

Energy



From: Fiona Hepper
Head of Energy Division

Date: xx November 2011

To: 1. Andrew Crawford
2. Arlene Foster MLA

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PAPER TO ETI COMMITTEE ON OUTCOME OF THE PUBLIC CONSULTATION FOR THE DEVELOPMENT OF A RENEWABLE HEAT INCENTIVE FOR NORTHERN IRELAND

Issue: To provide written briefing to the ETI Committee on the outcome of the Northern Ireland Renewable Heat Incentive (RHI) consultation responses.

Timing: This written briefing is scheduled to be tabled at the ETI Committee meeting of 24 November 2011 and therefore needs to issue to the Committee Clerk no later than Thursday 17 November.

Need for referral to the Executive: Not at this time

Presentational Issues: None

FOI Implications: This information will not be discloseable until publication of consultation responses on the DETI website.

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 sub-ordinate 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: An equality screening form has been completed for the legislative aspect of the proposed Renewable Heat scheme.

Recommendation: It is recommended that you note this submission, the attached letter to the ETI Committee Chair (**Annex A**) and the accompanying paper on the outcome of the consultation (**Annex B**) and, if content, approve for the document to be forwarded to the ETI Committee for consideration, at their meeting on 24 November 2011.

Background

In my submission of 5 July 2011 (DETI SUB 1110/2011), I sought approval to proceed with a 10 week consultation on the development of a Renewable Heat Incentive (RHI) in Northern Ireland. You consented to the issue of the consultation on 20 July 2011.

2. The statutory public consultation ended on 3 October 2011. In total, 78 formal responses were received, of which two offered no comment. The responses have been analysed and the vast majority of respondents were in favour of all the proposals and provided useful comments which the Department has considered and, where appropriate, sought to incorporate in the final design of the scheme.

Policy Consultation

3. The consultation paper sought views on the following aspects of a proposed Northern Ireland RHI scheme –

- (a) Proposed renewable heat technologies and tariff rates for domestic and non-domestic sectors.
- (b) Proposal for NI RHI Scheme including:
 - i. Interim support for domestic consumers;
 - ii. Support for heavy industrial market;
 - iii. Establishment of a Cross-Departmental Group on Renewable Heat; and
 - iv. Timescales and next steps; and
- (c) Call for evidence on Geothermal Energy

Preliminary Overview of Policy Consultation Responses

4. As previously mentioned, the introduction of a Northern Ireland RHI was welcomed by the vast majority of consultees and it was accepted that it was appropriate for a specific scheme to be designed and introduced. It was also agreed that the development of the

renewable heat market was especially important in Northern Ireland given the dependence on oil for heating demand and the presence of a limited gas network.

5. There were, of course, areas where consultees did not agree with the Department's proposals. Some of these issues are summarised below, along with my initial view on how these might be addressed.

Issue	Response
<p><u>Tariffs, Banding and Technologies</u> Respondee, whilst accepting the Department's rationale, were concerned that tariff levels were significantly lower than GB levels and this could disadvantage Northern Ireland industry and skew private finance to the GB market. There were also some concerns about the proposed banding and the inclusion of some technologies (Air Source Heat Pumps and Bioliqids) from the outset of the scheme.</p>	<p>Officials are currently seeking to re-engage with consultants who designed the RHI tariffs and model to consider the issues raised and, if necessary, adjust tariffs and banding. It should be noted however that it is very unlikely that tariffs will ever match those proposed in GB given the fact that the Northern Ireland tariffs are designed against a counterfactual position of oil rather than gas. As oil is more expensive it requires less incentive to switch to renewable heat.</p>
<p><u>Treatment of Large Industrial Sites</u> In the consultation document we had proposed excluding the large industrial sites from the RHI and instead determine tariffs on a case-by-case basis. This was done as it could offer some protection against a large industrial user who is either currently on gas or might be a key anchor load for a future extension from switching to renewable heat. Also it would ensure a specific tariff could be designed for each site and therefore prevent against sites which did not require an incentive from receiving one. However there was a lot of concern about this issue with it suggested that by excluding large industrials that DETI was ignoring the most cost-effective applications and those that could develop the wider market quickest. In addition, this issue could cause difficulties when seeking State Aid clearance and, if challenged, could delay the whole introduction of the scheme.</p>	<p>Pending further economic modelling, Energy Division is considering extending the RHI to these large industrial site, in order for this to be done a high-level tariff may need to be designed. It is hard to gauge how many of the 17 large industrial sites would actually be willing or technically able to switch to renewable heat. Previous modelling had suggested it would advantageous for only 4 sites to switch however during the consultation only 3 of these sites responded (Dale Farm, Invista and Pritchitts).</p>
<p><u>Treatment of waste heat from Anaerobic Digestion</u></p>	

Issue	Response
<p>The issue of not incentivising the use of waste heat from Anaerobic Digestion was also a major issue in the consultation. Consultees argued that there was a significant capital cost to utilise this heat and that without an incentive valuable heat would be wasted. It was also argued that without the capture of this heat the target of 10% would be difficult to achieve.</p>	<p>Given the generous incentives for AD under the NIRO and the lack of evidence, at this stage, on the need for an incentive, I am not currently minded to recommend that this position is changed. It was the view of external economic consultants that incentivising the utilisation of this heat, in addition to NIRO payments, would be amount to over-incentivisation. Where valuable heat is being produced installers would be expected to pursue commercial applications.</p>
<p><u>Renewable Heat v Gas</u></p> <p>It was raised by a number of consultees that DETI's policies on introducing a RHI and extending the gas network were contradictory. Given the nature of those responding to the renewable heat consultation many felt that Northern Ireland should be seeking to move away from all fossil fuels, similar to GB, and focus attention on developing the renewable heat. Issues were raised regarding the treatment of large industrial users (as above), the Department's statutory obligation to the gas market and the exclusion of current domestic gas customers from the <i>Renewable Heat Premium Payment (RHPP)</i> scheme.</p>	<p>It is Energy Division's view that the development of the renewable heat market and the extension of the gas network are entirely complimentary and support the energy policy goal of a more competitive, diverse, sustainable and secure heat market. DETI is focussed on removing the financial barrier of renewable heat through the RHI and the infrastructure barrier to gas access via the extension of the network.</p> <p>The issue with large industrials Has already been mentioned above, in terms of domestic customers under the RHPP, I would consider extending the scheme to existing gas customers. In reality very few will take up this offer as there heating systems will be relatively new and future RHI payments would not bridge the gap to renewables given the oil counterfactual tariff design.</p>
<p><u>Wider Cross-Departmental Issues</u></p> <p>A high number of consultees raised issues that linked to the development of the renewable heat market but were not within DETI's policy remit. These includes linkages with fuel poverty and the Green New Deal; the importance of a sustainable supply chain; the need for increased skills; opportunities for green jobs; the role of the public sector and public procurement; and planning applications of large scale renewable projects.</p>	<p>These issues will need to be considered by the Renewable Heat Strategy Group and addressed in a future cross-departmental action plan. It may also be useful for external stakeholders to be invited to give evidence to the Strategy Group in due course.</p>

6. Those are just some of the high level issues which came out of the consultation and my preliminary views in how we might respond. I will, of course, be providing a submission in the future with the draft final proposals for your comment and consideration. A more detailed analysis of consultation responses is attached at **Appendix I** for your information; I would also recommend that this analysis is shared with the ETI Committee.

Next Steps

7. There is still a great deal of work required to implement the RHI in Northern Ireland, some of the key elements of this work include;
- Potential engagement with CEPA and AEA to reassess tariff levels and banding following consultation responses to confirm a final tariff scheme.
 - Seek approval from DETI Casework Committee and DFP for the proposed final design of the scheme.
 - Following your consideration, publish the final design of the Northern Ireland RHI scheme by early 2012.
 - To obtain state aid clearance from EU Commission to the final Northern Ireland RHI scheme.
 - To establish arrangements with Ofgem who will be responsible for the administration of the scheme on behalf of the Department before April 2012.
 - By 1 April 2012, to implement the Northern Ireland RHI via subordinate legislation in the NI Assembly through the affirmative resolution procedure.
 - To address cross cutting issued through the work of the Cross-Departmental Group on Renewable Heat.

Recommendation

8. It is recommended that you:
- (i) note this submission providing an overview of the consultation process, the next steps and the analysis document at **Appendix I**; and
 - (ii) approve the onward transmission of the analysis document, under a covering letter at **Annex A**, to the ETI Committee for consideration, possibly at their meeting on 24 November 2011.

FIONA HEPPER
Energy Division

Attachments

Annex A – Letter to the Clerk of the ETI Committee

Appendix I – Overview of the Northern Ireland RHI consultation responses (to issue with the letter to the ETI Committee)

Distribution List

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DRAFT LETTER TO THE CLERK OF THE ETI COMMITTEE

Jim McManus
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Dear

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)

I wish to provide the ETI Committee with an update on the recent consultation into the design and implementation of the Northern Ireland Renewable Heat Incentive (RHI). The DETI Minister wrote to the Committee Chair on 21 June 2011 in relation to the work that my Department had been carrying out to assess the potential of the Northern Ireland renewable heat market and to develop an appropriate incentive scheme for the local industry.

The consultation lasted for just over 10 weeks, beginning on 20 July 2011 and ending on 3 October 2011. A number of consultation seminars were also held over the summer period and I understand that some members of the Committee were able to attend. In total, 78 formal responses were received, of which two offered no comment. The responses have been analysed and the vast majority of respondents were in favour of all the proposals and provided useful comments which the Department has considered and, where appropriate, will seek to incorporate in the final design of the scheme. My Department is now in a position to provide the Committee with an overview of the responses to public consultation.

A report providing an overview and analysis of all the responses received to the consultation is attached at **Appendix I** for your information; in addition all the responses are available on the DETI website.

Generally, respondents welcomed the introduction of the RHI as a measure to incentivise the deployment of renewable heat. It was recognised that the cost of installing renewable heat technologies was a major barrier to uptake and therefore long term stable support was required to bridge that financial gap and provide the confidence for investors to install. It was also accepted that Northern Ireland had to pursue alternative methods of heating given the current dependence on heating oil and the impact this has on carbon emissions, fuel security and fuel poverty. Many other aspects of the scheme were welcomed and DETI is therefore content that a Northern Ireland RHI is the correct approach to incentivise and develop the renewable heating market.

Naturally there were elements of the proposal where consultees were not fully in agreement with the Department. Some of these issues included;

- **Tariffs, Banding and Technologies:** Respondents, whilst accepting the Departments tariff setting methodology, argued that the fact tariffs were lower than those in the GB scheme meant Northern Ireland was disadvantaged. Some issues were also raised about the technology assumptions used in generating tariffs, the proposed banding ranges and the list of technologies incentivised.
- **Treatment of Large Industrial Sites:** A number of consultees were concerned that large industrial sites were being treated separately to all other applications and that this could affect their competitiveness with similar sites in GB in receipt of the RHI. It was also argued that larger applications were often the most cost-effective systems and therefore the RHI should be more focussed towards these sites.
- **Exclusion of heat from Anaerobic Digestion:** The fact that heat from AD systems that were in receipt of Renewable Obligation Certificates for renewable electricity generation was not eligible for RHI payments was also an issue of concern. Some respondents felt that capital costs involved in capturing and utilising the waste heat meant that an incentive was required otherwise heat would be wasted.
- **Renewable Heat v Gas:** A number of consultees commented that they felt that policy goals of developing the renewable heat market and extending the gas network were contradictory.

- **Wider cross cutting issues:** Finally, a high number of respondents referenced policy areas outside of DETI's remit and asked for the renewable heat work to consider linkages with these issues. These include possible linkages to the policies on fuel poverty and the green new deal; the development of the biomass supply chain; the role of the public sector in deploying renewable heat; and the need for increased skills in this sector.

DETI is now considering these issues with a view to developing a final policy scheme for implementation. In particular, Energy Division is reassessing the tariffs and banding for each of the technologies and the assumptions used to design the incentive levels. We are also assessing the issues raised in regards to AD plants and large industrial sites. A cross departmental strategy group has already been established to consider some of the wider issues that were raised during the consultation.

In terms of the responses that argued that the extension of the gas network and the development of the renewable heat market were contradictory, it would be the Department's view that it is important that a sustainable, diverse and secure heat market is developed. This involves increasing customer choice and developing alternative fuel supplies, therefore reducing our dependence on oil. By seeking to remove the financial barriers related to renewable heat and the infrastructure barrier in terms of choice, DETI is working to develop a diverse heat market which will benefit Northern Ireland consumers.

In order to have the RHI in place by April 2012 there is a great deal of work required, this includes the finalisation of the policy position; securing internal approvals for the scheme; publicising the proposals in advance of implementation; putting in place the appropriate administration arrangements; securing state aid approval for the scheme; and laying the relevant legislation in the Assembly. Once a final policy position is agreed I will be providing the Committee with an update report including an overview on the agreed scheme and the way forward.

I trust you find this overview useful and the attached analysis paper of interest.

Fiona Hepper

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Department of Enterprise, Trade and Investment**