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To:	Private Office DETI
Cc:	Sterling, David; McCutcheon, Joanne; Baxter, Clare; Hutchinson, Peter; Aiken, Glynis; Neth_Energy; Press Office; Ross, Alastair; Stevenson, Valerie; McLaughlin, Christine
Subject:	INV 1100/2011: NORTHERN IRELAND RENEWABLE HEAT INCENTIVE
Date:	03 August 2011 09:20:25
Attachments:	INV 1100 2011 Minister meeting John Gilliland re RHI.DOC

Private Office

See attached briefing for the meeting with Dr John Gilliland

Fiona

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From: Fiona Hepper

Date: 3 August 2011

1. Andrew Crawford
2. Arlene Foster MLA

INV 1100/2011: NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

Issue:	You have agreed to meet with Dr John Gilliland OBE, Rural Generation, to discuss the Northern Ireland Renewable Heat Incentive (RHI). The meeting is scheduled for Wednesday, 10th August at 11.45am – 12.30pm, with a pre-brief at 11.30am.
Timing:	Routine
Need for referral to the Executive:	Not applicable at this stage.
Presentational Issues:	None.
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.
Legislation Implications:	Subordinate legislation will be required in due course to cover administration aspects of the Northern Ireland RHI.
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:	I recommend that you note the attached briefing.

Background

You are scheduled to meet with Dr John Gilliland OBE on Wednesday, 10th August at 11.45pm. The meeting is primarily to discuss the introduction of a Renewable Heat Incentive (RHI) in Northern Ireland.

2. Dr Gilliland is the Chairman of Rural Generation, a company primarily focussed on the provision of renewable heating solutions, both in terms of renewable heat equipment and renewable fuels. Dr Gilliland has been consistent in calling for the introduction of a RHI in Northern Ireland. His letter of 1June 2011 is attached at **Annex A** for ease of reference.

The Northern Ireland Renewable Heat Incentive

3. The consultation on the Northern Ireland RHI was launched on Wednesday, 20 July 2011 and will be open until Monday, 3 October 2011. The consultation document includes a range of proposals as follows;

    - A Northern Ireland RHI;
    - Interim support for domestic consumers in the form of *Renewable Heat Premium Payments*;
    - Targeted support for heavy industrial market with varying eligibility standards;
    - Establishment of a Cross-Departmental Group on Renewable Heat to consider cross-cutting issues (skills, jobs, agri issues, fuel poverty etc); and
    - A call for evidence on Deep Geothermal Energy.

4. At the scheduled meeting, it is likely that Dr Gilliland will wish to discuss these proposals. Some high level lines to take are included at **Annex B** and more detailed Q&A attached at **Annex C**.

5. It will be important to inform Dr Gilliland that the plans are subject to public consultation and where he disagrees with the Department's proposals evidence should provided to suggest a contrary position.

Briefing

6. Briefing is attached as follows;
    - Annex A: Letter from Dr Gilliland requesting meeting
    - Annex B: Lines to take and background on RHI
    - Annex C: Potential question & answer briefing

Recommendation

7. I recommend that you note the attached briefing. A pre-brief has been scheduled for Wednesday 10th August at 11.30am. Peter Hutchinson and I will provide support at the pre-brief and the meeting.

Fiona Hepper

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Annex A

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DEPARTMENT OF ENTERPRISE TRADE & INVESTMENT
- 1 JUN 2011
RECEIVED PRIVATE OFFICE

Arlene Foster MLA
Minister of Enterprise Trade & Investment
DETI
Netherleigh
Massey Avenue
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BT4 2JP

30th May 2011

Dear Minister

Firstly, may I congratulate you personally on both your re election as a Member of our Local Assembly, but also your reappointment as Minister for Enterprise Trade and Investment? Well done to you and your Party, for such a successful campaign. I notice with some interest that your Party is intending to let you stay the full term; something a lot of us believe is proper recognition for your robust leadership to date.

Therefore, it will be of no surprise to you that I am penning this letter to you about my favourite bug bear, a Northern Ireland Renewable Heat Incentive!!!!

While you were away campaigning, at the last IAP/IDG meeting, David Dobbin asked a very well articulated question of David Stirling and David Thompson on this very issue. David stressed that the delay of this instrument was severely undermining the N. Ireland Dairy Industry's competitiveness against his GB competitors. The two David's were at pains to try and reassure us that this would be resolved this calendar year.

Can I personally reiterate David Dobbin's concern please?

For the last six years I have employed sixteen people here, between Rural Generation Ltd and my farm, Brook Hall Estate. A third of these are degree graduates or higher, and only came back to Northern Ireland because of the innovative work we have been doing here. 2011 was to be our first year as a profit taking company and not as a development company. This will now not be the case. 80% of our current order book is for England and Scotland, 10% ROI and 10% here. The atrocious performance here is due mainly to the lack of policy clarity on renewable heat. As you are aware, I was extremely grateful when you made your statement last September on the Executive's agreed target for renewable heat, but please, could you prioritise the policy instrument for renewable heat and end this uncertainty?

Since January, I have been trying to seek new investors into my company, with what appeared at first glance, successful pitches to both the Halo Business Network and more recently to the e-synergy network in the City of London. The feedback we have had has been very supportive, yet we have failed to date to get any investor over the line, as they believe it is essential to have that policy clarity first.

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Simultaneously, I have taken an almighty pounding from the Northern Bank, who are loosing patience on a daily basis. I have 150 acres on the market at the moment and struggling to find a buyer. I have another 150 acres lined up behind that, but am trying to persuade the Bank to give me 24 months grace with this, as we will be applying for full planning permission for five 3MW wind turbines within the next six weeks. This is on my farm below sea level in Myroe, West of Limavady and if I get the planning permission, I will actually create an irony for me, as its profits will help me bail my biomass business out of its current hole!!!

Many of my competitors have now closed their doors. We really should have as well, bar the fact I have let my passion run ahead of my wallet! Even with the fossil fuel price where it is today, if we can not get policy clarity soon, by the time we do get it, there will be no vehicle left to implement this policy. This is being further compounded by the finance community's total unwillingness to finance projects in this area.

Normally I sign off on these letters by offering a personal invitation to come and visit us here and see my personal commitment to both renewables and my staff, but you have been here before and you are well aware of my knowledge and passion for this area. Even though you will always be welcomed back here, I would caution, when you loose your key innovators and pioneers such as myself, others will be very reticent to step up and fill our shoes.

If you can find time in your hectic schedule, I would be more than happy to meet up and give you a further update on what we have tried to achieve since we last met and what I see as the remaining barriers to the development of these smart environmental technologies?

Many thanks again for your robust leadership to date and best wishes for this new term in office.

Yours truly,

Dr John Gilliland OBE
Chairman

Annex B

Issue: NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

Lines to take:

- DETI is committed to developing and supporting the renewable heat market in Northern Ireland and has set a target of 10% renewable heat by 2020, this is a challenging target considering the current level of renewable heat is estimated at 1.7%.

- By growing the renewable heat market there are significant opportunities for Northern Ireland to reduce our dependence on imported fossil fuels and increase our fuel security, this in turn will reduce carbon emissions. There could also be opportunities for new ‘green jobs’ in this sector.

- In order to reach the target set, my Department is considering the introduction of a Renewable Heat Incentive (RHI) specifically tailored for the Northern Ireland heat market. This would be similar to the scheme proposed in Great Britain; however it would be designed for solely for Northern Ireland.

- A public consultation on the potential design and implementation of a Northern Ireland RHI was launched on 20 July 2011 and will be open for comments until 3 October 2011. DETI’s proposals include a RHI for all non-domestic customers from April 2012 (with specific arrangements for heavy industrial sites), interim support for the domestic market in advance of a more long term approach and the establishment of a cross-departmental renewable heat strategy group to consider wider issues. Also included within the consultation is a call for evidence on deep geothermal energy.

- The consultation paper can be found at the DETI website and the Department would welcome all views on the proposed scheme.

Background:

1. DECC are finalising the arrangements for the introduction of the GB RHI for the non-domestic sector, with the domestic sector being able to avail of the RHI from October 2012 (in the interim domestic consumers will be able to avail of capital grant payments to support installations.)

2. A separate assessment has been taken as to how the Northern Ireland renewable heat market should be most appropriately incentivised, this is because there are differences between the Northern Ireland and Great Britain heat markets such as;

    - Northern Ireland is largely dependent on oil with an emerging natural gas market, in Great Britain natural gas is the prevalent fuel source.
    - Northern Ireland has higher levels of fuel poverty.
    - Northern Ireland is much more rural in nature.

3. An economic appraisal of a Northern Ireland RHI completed in June 2011 and informed the drafting of a consultation paper on the design of the Northern Ireland RHI.

4. The consultation paper proposed the following tariff levels.

Tariff name	Eligible Technologies	Size	Tariff duration (years)	Northern Ireland recommended levels (pence per kWh)
Air Source Heat Pumps		Less than 45kWth	20	3.3
Ground Source Heat Pumps	Including water source heat pumps and deep geothermal	Less than 45kWth	20	4.0
		Above 45kWth but excluding large industrial sites		0.9
Bioliquids		Less than 45kWth	20	1.5
Biomass	Solid biomass; [1]Municipal solid waste (inc. CHP)	Less than 45kWth	20	4.5
		Above 45kWth but excluding large industrial sites		1.3
Biomethane	Biomethane injection and biogas combustion, except from landfill gas	Biomethane all scales, biogas combustion less than 200 kWth	20	2.5
Solar Thermal		Less than 200kWth	20	8.5

5. In addition, interim support for domestic consumers will be made available (this is in advance of a long term approach being made available to domestics from October 2012, in line with GB proposals). Rates of support are detailed below.

Technology	Support per unit (£) in a detached dwelling	Support per unit (£) in any other dwelling
Air Source Heat Pump	1860	1170
Biomass boiler	2580	1620
Ground Source Heat Pump	2250	1410

[1] Defined under the Waste and Emissions Trading Act 2003, Section 21

Solar Thermal	480	480

6. DETI has funding of £25m over the next four years for the development of the renewable heat market.

Annex C

Why has Northern Ireland developed its own RHI rather than joining in with Great Britain?

- The scheme proposed for GB will not apply to Northern Ireland as the differences between the heat markets mean that a separate assessment of the appropriate method of developing the local market is required.

- Northern Ireland is largely dependent on oil (77% of total heat demand) with a developing natural gas market, whereas in GB the gas market is well established and is the predominant fuel source.

- There are also differences in fuel prices between GB and Northern Ireland and the amount of our income that goes towards heating our homes and businesses, as a consequence the levels of fuel poverty tend to be higher.

- Finally the geography of Northern Ireland is very different to GB, with Northern Ireland being more rural with fewer larger cities and therefore having a very different heat density.

- All these factors have meant that it was appropriate for a separate consideration to be given as to how the heat market here might be encouraged and incentivised.

Why are the incentive rates different from the GB RHI?

- The incentive rates included in the consultation have been developed and designed specifically for the Northern Ireland market. The rates have been designed against a counterfactual position of heating oil to provide a reasonable rate of return for those installing renewable heat technologies. The rates also utilise available funding in an effective way.

- The rates are lower than GB rates largely due to the fact that they are based on an oil counterfactual (a more expensive starting position) rather than a gas counterfactual, used in GB. **This results in less incentive actually being required to make the switch.**

- Further to this, the tariffs have been designed using updated technology assumptions which suggest that renewable technologies are now more efficient and cost-effective than before.

- If some tariffs were to be raised others would need to be lowered to ensure that DETI did not overspend allocated funding.

What is the expected uptake of the Northern Ireland RHI?

- Economic modelling would suggest that the rates outlined in the consultation will assist in achieving between 9.5-11% renewable heat by 2020.

- The uptake of the Northern Ireland RHI will be monitored on an ongoing basis.

Why is heat from Anaerobic Digestion plants not being incentivised?

- AD systems that are not incentivised under the NI Renewables Obligation (i.e. heat only AD) **will** receive the appropriate incentive tariff.

- However given the level of incentive available to AD for renewable electricity (up to 4 ROCs) **any additional incentive for renewable heat would amount to over-incentivisation and not present value for money**.

- It will be in the commercial interests of AD plant operators to utilise any useful heat output from the plant.

- If there is a strong desire for RHI payments for useful heat generated by AD plants consideration would need to be given to reducing the ROC levels to ensure sites weren't over-incentivised.

Why is the domestic market being incentivised in a different method, in the first instance?

- DETI is committed to supporting the deployment of renewable heat in all sectors and as the largest heating sector (at 61%) it is important that domestic householders are incentivised to switch to renewable heating.

- However, in the first instance, domestic householders will not be eligible for the RHI but instead will be able to apply for *Renewable Heat Premium Payments* to assist in the capital cost of installations. A long term approach to support the domestic market will be in place by October 2012.

- The reason for the delay in introducing the RHI to domestic households relate to issues surrounding measuring heat use in the domestic sector. The delay will also allow DETI to analyse uptake in this sector and ensure that the longer term scheme is appropriate.

What is the timetable for implementation?

- The consultation will be open until 3 October 2011. At which time my officials will analyse responses and develop proposals for a final policy position. The ETI Committee will also need to be kept informed.

- In advance of implementation, legislation will be required and administration arrangements put in place. I am hopeful that this can be achieved by 1 April 2012.

- Providing there is a positive response to the *Renewable Heat Premium Payments* proposals I would be keen that funding could be made available as soon as possible for domestic consumers.