From:	McCoy, Laura on behalf of Hepper, Fiona
To:	Private Office DETI
Cc:	Sterling, David; Thomson, David; McCune, David; Baxter, Clare; McCutcheon, Joanne; Hutchinson, Peter; Connolly, Samuel; Stewart, Susan; Aiken, Glynis; Neth_Energy
Subject:	The Northern Ireland Renewable Heat Incentive and Renewable Heat Premium Payments
Date:	16 March 2012 11:33:57
Attachments:	NI Renewable Heat Incentive and Renewable Heat Premium Payments.DOC Annex A - SL1.DOC Annex B - RIA.DOC
Importance:	High

Private Office

Please see attached submission from Fiona Hepper for the attention of the Minister.

Regards,

Laura McCoy
Personal Secretary
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9200 (ext: 29200)
Textphone: 028 9052 9304
Web: www.detini.gov.uk

Department of Enterprise, Trade and Investment
www.detini.gov.uk

From: Fiona Hepper

Date: 16 March 2012

To: 1. Andrew Crawford
2. Arlene Foster MLA

Copy Distribution List below

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE AND RENEWABLE HEAT PREMIUM PAYMENTS

Issue:	**This submission seeks approval to proceed with the introduction of a Northern Ireland Renewable Heat Incentive (NI RHI) and the associated Renewable Heat Premium Payments (RHPPs).**
Timing:	**Urgent**
Need for referral to the Executive:	**Not at this time.**
Presentational Issues:	**None**
Freedom of Information:	**Elements of this submission may not be disclosable at present on grounds of policy development.**
Programme for Government:	**A target for renewable heat is in the Programme for Government.**
Financial Implications:	**HMT has advised that £25m of AME is available over the spending period 2011-2015 for a Northern Ireland RHI.**
Statutory Equality Obligation:	**An equality screening form has been completed for this policy.**
Legislation Implications:	**None.**
Recommendation:	**It is recommended that you note this briefing, approve the final NI RHI and RHPP policies and confirm that you are content for the schemes to proceed. You are also asked to endorse and sign the statement at the foot of the Regulatory Impact Assessment.**

Background

The EU Renewable Energy Directive (RED) (2009/28/EC) 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 and Northern Ireland is expected to contribute to this share. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption are required for the UK to meet its requirements and a target of 10% renewable heat for NI by 2020 was therefore included within the Strategic Energy Framework; this is a challenging target given that the current level is 1.7%.

2. £860million has been made available from central Government funding to support the introduction of a Renewable Heat Incentive (RHI) in GB over the period 2011-2015; HMT has notified the Northern Ireland Executive that £25million of funding is available for a NI RHI over the same period.

3. You are aware that in July 2009 the Department for Energy and Climate Change (DECC) announced its intention to introduce a Renewable Heat Incentive and that a scheme was introduced in GB on 28 November 2011. Given the very different heat market in Northern Ireland, it was agreed that it would be appropriate to separately assess how the NI renewable heat market could be best be developed. You will recall that you announced, in September 2010, that a NI RHI would be introduced to support renewable heat installations (commissioned from 1 September 2010) if, after a full economic appraisal, it was considered to be viable and economic to do so.

4. A procurement exercise was undertaken resulting in the appointment of Cambridge Economic Policy Associates in conjunction with AEA Technologies (CEPA/AEA) to conduct an economic appraisal to consider the most appropriate form of a Renewable Heat Incentive (RHI) for Northern Ireland. This work was completed in June 2011 and formed the basis for the proposals contained in the public consultation which was launched on 20 July 2011. The consultation ended on 3 October 2011; 78 responses were received and you received briefing (11/11/11) on the main issues raised by consultees. In light of the consultation responses, DETI engaged CEPA/AEA in December 2011 to conduct some further analysis, particularly regarding tariffs, banding & technologies. CEPA/AEA produced a report on this additional analysis (Feb 2012) and that has informed the final policy presented here for approval.

NI Renewable Heat Incentive (NI RHI)

5. The NI RHI represents a long term approach to developing the renewable heat market by providing consistent, secure, long term payments for renewable heat generation. The incentivisation involves payments to installers of renewable heat technologies, with tariffs dependent on the type and size of technology installed, and in the form of pence per kilo watt hour (p/kWh) for heat generated. Payments will be made quarterly over a 20 year period for all eligible installations (following accreditation) and it is proposed that the scheme will be open to new installations until 31 March 2020; this is in line with the GB RHI.

6. The NI RHI tariffs have been calculated to cover the cost difference between traditional fossil fuel heating systems and a renewable heat alternative. The tariffs account for the variances in capital costs, in operating costs, as well as seeking to address non-financial 'hassle' costs. The tariff is generated against a counterfactual position of heating oil; this is due to the fact that Northern Ireland is primarily dependent on oil and most of those switching to renewable heat will be oil consumers.

7. Tariffs vary depending on the type and size of technology to ensure that financial support is targeted for the specific installation and so over-compensation is avoided. Tariffs are paid for 20 years (the lifetime of the technology) and are *'grandfathered*[1]*',* however they will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation.

   The tariff setting methodology has three general principles:

   - Renewable installations are divided depending on the type of technology and size of installation;

   - Within each banding a reference technology[2] is chosen to develop a consistent tariff across technologies and scales; and

   - The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined

   To generate the appropriate tariff the difference in costs between the renewable technology and the fossil fuel counterfactual is determined and this figure is divided by annual heat output to demonstrate the appropriate tariff.

8. RHI payments will be made on a quarterly basis and are determined by multiplying the applicant's actual (metered) heat output with the relevant tariff level. Under the RHI only 'useful heat' is deemed eligible; this is defined as heat that would otherwise be met by fossil fuels, this excludes deliberately wasting or dumping heat with the sole purpose of claiming incentive payments.

9. It is proposed that the NI RHI will be introduced in two phases. The first phase will commence as soon as possible after 1 April 2012 and will be for non-domestic installations. There will be four eligible technologies – biomass, biomethane, ground source heat pumps and solar thermal – and tariffs will be as presented below.

[1] Provides certainty for an investor by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews
[2] In order to set a fixed incentive rate for each band a '*reference installation'* is chosen and the tariff set relates to this installation and provides appropriate subsidy to make it viable. In line with DECC's methodology, the reference installation is chosen as the installation requiring a subsidy that would incentivise half of the total potential output from the technology that could be taken up across the period 2011-20 if that rate was offered to that band in every year. Total potential output is calculated as heat output that could be achieved if all technically viable segments within the band installed the technology.

Technology	Size	Proposed tariff	Equivalent tariff in July 2011 consultation	GB equivalent tariff
Biomass	Less than 20kWth	6.2	4.5	[3]Tier 1: 7.9 Tier 2: 2.0
	Between 20kWth and 100kWth	5.9	[4]4.5	Tier 1: 7.9 Tier 2: 2.0
	[5]Between 100kWth and 1000kWth	1.5	1.3	[6]Tier 1: 4.9 Tier 2: 2.0
Biomethane	Biomethane all scales, biogas combustion less than 200kWth	3.0	2.5	6.8
Ground source heat pumps	Less than 20kWth	[7]8.4	4.0	4.5
	Between 20kWth and 100kWth	4.3	4.0	4.5
	Between 100kWth and above	1.3	0.9	3.2
Solar thermal	Below 200kWth	8.5	8.5	8.5

10. You will wish to note that biomass installations over 1MW in size will not receive a tariff under the current banding proposals. The reason for this is that, following the additional analysis, it appears that it would be cost effective for these sites to change to a renewable technology without an incentive. Indeed, when calculating a tariff for these technologies, using the same methodology as for the other tariffs, the proposed value is negative i.e. no tariff is required. The assumptions used in considering the over 1MW tariff are as follows;

[3] Tiering is used to ensure the technology is not *'over-used'* just to receive an incentive. It works by dropping the paid tariff after the technology reaches its optimum use for the year; this is deemed at 1314kWhrs (15% of annual hours). After this level is reached the tier 2 tariff is paid. Tiering is not included in the NI scheme because in each instance the subsidy rate is lower than the incremental fuel cost.
[4] Previous consultation set out a tariff of 4.5p/kWh up to 45kWth and then 1.3p/kWh above
[5] The GB RHI has an open band above 1000kWth of 1p/kWh. Given the oil counterfactual it is deemed that Northern Ireland installations over 1000kWth are already cost-effective to 2020 and therefore do not require an incentive. If evidence to the contrary is provided by stakeholders this upper limit will be reviewed under Phase 2 of the RHI.
[6] As the GB banding is different the tariff of 7.9p/kWh applies up to 200kWth and then it drops to 4.9p/kWh
[7] This tariff reflects a deeming approaching for the domestic sector. If a metered approach was introduced a tiered tariff would be more appropriate. This would be 9.3p/kWh for the first 1314 hours and then 4.9p/kWh after that.

	Industrial biomass boiler over 1MW	Conventional oil boiler over 1MW
Capex (£/kw)	316	31
Opex (£/kw/year)	14.38	0.23
Effciency (%)	81	89
Load factor (%)	82	82
Lifetime (years)	20	20
Fuel costs (p/kWh)	2.5	4.8

Using these assumptions the following example can be generated for a 3MW biomass system being installed instead of a similar oil system.

	Biomass (3MW)	Oil (3MW)	Difference in costs
Overall capital cost	£995,000	£95,000	£900,000
Yearly operating cost	£43,000	£600	£42,400
Annual fuel costs	£800,000	£1,210,000	£410,000
Total annual operating cost	£843,000	£1,210,600	(£367,600)

In this scenario, whilst the upfront capital cost is £900k more than the counterfactual on an annual basis around £370k is being saved, this results in the capital costs being recovered in less than 3 years. If a tariff of 1p/kwh was set for installations over 1MW the annual payment for this installation would be around £215,000, this would reduce the payback to around 18 months. Given these figures and these assumptions, a tariff for larger biomass heating systems cannot be justified. However, if evidence is produced to challenge the underlying assumptions, a tariff could be considered under Phase 2 of the scheme.

11. In Phase 1, as the RHI only applies to the non-domestic sector, all renewable heat installations will be required to be accompanied with a heat meter that will determine actual heat output. Heat meters are already common in many commercial applications and therefore should not be a barrier to uptake. Meters will allow for accurate readings to be taken of actual heat usage and appropriate payments made. They will also ensure accurate statistics are maintained throughout the lifetime of the scheme. All beneficiaries will also be required to submit an annual declaration to the scheme administrator to confirm that the installation is in working order, being maintained and is being used for eligible purposes. There is an obvious incentive to keep the equipment maintained given that payments are made on metered output.

12. It is expected that the NI RHI will be open to new installations until 2020, meaning the final payment from the scheme will be in 2040. The NI RHI will have scheduled reviews built-in to the scheme to allow DETI to ensure that the scheme remains fit for purpose and value for money for the duration**.** The scope of these reviews will include analysis of tariffs (either to be reduced or increased), the appropriateness of technologies (remove existing technologies or add new innovative ones) and the assessment of effectiveness and success.

13. Phase 2 of the scheme will extend the NI RHI to domestic installations. As the sector with the largest heating demand, the deployment of renewable heat within the domestic sector will be vital in supporting the achievement of the 10% target. However, a phased approach will allow DETI to carry out the further analysis that is necessary to understand the appropriate design for the domestic market scheme including whether heat should be metered or deemed. This is in line with the approach taken in GB.

14. Phase 2 may also include the introduction of further eligible technologies if these are shown to be viable and require an incentive to develop the market within NI. The timing of Phase 2 will be dependent on progress on Phase 2 of the GB scheme as we can then benefit from the lessons learned and from economies of scale in terms of developing the administrative system. DECC has publicly indicated that Phase 2 of its scheme will commence in October 2012. However, following recent discussions it would appear that this phase of the scheme might well be delayed in GB; it is therefore proposed that the second phase of the NI RHI will commence as soon as possible after 1 April 2013.

Renewable Heat Premium Payments (RHPPs) for the domestic sector

15. In the interim it is proposed to introduce a RHPP for the domestic market. These one off grant payments will assist in the capital costs of the renewable heat installation.

Technology	Support per unit (£)
Air Source Heat Pump	1700
Biomass boiler	2500
Ground Source Heat Pump	3500
Solar Thermal	320

16. In line with GB, all installations under the scheme will be required to be certified under the UK Microgeneration Certification Scheme (MCS) and installed by MCS accredited installers. Applicants will be required to provide routine information on the technology installed, to assist in developing the understanding of renewable heat performance and use in the domestic sector. As well as surety in product and installation standards, by following this route Northern Ireland will also be able to learn from all the experience and research gained through the GB RHPP.

17. Those availing of the RHPP will remain eligible for a longer term tariff when Phase 2 of the RHI commences. However, the lifetime of the tariff under the RHI will be reduced accordingly so that all customers are equally incentivised. For example, a domestic customer who has availed of the RHPP will only receive 18 years of an RHI rather than the standard 20 years (the value of the RHPP has been set at the equivalent of 2 years RHI payments).

18. The RHPP scheme was part of the consultation exercise and the majority of those responding agreed with the rationale for treating the domestic sector separately. However it was also felt that any delay in introduction should be kept to the minimum and that clear plans were made for domestic customers as soon as possible to remove any uncertainty from the market.

19. The RHPP scheme will be administered within DETI Energy Division. Customers will apply direct to the Department where an initial assessment of eligibility will be undertaken. Successful applicants will then be issued with a voucher guaranteeing the RHPP once the technology is installed subject to terms and conditions. Once the installation is completed it will be inspected and payment made. Vouchers will not be redeemable beyond 31 March 2013.

Legislation

20. The primary power to enable DETI to make regulations for a NI RHI scheme to encourage renewable heat was incorporated into the Energy Act 2011[8] which was given Royal Assent on 18 October 2011. The necessary secondary legislation is now being drafted; we will then proceed to lay the Renewable Heat Regulations through draft affirmative resolution procedure in the Assembly. A SL1 letter is attached at **Annex A** for onward transmission to the ETI Committee, if you are content to proceed.

21. A Regulatory Impact Assessment (RIA) has been completed in respect of the RHI scheme and accompanying Regulations (Annex B). There is no requirement to issue the RIA to the ETI Committee. It is retained in DETI and made available on the Department's website.

Development of an administrative system

22. The introduction of a RHI requires an administrative system capable of managing enquiries and applications, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments, preventing fraud and providing management information. The Office of Gas and Electricity Markets (Ofgem) has developed such a system for DECC and is already managing the administration of the GB RHI. In addition, it has experience of delivering other large scale incentive schemes such as the Renewables Obligation, (including the NI Renewables Obligation for DETI), and the Feed-in-Tariff. It was considered that there could be significant advantages in utilising the existing systems and so a direct award contract was awarded to Ofgem to carry out a feasibility study into how the DECC GB RHI system could be used as a basis for an administrative system for the NI RHI.

23. The study concluded that Ofgem had the operational structures in place to deliver an administrative system, tailored specifically for NI, following a development phase of approximately 4 months. The cost of the development work would be £386K. Forecasts of operating costs for the next four years are £136K, £157K, £ 198K and £249K based on NI accounting for a 3% share of the workload. In any case, Ofgem has confirmed that it will only pass through actual costs to DETI.

[8] http://www.legislation.gov.uk/ukpga/2011/16/part/3/crossheading/northern-ireland-renewable-heat-incentives

24. Exploiting synergies with the GB RHI will drive down the costs of administering the scheme whilst maintaining a high quality service to generators. For example, using the existing Customer Relationship Management (CRM) Software will save NI an estimated £100-150K, while using the existing SUN system to make generator payments, instead of a payment service provider, could save in the range of £100 - 500K. In addition, using the main existing RHI register instead of commissioning a bespoke IT system is expected to save between £2m and £3m. Overall, it is estimated that using Ofgem's existing systems could save somewhere between £3.2million and £5.15million with additional ongoing operational savings.

25. Responses to the consultation were mixed in terms of who should administer the NI RHI. Some consultees felt that the use of Ofgem would be beneficial in terms of efficient delivery, consistency and reduced administrative costs. Others argued that the scheme should be administered locally with the possibility of creating new jobs and skills in NI. However, the completion of this feasibility study provides clear evidence that there are substantial gains (both in terms of efficiency and cost) to be had from utilising the existing GB system. Looking forward, there is the additional advantage that we would only be required to pay our share of any future development or enhancement costs.

26. It is therefore proposed to appoint Ofgem to administer the scheme under a Direct Award Contract (DAC). This has been discussed with colleagues in Central Procurement Directorate and they are content. A separate paper will be coming to you via the Accounting Officer for your formal approval to appoint Ofgem.

Approvals

27. Before the NI RHI can be introduced we need approval from the EU Commission that the proposals are compatible with the Guidelines on State Aid. A notification paper was submitted to the Commission in December 2011. The application was timed to benefit from the lessons learned by DECC from its RHI application (as the two schemes are similar). It is hoped that by addressing the Commission's concerns regarding the GB scheme prior to submitting our application, the approval process might run more smoothly. It is hard to predict exactly how long the approval process will take. In the last few days we have been told we can expect to hear from the Commission in the next two weeks; however, this contact may simply be to request further information or to pose questions. It is unlikely therefore that we will begin the scheme much before June given that we need the State aid approval, DFP approval and the Regulations have to be passed by draft affirmative resolution which includes a debate in the Assembly.

28. The proposals for the NI RHI and associated Premium payments were considered by the DETI Casework Committee on 9 March 2012. The Committee was content subject to us gaining Accounting Officer approval for the DAC, alerting TMT to the ongoing administrative costs associated with the projects (as these will have to be found within DETI's existing budgets), approval of the minutes of Casework and further discussion with CPD regarding the specific terms of the Ofgem contract.

29. If the Minister is content with the scheme as outlined above, final approval will be sought from DFP (a Strategic Outline Case has already been approved by DFP).

30. The NI RHI scheme **cannot** commence until all the approvals are in place. The RHPP scheme **can** commence once Ministerial & DFP approval is obtained i.e. State Aid approval is not required.

Recommendation

31. It is recommended that you:

i. note this briefing, approve the final NI RHI and RHPP policies and confirm that you are content for the schemes to proceed subject to the necessary approvals (as outlined above);

ii. agree the SL1 (attached at **Annex A**) for onward transmission to the ETI Committee; and

iii. consider and, if content, sign the Regulatory Impact Assessment (attached at **Annex B**) which should be returned to Energy Division for filing.

Fiona Hepper

FIONA HEPPER
Ext 29215

cc: David Sterling
David Thomson
David McCune
Clare Baxter
Joanne McCutcheon
Peter Hutchinson
Sam Connolly
Susan Stewart
Glynis Aiken

Department of Enterprise, Trade and Investment
www.detini.gov.uk

Annex A

Mr Jim McManus
ETI Committee Clerk
Northern Ireland Assembly
Parliament Buildings
Stormont
BELFAST
BT4 3SW

March 2012

Dear Jim

SL1 – RENEWABLE HEAT REGULATIONS (NORTHERN IRELAND) 2012

1.1 The Department of Enterprise, Trade and Investment (**the Department**) proposes to make a Statutory Rule in exercise of the powers conferred by the Energy Act 2011.

1.2 The Department of Energy and Climate Change (**DECC**) in GB agreed that an amendment could be made to the Energy Act 2011 that would extend powers for renewable heat, similar to those contained within the Energy Act 2008, to Northern Ireland. For this to be achieved a Legislative Consent Motion (**LCM**) was required. Following Executive approval on 10 February 2011 and ETI Committee support at its meeting on 24 February 2011, a LCM was tabled and passed in the Assembly on 14 March 2011.

1.3 The Energy Act makes special provisions for Northern Ireland in terms of renewable heat[1].

1.4 DECC obtained Royal Assent on 18 October 2011 and the Bill became the Energy Act 2011. The Act deems that the Statutory Rule will be subject to the draft affirmative resolution procedure before the Assembly.

Purpose of the Statutory Rule

2.1 The Department carried out an economic appraisal of a potential Northern Ireland incentive scheme with the aim to assist in achieving the target of 10% renewable heat by 2020. The appraisal considered various options for incentivising the local renewable heat market, and advised on appropriate tariff levels. It also considered the costs/benefits and the impact of each of the options.

2.2 The Department carefully considered the findings of the economic appraisal to reach a view on the proposed design of an incentive scheme for Northern Ireland (NI) and has obtained Ministerial clearance on the proposed way forward.

2.3 The Statutory Rule has therefore been drafted based upon equivalent Regulations in GB which are entitled the Renewable Heat Incentive Regulations 2011 (**the GB**

[1] Sections 113 and 114 of Energy Act 2011 - http://www.legislation.gov.uk/ukpga/2011/16/part/3/crossheading/northern-ireland-renewable-heat-incentives/enacted

Regulations)[2]. The GB Regulations were approved by both Houses of Parliament and by Scottish Ministers on 10 November 2011.

2.4 The Statutory Rule will set in place a structured mechanism which will allow a RHI scheme to be introduced which will provide long-term guaranteed financial support for renewable heat installations in Northern Ireland. The Rule will underpin the tariff scheme and will specifically prescribe matters relating to eligibility criteria, obligations for participants of the scheme, methods of payment and accreditation and registration.

Consultation

3.1 The Department went out to consultation on a proposed RHI scheme including the draft Statutory Rule on 20 July 2011, closing on 3 October 2011. A number of consultation seminars were also held over the summer period. 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 the proposals and provided useful comments which the Department considered.

3.2 Following the consultation, further economic analysis was carried out considering issues that were raised by stakeholders. This analysis completed in February 2012 and has informed the final policy decision.

Position in Great Britain

4.1 DECC originally legislated for an incentive scheme in the Energy Act 2008 and, following a consultation process, published final proposals on the RHI in March 2011. DECC obtained parliamentary approval of the GB regulations in November 2011.

4.2 The Office of the Gas and Electricity Markets (**Ofgem**) is responsible for developing and administering the scheme on behalf of DECC.

Equality Impact

5. In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, a screening exercise has established that the proposed Regulations do not have any implications for equality of opportunity, and are instead engineered to promote equality of opportunity.

Regulatory Impact

6.1 A draft Regulatory Impact Assessment (**RIA**) has been prepared in respect of these Regulations. The Regulations will support the implementation of the Renewable Energy Directive 2009/28/EC (**RED**) which requires the UK to ensure that 15% of its energy consumption comes from renewable sources including electricity, heating and cooling and transport.

[2] http://www.legislation.gov.uk/ukdsi/2011/9780111512753/contents

6.2 Five options were considered as part of the RIA –

(a) ***Do Nothing***

It was determined that under this option there would be limited deployment of renewable heat, the amount of which would largely be dependent on fossil fuel prices and the understanding of renewable alternatives. It was estimated that by 2020 renewable heat would account for around 7% of heating demand if no financial support was available. This option is not deemed as viable for a number of reasons. Firstly, the target set in the Strategic Energy Framework (**SEF**) for renewable heat would not be met and the funding provided by Her Majesty's Treasury (**HMT**) (discussed under point 7) would not be used. Secondly, the Northern Ireland renewable heat market would be distinctly disadvantaged in comparison to Great Britain and there would be a potential loss of skills and expertise to the Great Britain market.

(b) ***50% capital grant***

The option considered would be a 50% grant to cover the capital costs of various renewable heat installations. If a grant scheme is the preferred option then a challenge fund scheme would be the preferred option and would ensure deliver more cost effective renewable heat. Lessons learned from the *Reconnect* scheme would support the view that a competitively awarded grant can be more cost-effective and targeted than an administratively awarded grant.

(c) ***A renewable heat challenge fund***

A 'Renewable Heat Challenge Fund' would be a capital grant with the grants being awarded on a competitive basis, rather than 'first come first served'. In this scenario interested parties would be invited to apply for funding and would provide information on the intended installation, expected heat output and required funding (there would be a maximum allowed grant based on % of total cost). Applications would then be ranked based on the cost-effective renewable heat output and grants awarded according to rank. This process would be repeated on either a bi-annual or annual basis.

There are several issues to consider under the challenge fund option. The first to consider is that the administration costs are likely to be prohibitive. Previous experience of running *Reconnect* demonstrated administration costs of £1.48m for a grant scheme worth £10.5m (14%). The *Reconnect* scheme was for domestic customers only, and on a 'first-come-first-served' basis. A challenge fund, dealing with commercial applications and involving complex evaluation metrics, could be expected to be at least as, if not more, costly than the *Reconnect* scheme, equating to potentially £3.5m over the first 4 years. This would not be available within DETI budget.

The scheme could be potentially complicated and would require applicants to have an understanding of their heat demands and most appropriate technology requirements. There would also be a danger that only certain technologies, which ranked highly on the scoring matrix, would be incentivised. This would not support the development of a more diverse market.

The final issue with a 'challenge fund' is that of risk. As the Challenge Fund would be contributing to the capital costs of the installation (rather than the whole life costs under the RHI) a risk would develop that, after a short time, installations would stop

generating renewable heat. This could be because the renewable heat fuel is no longer affordable, that a fossil fuel alternative (such as gas) become available or more attractive, that the site is no longer in business etc. In these circumstances clawback arrangements would need to be initiated, which could be costly and complicated, and the target would be hindered.

(d) ***Joining in with the GB RHI scheme***

There are many positives for joining in with the existing GB RHI including the consistency of approach with GB, savings in the cost of administrating an NI scheme, and the potential speed with which a scheme could be implemented.

However, it has been concluded that, given the differences between the GB and Northern Ireland heat markets implementing the GB RHI as it is currently devised and using the proposed GB tariffs in Northern Ireland would not be appropriate. The major issue that would arise would be that customers could be potentially over-incentivised and inefficient technologies supported. The GB tariff levels are largely based on the assumption of a household or business switching from gas to renewables. Whereas, given the prevalence of oil in Northern Ireland, tariff levels for a Northern Ireland scheme would need to be set on the assumption of moving from oil to renewables.

(e) ***A specifically tailored NI RHI scheme***

The NI RHI option offers the highest potential renewable heat output at the best value. It also would incentivise a wide range of technologies and provide investors with long-term support. Whilst it would only be open to non-domestic market, in the first instance, it would eventually be open to all consumers and therefore provide greater accessibility.

The purpose of the RHI (in GB and NI) is to incentivise people to move from carbon-based heating to renewable energy sources. The 'cost' of the carbon fuel is therefore important and differs in the GB and NI markets. The tariffs for the Northern Ireland scheme are therefore lower as they are based on moving people from a more expensive fuel source, therefore the required incentive to move is deemed to be lower.

Similar to the GB scheme, the NI RHI would be made available to the non-domestic market first, with the domestic market introduced at a later date. The reason for this is difficulties in assessing and monitoring heat demand in domestic dwellings. DECC is currently considering the incentives for the domestic market. The Department's consultation also highlighted a commitment to consider this issue and introduce the RHI to the domestic market as soon as possible.

6.3 ***Preferred option***

As mentioned in the consultation exercise in July 2011, the Department's preferred option is a specifically tailored NI RHI scheme. This has been determined as the most appropriate method of providing long term support for the local industry, with tariffs developed specifically for the Northern Ireland heat market which will utilise available funding most efficiently. The Department also anticipates that there will be secondary benefits to the development of the renewable heat market other than increased renewable uptake. These associated benefits include a reduction in CO_2 emissions as fossil fuels are displaced, an increase in fuel security as Northern

Ireland's dependence on imported heating fuel diminishes and growth for 'green jobs' as companies benefit from opportunities presented by renewable heat.

Financial Implications

7. HMT has advised that £25m of funding will be made available for a Northern Ireland RHI. This funding is spread over the spending period between 2011-2015, with £2million in the first year, followed by £4million and £7million, with £12million available in the final year. DETI has sought and received approval for the funding profiled for year 1 of the scheme to be made available in year 2. The funding will come from direct Government expenditure and therefore will have no impact on Northern Ireland consumers' energy bills.

EU Implications

8.1 The RED requires the UK to ensure that 15% of its energy consumption comes from renewable sources – for the first time the requirement extends beyond electricity to heating and cooling and transport. This is an important shift in emphasis: almost half of the final energy consumed in the UK is in the form of heat, producing around half of the UK's CO_2.

8.2 The RED is the key driver for the work undertaken by the Department on renewable heat. The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration (**DA**) level. However, while energy is a devolved matter for Northern Ireland, each DA is expected to contribute as much as possible to the overall UK target. In light of the obligations within the RED, the Department has undertaken to introduce a renewable heat scheme in Northern Ireland.

Section 24 of the Northern Ireland act 1998

9. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied the proposed Rule does not contravene the Act.

Section 75 of the Northern Ireland Act 1998

10. The Department had considered section 75 of the Northern Ireland Act 1998 and is satisfied that the proposed Regulations will have no negative implications or possible infractions under Section 75.

Operational Date

11.1 It is proposed that the Regulations will come into operation in June 2012.

11.2 I would be grateful if you would bring this matter to the attention of Enterprise, Trade and Investment Committee.

Yours sincerely

FIONA HEPPER
Head of Energy Division

cc Human Rights Commission
Legislative Programme Secretariat

Department of Enterprise, Trade and Investment
www.detini.gov.uk

Annex B

IMPLEMENTATION OF A RENEWABLE HEAT POLICY IN NORTHERN IRELAND

REGULATORY IMPACT ASSESSMENT

1. Title of Proposal

The Renewable Heat Incentive Regulations (Northern Ireland) 2012

2. Purpose and intended effect of measure

a) The background

The Department of Enterprise, Trade and Investment (the Department) is responsible for the development and maintenance of an appropriate legislative and policy framework for energy in Northern Ireland. The vision is for a competitive, sustainable, reliable energy market at the minimum cost necessary. Four key policy goals have been identified to support this vision as follows

- Competitiveness
- Security of Supply
- Infrastructure
- Sustainability

The agenda for developing renewable energy solutions and securing real reductions in energy consumption to enhance sustainability is driven by environmental policy, aimed at reducing harmful emissions. However, pursuing sustainability in energy also offers opportunities to enhance security of energy supply by introducing alternative generation sources, which are not subject to the price volatility of imported fossil fuels. Furthermore, development of indigenous sources offers opportunities for diversification and alternative sources of income.

Renewable Heat

Renewable heat is simply heat produced from renewable sources, for example wood pellet boilers, solar thermal water heating units, heat pumps and, on a larger scale, industrial biomass boilers or biogas plants.

The EU Renewable Energy Directive (2009/28/EC), published in the Official Journal of the European Union on 5 June 2009, requires that Member States ensure that 15% of their energy consumption comes from renewable sources by 2020. This requirement extends beyond electricity to heating and cooling and to transport.

As heat energy accounts for almost half of all the energy consumed in the UK and produces around half of the UK's CO_2 there is considerable scope to explore and increase the use of renewable heat technologies in order to help meet the new Renewable Energy Directive target.

GB Renewable Heat Incentive

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%.

In order to achieve this target, DECC legislated for an incentive scheme in the Energy Act 2008 and, following a consultation process, published final proposals on the RHI in March 2011. DECC obtained parliamentary approval of the GB Regulations in November 2011[1].

The RHI in Great Britain opened to applications in November 2011, the scheme is initially for the non-domestic sector with the domestic sector to be eligible for RHI payments as part of 'phase 2' of the scheme. 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. These premium payments have been available since July 2011 and will close on 31 March 2012.

Over the next 4 years, DECC has anticipated 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 Office of the Gas and Electricity Markets (Ofgem) is responsible for developing and administering the scheme on behalf of DECC.

Northern Ireland Heat Study

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 has been more appropriate for a separate assessment to be taken on how the local market can be developed.

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.

Economic Appraisal of a Northern Ireland RHI

In February 2011, Cambridge Economic Policy Associates (CEPA), in conjunction with AEA Technologies, were commissioned to undertake an economical appraisal on the feasibility of a Northern Ireland RHI.

The economic appraisal has considered various options for incentivising the local renewable heat market, and has advised on appropriate tariff levels. It has also considered the costs/benefits and the impact of each of the options.

Following a public consultation on the introduction of a Northern Ireland RHI further economic analysis was carried out. This analysis focussed on issues raised by stakeholders and assisted in developing final tariff levels and banding. This has, therefore, informed the final policy position.

[1] http://www.legislation.gov.uk/ukdsi/2011/9780111512753/contents

b) The objective

The overall objective is to deliver the maximum possible renewable heat in Northern Ireland, but this has to be delivered in a way that is consistent with other Departmental policies and objectives. In addition, the target must be delivered within the agreed budget of £25m to 2015 provided by Her Majesty's Treasury (HMT).

In September 2010, the Northern Ireland Executive endorsed a target of 10% renewable heat by 2020 (against a baseline of 1.7% in 2010). This target is included in the Strategic Energy Framework.

The achievement of this target is the overall objective of developing the renewable heat market, in doing so there will be significant benefits for fuel security in Northern Ireland and the opportunity to reduce carbon emissions. There may also be the potential to develop 'green jobs' and 'green skills' within the renewable heat industry.

c) Risk assessment

The Department recognises that there is some degree of risk and uncertainties in implementing a renewable heat incentive to Northern Ireland and seeks to consider those uncertainties in this paper.

Risk of incorrect subsidy level

Probably the most obvious risk is that the subsidy levels proposed for the RHI are either too high or too low. In the former case, those installing renewable heat will be over-subsidised and less heat will be delivered per pound than under more optimal subsidy levels. In the latter, renewable heat will not be deployed to the extent expected.

The normal method of dealing with this risk is firstly to have carefully analysed and researched data in developing the tariffs. The tariffs have been developed by CEPA and AEA Technologies, subject to a public consultation and then subsequently reviewed by CEPA and AEA. Departmental Economists have also assessed the tariffs and assumptions behind the calculations and have deemed them appropriate.

In addition it is the intention to have regular, planned, reviews of subsidy levels after a number of years of experience with the subsidy. This will provide an opportunity to amend tariffs if required and ensure they remain appropriate given potential changing market conditions. It is currently proposed that the first review will begin in January 2014 with any required changes implemented by 1 April 2015. This timescale ensures issues can be rectified but does not disturb confidence in the market.

Risk of harm to other sectors

An increase in renewable heat will, inevitably, lead to a reduction in the demand for conventional heating (oil, gas, coal and electric heating). At a high level, the short term harm to any sector should be relatively small. However, even this, if it impacted disproportionately on the gas sector, could have negative consequences for the extension of the gas network.

Risk of failure of renewable heat supply

Just as supplies of conventional fuels may be disrupted, there is a risk that supplies of renewable fuel (i.e. biomass, biogas and bioliquids) will be disrupted. Biogas can be replaced with conventional gas in the short term, so disruptions to it should be relatively low risk. Bioliquids, since locally sourced by assumption, should be less risky than biomass, much of which will be imported. This suggests that the biomass supply chain, and the security of biomass imports, will be an important factor in the actual or perceived riskiness of renewable heat.

Risk of low take-up

This could be a result of tariffs or other possible barriers include planning restrictions, a lack of awareness, and negative perceptions of the reliability and/ or cost of renewable heat.

Risk of failure to implement targets set by EU Renewable Energy Directive

The RED 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. The RED is the key driver for the work undertaken by the Department on renewable heat. The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration (DA) level. However, while energy is a devolved matter for Northern Ireland, each DA is expected to contribute as much as possible to the overall UK target.

Risk of insufficient budget for administration or future payments

There may be the possibility of a higher than expected uptake leading to overspends in annual budget and higher administration costs. This will be mitigated with ongoing engagement with Ofgem to assess uptake levels and expected spend against profiled budget.

Risk of not receiving State Aid Approval

The EU Commission may refuse to approve the NI RHI scheme because of a lack of information provided to Commission; the inability to justify the need for, or the design of, the NI RHI scheme; or possibly the tariffs are set at too high a level and amounting to over-incentivisation.

The Department has consistently kept the Commission informed of proposed changes to the Scheme and took on board the lessons learned from the GB state aid application. In December 2011, the Department sent a detailed submission outlining the NI RHI proposals which was based on the GB application that was approved in November 2011. An addendum to December application was submitted in February 2012 advising on proposed changes.

Risk of instances of fraud

Instances of fraud could include duplicate applications, unusual meter readings (too high for expected output), lack of information being provided to the administrator and using unregistered installers.

The Department has put in place measure to counteract instances of fraud including:

- Assessment of applications and verification of installations and meter readings;
- Liaison with Ofgem on instances of suspected fraud;
- Physical verification of sites under RHPP scheme;
- Random checks to sites and meters under RHI scheme;
- Requirements of detailed information for each installation;
- Use of MCS under 45kw installations; and
- Meter readings assessed against expected output.

Where there are Instances of suspected fraud, the participant will be investigated and payments will be stopped.

Risk of failure in administration of RHI

There is the potential for delays in dealing with applications, accreditations and payments for the NI RHI scheme which would lead to stakeholders complaining about application process. This could be as a result of difficulties in IT systems or a lack of communication between Ofgem and the Department.

In order to mitigate this risk, the Department will establish a joint project team with Ofgem as the scheme is implemented. The Department has also acknowledged the lessons from the GB RHI implementation. It has also developed a robust and detailed feasibility and ensured that there are sufficient resources earmarked for the NI RHI scheme. The IT systems have been well developed and tested (through GB scheme).

3. Options

A number of options for DETI's support of the renewable heat market were considered:

Option 1 - Do Nothing

It was determined that under this option there would be limited deployment of renewable heat, the amount of which would largely be dependent on fossil fuel prices and the understanding of renewable alternatives. It was estimated that by 2020 renewable heat would account for around 7% of heating demand if no financial support was available. This option is not deemed as viable for a number of reasons. Firstly, the target set in the Strategic Energy Framework (SEF) for renewable heat would not be met and the funding provided by HMT would not be used. Secondly, the Northern Ireland renewable heat market would be distinctly disadvantaged in comparison to Great Britain and there would be a potential loss of skills and expertise to the Great Britain market.

Option 2 - 50% capital grant

The option considered would be a 50% grant to cover the capital costs of various renewable heat installations. Under this scheme 5.35% renewable heat could be delivered by 2015. If a grant scheme is the preferred option then a challenge fund scheme would be the preferred option and would ensure deliver more cost effective renewable heat. Lessons learned from the *Reconnect* scheme would support the view that a competitively awarded grant can be more cost-effective and targeted than an administratively awarded grant.

Option 3 - A renewable heat challenge fund

A 'Renewable Heat Challenge Fund' would be a capital grant with the grants being awarded on a competitive basis, rather than 'first come first served'. In this scenario interested parties would be invited to apply for funding and would provide information on the intended installation, expected heat output and required funding (there would be a maximum allowed grant based on % of total cost). Applications would then be ranked based on the cost-effective renewable heat output and grants awarded according to rank. This process would be repeated on either a bi-annual or annual basis.

There are several issues to consider under the challenge fund option. The first to consider is that the administration costs are likely to be prohibitive. Previous experience of running *Reconnect* demonstrated administration costs of £1.48m for a grant scheme worth £10.5m (14%). The *Reconnect* scheme was for domestic customers only, and on a 'first-come-first-served' basis. A challenge fund, dealing with commercial applications and involving complex evaluation metrics, could be expected to be at least as, if not more, costly than the *Reconnect* scheme, equating to potentially £3.5m over the first 4 years. This would not be available within DETI budget.

The scheme could be potentially complicated and would require applicants to have an understanding of their heat demands and most appropriate technology requirements. There would also be a danger that only certain technologies, which ranked highly on the scoring matrix, would be incentivised. This would not support the development of a more diverse market.

The final issue with a 'challenge fund' is that of risk. As the Challenge Fund would be contributing to the capital costs of the installation (rather than the whole life costs under the RHI) a risk would develop that, after a short time, installations would stop generating renewable heat. This could be because the renewable heat fuel is no longer affordable, that a fossil fuel alternative (such as gas) become available or more attractive, that the site is no longer in business etc. In these circumstances clawback arrangements would need to be initiated, which could be costly and complicated, and the target would be hindered.

Option 4 - Joining in with the GB RHI scheme

There are many positives for joining in with the existing GB RHI including the consistency of approach with GB, savings in the cost of administrating an NI scheme, and the potential speed with which a scheme could be implemented.

However, it has been concluded that, given the differences between the GB and Northern Ireland heat markets implementing the GB RHI as it is currently devised and using the proposed GB tariffs in Northern Ireland would not be appropriate. The GB tariff levels are largely based on the assumption of a household or business switching from gas to renewables. Whereas, given the prevalence of oil in Northern Ireland, tariff levels for a Northern Ireland scheme would need to be set on the assumption of moving from oil to renewables.

Option 5 - A specifically tailored NI RHI scheme

The NI RHI option is the preferred approach and offers the highest potential renewable heat output at the best value. It also would incentivise a wide range of technologies and provide investors with long-term support. Whilst it would only be open to non-domestic market, in the first instance, it would eventually be open to all consumers and therefore provide greater accessibility.

The purpose of the RHI (in GB and NI) is to incentivise people to move from carbon-based heating to renewable energy sources. The 'cost' of the carbon fuel is therefore important and differs in the GB and NI markets. The tariffs for the Northern Ireland scheme are therefore lower as they are based on moving people from a more expensive fuel source, therefore the required incentive to move is deemed to be lower.

Similar to the GB scheme, the NI RHI would be made available to the non-domestic market first, with the domestic market introduced at a later date. The reason for this is difficulties in assessing and monitoring heat demand in domestic dwellings. DECC is currently considering the incentives for the domestic market. The Department's consultation also highlighted a commitment to consider this issue and introduce the RHI to the domestic market as soon as possible.

4. Benefits

Quantitative Benefits for options 2 to 5

- **10% target for renewable heat**
  The overarching benefit would be the achievement of the 10% target of renewable heat, set by the Executive within the Strategic Energy Framework. The achievement of this target would contribute to the UK renewable energy targets set under the Renewable Energy Directive.

  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 300 GWh of renewable heat already present in Northern Ireland, a target of 10% for 2020 equates to an additional 1.3 TWh or 1300 GWh of renewable heat.

- **Carbon Savings**
  In addition, there would be quantitative benefits driven by carbon savings. Under the Northern Ireland RHI it is estimated that 5.1 million tonnes of carbon emissions. The value of these savings is in the order of £240million.

Qualitative benefits

This section covers the benefits that are not quantified and looks at the qualitative benefits of the implementation of renewable heat in Northern Ireland.

- **Employment and capacity building, particularly in green sectors**
  DECC has estimated[2] that there are 150,000 jobs in the heating industry in Great Britain. In relative terms, this equates to around 3,750 jobs in this sector in Northern Ireland. The Renewable Energy Installers Academy lists 92 firms or individuals in Northern Ireland that are qualified to install renewable heat; this could be expected to grow significantly with a robust, long term renewable heat subsidy in place. In March 2011 there were 26 firms that were MCS (microgeneration scheme) accredited and qualified to install at least one of the renewable heat technologies and based in Northern Ireland. Investment in renewable energy is likely to create direct jobs as well as indirect jobs across the entire supply chain of the renewable industry including:

[2] http://www.decc.gov.uk/en/content/cms/news/pn2011_023/pn2011_023.aspx

- Environmental monitoring;
- Development design;
- Commissioning and procurement;
- Manufacturing;
- Installation;
- Project management;
- Transport and delivery and operations; and
- Maintenance.

A 2007 European Commission study[3] found that, overall, a 10% substitution towards renewable energy sources compared to non-renewable sources has a positive impact on jobs.

Employment can be created or safeguarded in the following ways:

- Direct employment in the installation, construction or operation of a project.
- Direct employment in the manufacturing of renewable heat technologies.
- Indirect employment from supplying goods and services to a project.
- Induced employment through jobs created due to increase spending due wealth creation by the project.

Biomass and bioenergy schemes in particular offer the greatest potential for jobs relating to the ongoing operation of a facility. Jobs may be created both from the operation of larger plants, and also from the ongoing management and supply of fuels. Bio-energy schemes can result in additional jobs through:

- The management of forestry and production of forestry residues.
- Transport and delivery of fuels.
- Utilising unused land for energy crop production.

- Reduction in oil imports
  Analysis suggests that the majority of the fuel displaced will be oil, which is as expected since nearly 80% of heating in NI is from oil. For comparison purposes, NI's current demand for oil is around 17,558 GWh/ year[4], which is around 10.3 million barrels[5]. The NI RHI with the highest level of renewable heat deployment displaces less than 10% of oil imports. This reduction in oil imports would reduce Northern Ireland's exposure to the price of oil and to the risk of disruptions in oil supplies.

- Air quality
  There could be air quality impacts from widespread take-up of biomass heating, particularly if this is in urban areas. However, the relative impact will depend significantly on the fuel displaced. The impact assessment for the GB RHI[6] notes that where renewable heat displaces oil, the "[air quality] impacts can be positive".

Sectors affected

The following sectors are likely to be affected by the introduction of these Regulations:

[3] European Commission (2007), DG Environment: Links between the environment, economy and jobs.
[4] Source: AECOM/ Pöyry, 2010, op. cit.
[5] Assuming 1 barrel of oil =6.119GJ, source: Energy Information Agency www.eia.gov
[6] DECC, 2011, Renewable Heat Incentive Impact Assessment

Sector	Effect
Domestic	Opportunity and availability of support to convert new renewable heat technologies
Green	Possible creation of new jobs/ growth of the industry
Public	Opportunity to convert public buildings to new renewable heat technologies
Commercial	Opportunity and availability of grant to convert new renewable heat technologies
Existing heating industries	Increasing demand for renewable heat may lead to a reduction in the demand for conventional heating

Other impact assessments

Equality
In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, an equality screening exercise has established that the proposed Regulations do not have any implications for equality of opportunity, and are instead engineered to promote equality of opportunity.

5. Costs

- **Funding**

HMT has advised that £25m of funding will be made available for a Northern Ireland RHI. This funding is spread over the spending period between 2011-2015, with £2million in the first year, followed by £4million and £7million, with £12million available in the final year. DETI has sought and received approval for the funding profiled for year 1 of the scheme to be made available in year 2. The funding will come from direct Government expenditure and therefore will have no impact on Northern Ireland consumers' energy bills. HMT have already indicated that any spending commitments made via the initial NI RHI (i.e. through the £25m) will be met by ongoing RHI payments from HMT. Additional funding post 2015 will need to be negotiated with DECC and HMT in due course.

- **Administration costs**

The introduction of a NI RHI requires an administrative system capable of managing enquiries and applications, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments, preventing fraud and providing management information. Ofgem has developed such a system for DECC and is already managing the administration of the GB RHI. In addition, it has experience of delivering other large scale incentive schemes such as the Renewables Obligation and the Feed-in-Tariff. It is considered that there could be significant advantages in utilising the existing systems and so a direct award contract was awarded to Ofgem to carry out a feasibility study into how the DECC GB RHI system could be used as a basis for an administrative system for the NI RHI.

The study concluded that Ofgem had the operational structures in place to deliver an administrative system, tailored specifically for NI, following a development phase of approximately 4 months. The cost of the development work would be £386K. Forecasts of

operating costs for the next four years are £136K, £157K, £ 198K and £249K based on NI accounting for a 3% share of the workload.

Exploiting synergies with the GB RHI will drive down the costs of administering the scheme whilst maintaining a high quality service to generators. For example, using the existing Customer Relationship Management (CRM) Software will save NI an estimated £100-150K, while using the existing SUN system to make generator payments, instead of a payment service provider, could save in the range of £100 -500K. In addition, using the main existing RHI register instead of commissioning a bespoke IT system is expected to save between £2m and £3m. Overall, it is estimated that using Ofgem's existing systems could save somewhere between £3.2million and £5.15million with additional ongoing operational savings.

6. Consultation with small business: The Small Business Impact Test

The businesses most affected by these proposed Regulations will be those companies which install and manufacture renewable components. As previously mentioned under the Benefits section of this impact assessment, there is likely to be a positive effect on installers of renewable technologies as investment in renewable energy is likely to create direct jobs as well as indirect jobs across the entire supply chain of the renewable industry including:

- Environmental monitoring;
- Development design;
- Commissioning and procurement;
- Manufacturing;
- Installation;
- Project management;
- Transport and delivery and operations; and
- Maintenance.

The incentive scheme will also be available to businesses across NI as well as the public sector and the other elements of the non- domestic sector (community groups, not-for-profit organisations etc). It is expected that the domestic sector will be introduced into the NI RHI from during phase 2 of the scheme, following further analysis, in the interim support in the form on "*Renewable Heat Premium Payments"*.

This scheme will help to incentivise the industrial sector into changing its heating from oil which produces high carbon emissions to one of the "green" heating technologies offered under the incentive scheme which could help them cut costs on their fuel bills significantly.

7. Enforcement and Sanctions

Many aspects of the Renewable Heat Regulations will be implemented by Ofgem by which participants in the incentive scheme must abide. Compliance with the incentive scheme will be enforced by the Ofgem who has the power to impose sanctions on those participants in the event of a failure to comply with the eligibility criterion or ongoing obligation set out in the Regulations.

Ofgem's powers include the following –

- Temporarily withholding periodic support payments for a maximum period of 6 months commencing from the date of the notice served on the participant;

- Suspend periodic support payments where ongoing failure to comply with an eligibility criterion or ongoing obligation for a maximum period of 1 year;
- Stop or reduce participants' periodic support payments where there has been a material or repeated failure by a participant to comply with an eligibility criterion or ongoing obligation during any quarterly period; and
- Exclude a participant from the scheme where there has been a material or repeated failure by a participant to comply with an eligibility criterion or ongoing obligation.

Ofgem can also at any time revoke a sanction imposed.

8. Monitoring and Review

The Department, in liaison with Ofgem, will monitor the operation of the Northern Ireland renewable heat market to assess if the elements of the incentive scheme are delivering the anticipated benefits.

It is expected that Ofgem will be responsible for developing and administering the scheme on behalf of DETI. Ofgem has significant experience in the delivery of large scale energy incentive schemes such as the Renewables Obligation (RO) and the Feed-in-Tariff (FIT). In addition, Ofgem has administered the Northern Ireland Renewables Obligation (NIRO) since its inception and therefore has an understanding of the local energy market and a working relationship with the Department.

9. Consultation

The Department went out to consultation on a proposed RHI scheme including the draft the Renewable Heat Regulations (Northern Ireland) 2012 on 20 July 2011, closing on 3 October 2011. A number of consultation seminars were also held over the summer period. 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 the proposals and provided useful comments which the Department considered.

10. Summary and Recommendation

A specifically tailored NI RHI scheme will provide long term support for the local industry, with tariffs developed specifically for the Northern Ireland heat market which will utilise available funding most efficiently. The Department also anticipates that there will be secondary benefits to the development of the renewable heat market other than increased renewable uptake. These associated benefits include a reduction in CO_2 emissions as fossil fuels are displaced, an increase in fuel security as Northern Ireland's dependence on imported heating fuel diminishes and growth for 'green jobs' as companies benefit from opportunities presented by renewable heat.

The RHI will be open to all non-domestic consumers in the first instance, with the domestic market introduced at a later date. In the interim, the domestic sector will be able to avail of support in the form of *Renewable Heat Premium Payments*.

11. Declaration

"I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs."

Signed

Date

ARLENE FOSTER MLA
Minister of Enterprise, Trade and Investment

Contact point

Peter Hutchinson
Renewable Heat
Energy Division
Department of Enterprise, Trade and Investment
Netherleigh
Massey Avenue,
Belfast BT4 2JP

E-mail address: peter.hutchinson@detini.gov.uk