. Evidence would suggest that the current levels of support under the NIRO for AD systems producing renewable electricity are sufficient and therefore providing additional RHI would not be value for money.

Interim Support for Domestic Consumers

19. As the domestic market will not be able to avail of the RHI immediately, DETI intends to make £2m available this year (2011-12) for capital grant support for those wishing to install renewable heat technologies. This is similar to the 'Renewable Heat Premium Payments' in GB.
20. Consideration of long-term incentivisation of the domestic market will then be given in conjunction with DECC with a view to having a suitable RHI scheme in place by October 2012.

Support for heavy industrial market

21. Given the nature of the heavy industrial sector (17 sites accounting for 22% of total heat demand) they will be treated outside of the mainstream RHI with differences in eligibility and accessibility. This will include DETI considering applications for support from those within this sector and determining whether support will be granted. By applying the same eligibility standards to this sector there could be danger that schemes that are unsustainable, in terms of fuel supply, or already cost-effective, would be supported.
22. In addition, DETI has an obligation to develop and maintain the growing natural gas industry. Industrial heat loads, in many cases, are vital to the existing and future gas market. DETI does not wish to incentivise large scale sites that might be key to the viability to the existing, or future, gas network.

Call for evidence on Deep Geothermal Energy

23. Similar to the GB scheme, it is currently recommended that deep geothermal energy systems are awarded the same tariff level as ground-source-heat-pumps. DETI is aware of the potential within this market and is keen for the correct incentive levels to be developed. The consultation will therefore include a call for evidence on the barriers to deep geothermal energy, both financial and non-financial. This call for evidence will assist in the development of specific deep geothermal tariffs, if appropriate.

Establishment of a Cross-Departmental Group on Renewable Heat

24. In order for opportunities for renewable heat deployment to be realised and the potential benefits maximised it is important that a strategic view is taken. In order to achieve this it is proposed to establish a renewable heat strategy group which will consider such issues as the implementation of the RHI, maximising indigenous fuel supply, developing opportunities for business and considering linkages to related issues such as fuel poverty.
25. Executive Ministers have been asked to provide appropriate nominations to this group so it can meet following the summer recess to consider cross-cutting issues on renewable heat.

Renewable Heat in Republic of Ireland

26. The Department of Communications, Energy and Natural Resources (DCENR) is currently reviewing possible policy options which are available to support the renewable heat market in the Republic of Ireland. Currently there are no direct incentives for renewable heating; however some renewable heat is indirectly supported in the form of the Renewable Energy Feed-in-Tariff for renewable combined heat and power plant.

Timescales and Next Steps

27. The consultation paper on the development of the Northern Ireland Renewable Heat Market and the proposed incentive mechanisms will be finalised in the next few weeks. The public consultation will then be launched in early July and last 10 weeks. We will ensure that the consultation document and associated appendices are sent to the Committee; however this may be during the summer recess.

28. Following the consultation period the final scheme will be developed and presented to the Committee and published on the DETI website, with all interested stakeholders notified. Subordinate legislation will then be put in place to provide the legal framework for the scheme to be administered and for payments to be made. It is anticipated that the scheme will be in place by 1 April 2012.

29. The first meeting of the Renewable Heat Strategy Group will take place on 18 October 2011. This meeting will focus on discussing the membership, objectives and purposes of the group, the shape of the NI RHI and the ongoing bio-energy issues that the group is already tasked with.

30. DETI will undertake to carry out regular reviews of the incentive scheme and will endeavour to keep the Committee up to date with any proposed amendments to the scheme.

Recommendation

31. The Committee is invited to note the proposed outline of the Northern Ireland RHI and the next steps in the design and implementation of the