



## **Response to the DETI Consultation on the Development of the Northern Ireland Renewable Heat Incentive submitted on behalf of the Biomass network for Northern Ireland (BENI)**

### **1. General Comments.**

BENI is an organisation funded by its members to promote biomass energy and the interest of biomass producers in Northern Ireland. Members include biomass suppliers who produce biomass from both forest timber and farm based energy crops in Northern Ireland. Their activities have a particular focus on --

- Facilitating sustainable supply chains for biomass.
- Providing benchmark performance indicators
- Adopting and promote quality standards for wood chip.

We therefore have deep personal and business commitments to the development of renewable energy as both a low carbon source of energy but also through the development of the green economy with its huge potential for sustainable economic development in rural areas.

BENI represents the majority of the SRC willow biomass producers in Northern Ireland as well as number suppliers of timber biomass from forestry production. These businesses are the “early adopters” who have committed to biomass renewable energy as the sustainable land based fuel of the future, but who have to date struggled to make an economic return from their investment. We are therefore delighted to see the RHI proposals reach this stage and to have the opportunity to comment, based on our considerable practical experience in producing, marketing and supplying farm and forest biomass.

While we are pleased to see renewable energy being incentivised through the proposed RHI scheme we have however one overarching concern and disappointment about the underlying principle of basing incentives on the cost of converting to oil as opposed to gas. While we appreciate the need to strike a balance and avoid wasting public money through over-incentivisation we believe that this decision is overly protective of the gas pipeline and is a lost opportunity to reduce energy cost to the whole Northern Ireland economy. It seems to commit NI to remaining uncompetitive as a high energy cost region – except for the lucky few on the gas pipeline.

The proposal also exacerbates the divergence of energy costs between rural and urban areas and has the potential to increase fuel poverty in areas outside the gas pipeline reach. The RHI benchmark price is oil fuel so even if the rural dweller or business avails of the RHI opportunities their energy costs will still be higher than the urban dweller on the gas pipeline. As such we are surprised that the proposal was not subject to critical scrutiny through the declared Executive policy of "Rural Proofing" such initiatives.

One of the objectives of BENI is to facilitate the development of sustainable supply chains for biomass energy. As will be seen from our comments on the detailed questions within the consultation, we are concerned that there seems to have been little or no understanding of the potential impact on supply chains on the island of Ireland of differences in approach between the RoI and Northern Ireland.

We understand that RoI will be using a Carbon Tax as their policy instrument. Calculations indicate that each 15 euro/tonne of Carbon, tax applied will lead to increases in the potential value of 15% moisture tonne of wood chip by £16/t, with proposals to raise the tax applied to 30 euro/t in 2012, with possibly of 50 euro per tonne in 2014. If this increase in Carbon tax is implemented, which seems highly likely, woodchip will in the medium term be significantly more valuable in ROI hence it will be difficult for DETI to achieve their 10% renewable heat target by 2020. Further distortion of supply arrangements will occur in the short-term where delay in introducing the scheme in RoI may result in biomass moving north, disrupting supply chains in both parts of the island and affecting consumer and investor confidence.

We are concerned to note (par 3.59) that the final proposal will still require State Aid approval following completion of the consultation and that the NI RHI will not open until April 2012. We believe this is an ambition timetable and are concerned that the funds set aside for spend in 2011 / 12 will be lost if this timetable is not met.

## **2. Response to specific questions posed within the consultation document.**

### **Chapter 3 - A Renewable Heat Incentive for Northern Ireland**

3.1 Do you agree with the decision to introduce a RHI tailored for Northern Ireland instead of pursuing other options considered? If not, please elaborate.

**Yes. The RHI provides ongoing incentives of the type needed to give confidence for long term investments.**

3.2 Do you agree that Ofgem are best placed to administer the NI RHI? If not, who should administer the NI RHI?

**We can see the advantages of using experience gained in GB but any authority must have a strong local presence and local "face" to promptly answer queries,**

**give confidence to investors, generate local employment and develop competence within the local workforce.**

**We note the list of “relevant information” which may be required does not include the quantity of fuel use. While being concerned not to increase the bureaucratic burden on users, this information will be useful in assessing the efficiency of the installation and / or accuracy of the heat meter.**

3.3 Do you agree with the eligibility requirements as prescribed? Please provide comments.

**No. We do not agree that existing gas customers should be excluded from the scheme and are concerned that the case by case assessment may lead to industrial users being refuse RHI support simply because they are required to sustain the case for a gas pipeline extension.**

**While we will encourage and support the production of high grade biomass fuel there will inevitably be low grade material available which, while not suitable for small scale use can be effectively used in large industrial and community heating systems. We therefore believe that some large scale industrial installations are desirable and that additional support should be provided (outside the RHI funding which is already quite limited) to stimulate the infrastructure investment for district heating systems.**

**We have serious concerns about the proposed banding for biomass boilers -- see comments on Q 3.7 below.**

3.4 Do you agree with DETI's treatment of those who have received grant support for renewable heat installations?

**Yes, although realistic scheduling of the repayment will be required. We also endorse the proposal to support replacement of existing biomass boilers. This will allow upgrading for increase efficiency and the adoption of new technology as it becomes available.**

3.5 Are there any further issues, at this stage, which you think DETI should also consider?

**The RHI will, if successful, stimulate demand for biomass products in Northern Ireland which raises two associated “supply side” issues –**

- **The need to consider the impact on supply chains and the biomass market on the island of Ireland – bearing in mind the different renewable energy regimes on either side of a land border; and**

- **The need to stimulate the production of local biomass supply – the benefit in terms of the benefits to the local economy and to carbon savings will be much reduced if all that happens is that imported oil is substituted by imported biomass.**

3.6 Do you agree with the proposed eligible technologies and standards? If not, please explain.

**Yes, except that we believe that heat produced by anaerobic digestion should be eligible, even if a lower level of ROC support is applied. To exclude this heat encourages heat dumping but any incentive package must yield greater returns than reliance on ROCs alone. Any change should not be applied to those AD installations where investment has already been made on the basis of the existing 4 ROC assurance.**

**As already stated under Q 3.3 additional support must be provide to stimulate investment in District Heating infrastructure.**

3.7 Do you agree with the proposed tariff levels and standards? Where you disagree with the proposed approach evidence should be provided to the contrary.

**No.**

**While tariff duration of 20 years is essential to provide investment confidence and is to be welcomed, there are other aspects of the proposals with which we have serious concern, namely the banding and the level of support suggested which is needed to stimulate switching to renewables. We are restricting our comments to biomass – on which we have the experience and facts available.**

**Levels.**

**The Cambridge study assumes a retail cost for wood chip of £0.01 to £0.03 per kWh with a median level of £0.02 and that this is flat lined through to 2040. Wood chip is already in excess of this £0.3 level in NI and will undoubtedly rise in the immediate future due to the limited supply from the small forest area and low planting incentives at farm and forest level, and increased demand (both for heating installations stimulated by RHI, and alternative applications such as the Standard Brands innovation). This will undoubtedly mean further cost rises in future years, which will render the incentives insufficient to encourage the switch to renewables and lead to failure of DETI to meet its 2020 target.**

**We have already made the point in our introduction that the use of oil as the baseline comparator commits NI to remaining a high energy cost region and at a disadvantage to the rest of the UK.**

**For these reasons we believe very strongly that the tariffs should be the same as those adopted in GB.**

**Banding.**

We can find no rationale for the application of the 45kWth band differential for biomass heat installations in the consultation document or supporting study, and question its validity when applied to biomass heating installations.

Furthermore we note that GB consultation also originally proposed a 45 kW band but this was subsequently increased to 200kWth. We therefore propose that similar banding be adopted in NI.

We make this proposal for two reasons –

Application of the 45kW band will mean that the higher incentive level will encourage the use of pellets with their higher cost and energy demand when compared to wood chip.

The 45 kw level is low enough to encourage multiple installations and multiple “systems” within the one building / campus just to “harvest” the higher RHI payment.

We can envisage small installations (below 45kW) supplemented by oil system – again simply to harvest the higher rate.

For all these reasons we believe the 200kW threshold as adopted in GB is more appropriate and will lead to much less distortion of best practice and the increased adoption of appropriate renewable technology.

The different and disadvantageous rates between GB and NI will make it very difficult to attract funding to NI from banks and Asset Finance organisations, when a greater return will be available for ESCOs etc in GB. This will mean that any conversion to renewables will be restricted to a small number of small-scale self funded applications.

We note in Par 3.43 that the tariff levels will be adjusted annually in line with the RPI and will be adjusted annually for both new and existing installations.

In our view the rates applied to existing installations cannot be reduced below the level at which the investment decision was made originally. The decision to convert at that time was based on the promise of ongoing support at the original level.

It is logical that the rates to stimulate change for new installations can be adjusted – but should be in line with fuel costs rather than RPI – of which fuel is only one component.

3.8 Do you agree with the Department’s rationale for tariffs? If not, please provide comments on the assumptions contained in the economic appraisal on the technical performance and cost of heating technologies and fuels.

**See response to 3.7 above**

3.9 Do agree that all heat should be metered under the NI RHI? If not, please explain.

**Yes. The technology is not expensive although some validity / accuracy/ certification issues may need to be addressed**

3.10 Do you expect any obstacles or difficulties in metering heat output? Please give details.

**The cost of monitoring should be outside the funds available within the RHI scheme and must be kept to a minimum. Smart meters must be seriously considered and be an eligible expenditure under the scheme. Any attempt to manually read all meters, as may be proposed by audit, will be prohibitively expensive and should be abandoned in favour of snap checks with appropriate forfeits of payments for those found to be in default.**

3.11 What alternative measures to metering heat could DETI employ in ensuring payments are made on heat delivered?

**Fuel records use could be an alternative but is likely to be bureaucratic and subject to abuse.**

3.12 Do you agree that sustainability reporting should be introduced as part of the NI RHI?

**Yes. Sustainable reporting is essential for larger installations and desirable for all installations to promote local sourcing.**

3.13 Have you have any views on how sustainability reporting should be handled by DETI?

**Should be kept as simple as possible and build on existing schemes rather than impose additional cost on a low value product.**

3.14 Do you have any comments on the accessibility arrangements for the NI RHI?

**We assume payments will be made to the owner of the property and entitlement will transfer with the ownership in the event of a sale. Accreditation by Ofgen or the alternative administration body must be simple and easily understood.**

3.15 Do you agree that regular planned reviews should be undertaken? If not, please explain.

**Yes. Subject to the assurance sought in comments on Q 3.7 that rates applying at the time of installation will not be reduced over the 20 years of eligibility. Anything less will undermine confidence and investment in the adoption of renewable technology.**

3.16 Do you agree that the tariff levels should be guaranteed for the life-time of the installation at the point of accreditation?

**Yes – most definitely, as indicated in answer to 3.15 above.**

#### **Chapter 4 - Support for the Industrial Sector**

4.1 Do you agree that the heavy industrial sector should be treated separately under the NI RHI? If not, please explain giving evidence to the contrary.

**Yes, but the basis for decisions should be taken without regard to sustaining the outdated and inappropriate case for extending the gas network. Industrial users are in a position to use low grade biomass not suitable for smaller installations and are part of the overall market mix.**

4.2 What is your view regarding heavy industrial sites being awarded relevant tariffs on a case-by-case basis, following consideration by DETI of the need, value for money and sustainability of the proposal?

**See 4.1 above**

4.3 Do you agree with the criteria set by DETI for this sector?

**See 4.1 above**

4.4 Do you agree that co-firing should be allowed in this sector and, if so, should it be time limited?

**No. We believe co-firing sustains inefficient use of biomass and should not be permitted or approved only on a very short timescale.**

#### **Chapter 5 - Interim Support for Domestic Households**

5.1 Do you agree with the phased approach for the domestic sector as proposed by DETI?

**Yes – but in view of the importance of the sector in achieving the NI renewable heat targets and a high level of interest and confusion amongst potential users, delay should be kept to a minimum.**

5.2 What is your view of the proposed support levels under the Renewable Heat Premium Payments?

**The principle of Renewable Heat Premium Payments to assist with offsetting the initial capital cost is soundly based.**

**Concern at the validity of the assumptions re biomass costs in the Economic Appraisal devalues any justification for differentiation with GB and so any rates adopted should be the same as GB.**

5.3 Do you agree with the proposal that existing gas customers should not be eligible for Renewable Heat Premium Payments?

**We do not believe that current users of natural gas should be excluded from the RHI scheme. The commercial market coupled with consumer preferences should be the sole determinants.**

5.4 Any other comments on incentive support for the domestic sector are welcome?

**None.**

#### **Chapter 6 - Interactions with other DETI Energy Policies**

6.1 What impact do you think the implementation of the NI RHI will have on the future development of the natural gas market? Please provide evidence of any impact.

**The scheme as proposed is excessively biased in favour of protection of the natural gas market since it makes domestic gas customers ineligible and the criteria for industrial users requires that there is no significant impact on the existing or future gas market.**

6.2 Do you agree with DETI's assessment of potential support for CHP and agree that no changes should be made to existing arrangements until April 2014, at the earliest? If not, please explain.

**Yes.**

6.3 What is your view on the proposal that AD systems which avail of the NIRO will be excluded from receiving payments for useful heat output under the NI RHI?

**We do not agree that AD should be excluded from the RHI because it is already eligible for ROCs. It is important to encourage the use of heat from these units. This is not always easy to achieve and so incentives will be important.**

6.4 Would you support a reduced ROC level in order to avail of the RHI also?

**Yes. Although some reduction in ROCs may be required, the overall package of incentives should be greater than that available from ROCs alone.**

**Chapter 7 - Renewable Heat Strategy Group**

7.1 What key actions should the Renewable Heat Strategy Group consider in supporting the development of the renewable heat market?

**They must, as a priority, consider the overall supply situation for renewables – such as biomass – both in terms of the quantity of supply available in the period up to 2020 and beyond, and the interventions necessary to achieve a balanced supply situation. This must be considered in the context of an island of Ireland market and involve consideration of action to stimulate increased planting of both SRC willow and forestry.**

7.2 Is there a need for ongoing engagement with external stakeholders as renewable heat policy is developed?

**Yes. Ongoing meaningful dialogue is essential and preferably there should be industry representation on the RHSG.**

7.3 Do you wish to be considered to potentially give evidence on renewable heat to a future meeting of the Renewable Heat Strategy Group?

**Yes. BENI will be keen to support the work of the Group where it is felt that it can be of assistance.**

**John C Martin.                      Chairman, Biomass Energy Northern Ireland.**

**3 October 2011.**