Subject: FW: References to 12% Rate of Return on Additional Costs

Northern Ireland Renewable Heat Incentive (RHI)
Colleagues

The following is an extract from the DETI website in 2012. I have highlighted the reference to the 12% rate of return. Shane also highlighted extracts from the debate on the 2012 Regulations (favourable rate of return), the CEPA report and the 2011 consultation document – extracts are at the end of the e mail thread in Shane's e mail to me.

Regards

Terry

Subject to the passage of appropriate legislation in autumn 2012, DETI will introduce the Northern Ireland Renewable Heat Incentive for the non-domestic sector. The tariffs that will be implemented are detailed below.
TARIFFS
Further guidance, including detailed Q&A, will be released in due course, however, some key elements of the RHI are detailed below. If you have further queries please contact ni.rhi@detini.gov.uk.

What is the Northern Ireland Renewable Heat Incentive?

The Northern Ireland Renewable Heat Incentive (RHI) is a DETI scheme that provides financial support to non-domestic renewable heat generators and producers of biomethane.

Why is the scheme being introduced?

The primary objective for the Northern Ireland RHI is to increase the uptake of renewable heat to 10% by 2020 (baseline position of 1.7% in 2010). The 10% target for renewable heat equates to 1.6TWh (or an additional 1.3 TWh when considering existing levels). This target was included in the Strategic Energy Framework and an interim target of 4% renewable heat by 2015 has been included in the Programme for Government.
In addition to achieving the set target, it is expected that the RHI will have a number of other wider benefits in terms of fuel security, lower emissions and 'green jobs'.
Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies.
Without the RHI in place Northern Ireland will not achieve either the targets set for renewable heat by the Northern Ireland Executive in the SEF or be able to contribute to the UK target set under the Renewable Energy Directive.

How have the tariffs been designed?

The RHI aims to compensate investors for the additional costs of renewable heat compared to traditional fossil fuel systems. For each technology, we have taken into account all the various types of costs involved (including capital, financing, barrier, fuel and operating) to produce a pence per kWh cost figure – this is known as a levelised cost methodology.
The RHI tariff setting methodology also includes the provision of a rate of return in order to stimulate interest in a developing unknown marketplace and to provide compensation for financing costs of making the necessary investment in capital projects. In most instances a rate of 12% has been set. Solar thermal receives a lower rate of return as it is a well-known technology, it's relatively easy to install and it will not displace the same level of fossil fuel as the other technologises. In addition solar thermal heat is, at present, more costly per unit of energy than other technologies.

Why are the tariffs lower than those available in GB?

The Northern Ireland tariffs tend to be lower than those offered in the GB scheme as the

NI tariffs are designed against an oil counterfactual rather than a natural gas counterfactual, as in GB. This reflects the heat markets in the two areas with oil the dominant heating fuel in NI at 75%+ and natural gas the dominant heating fuel in GB 70%+. Setting the counterfactual position against oil within the NI scheme reflects the likelihood that the majority of people switching to renewable heat will be displacing oil. As oil is a more expensive fossil fuel, less of an incentive is required to switch to renewable heat.

DETI does not think that NI consumers will be disadvantaged in comparison to GB consumers, as whilst the tariff levels are lower the ongoing savings that can be expected from switching to renewable heat will be considerably higher for NI consumers. Therefore the overall benefit for the consumer is similar.

Will tariffs change over time?

Once an installation is accredited under the scheme they will receive a fixed level of support which will be adjusted annually in line with inflation. However, to ensure the scheme is cost effective the tariffs will be reviewed over time and the new tariffs will be applied to anyone joining the scheme. The tariffs will be amended annually to reflect the Retail Price Index.

Who is eligible to apply for the scheme?

The scheme is available to generators of heat and producers of biomethane that meet the eligibility criteria, that are based in Northern Ireland.

At the start of the scheme only non-domestic sectors will be supported. We intend to introduce a second phase of support which will establish support for the domestic sector as well as a number of other technologies and fuel uses that we are unable to support from the outset. The non-domestic segment includes businesses; public sector; charities and not-for-profit organisations; and industry.

A non-domestic installation is a renewable heat unit that supplies heat to anything from large-scale industrial heating to small business and community heating projects. This includes small businesses, hospitals, schools etc as well as district heating schemes (e.g. one boiler serving multiple homes).

When will the scheme close to new applications?

It is expected that the scheme will remain open to new installations until March 2020. A review of the RHI will take place in 2014/15.

How long will the incentive payments last?

RHI support for the first phase is for the lifetime of the technology to a maximum of 20 years.

From: Murphy, Shane
Sent: 03 January 2017 13:20
To: Coyne, Terence
Subject: References to 12% Rate of Return on Additional Costs

Terry,

Generally it was all laid out as I thought....

Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012

Mrs Foster (The Minister of Enterprise, Trade and Investment): I beg to move

That the draft Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012 be approved.

This statutory rule is being made under the Energy Act 2011, which prescribes that these regulations must be laid in draft for approval by affirmative resolution of the Assembly. The draft regulations that

I bring forward today relate to the introduction of the Northern Ireland renewable heat incentive (RHI) and were subject to a statutory consultation that closed in October 2011. Following the consultation, further work was carried out to finalise both the policy position and these regulations.

The legislation will provide the necessary powers for my Department to introduce the RHI scheme, which will support generators of renewable heat through long-term incentive payments designed to cover the additional costs involved in renewable technologies, as well as providing a favourable rate of return for investors. Ensuring a more secure, competitive and diverse heating market is a key priority for my Department. Our current reliance on fossil fuels is unsustainable; therefore, heat from indigenous and renewable sources must be promoted. The RHI will provide businesses, community groups, schools, churches and other organisations with ongoing financial support when switching to renewable heating. In addition, the development of the sector will provide opportunities for local firms involved in the area.

The CEPA 2011 Report was also published (as I understand it) and it is clear the intended Rate of Return was to be 12%.

Also here is an extract from the consultation paper – again very clear…

Tariffs

3.36 The Department has developed tariffs for the Northern Ireland RHI using similar methodology to that used by DECC in designing the tariffs for the GB RHI. The tariffs have been designed to bridge the gap between existing heating systems and the renewable heat alternative, with consideration given to the capital costs, operating costs and the non-financial 'hassle' factors that are involved in replacing existing heating systems with renewable heating technologies.

3.37 In each case, except for solar thermal, tariffs have been designed to provide a rate of return of 12% over the lifetime of the technology. DETI believes that this rate of return should provide investors with sufficient incentive to install renewable heat technologies. With regards to solar thermal, a lower rate of return (around 6%) is built-in to the available tariff. Solar thermal is currently the most expensive, per unit of energy, renewable heat technology. If a 12% rate of return was afforded to solar thermal there would be a risk that a substantial amount of available funding would be diverted to support this technology, at the expense of other more cost-effective options. DETI considers it is important, however, that solar thermal is incentivised because it is a well established and easily accessible technology.

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