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Enterprise, Trade and Investment Committee
Parliament Buildings
Stormont
Ballymiscaw
BELFAST BT4 3XX

9th May 2012

Jim

**QUERY FROM THE ETI COMMITTEE IN RELATION TO THE RENEWABLE
HEAT REGULATIONS SL1**

Please find attached a response to the queries raised by the Committee in relation to the Renewable Heat Regulations SL1.

As you will see in the paper, we await EU State Aid approval of the scheme. As this is the case, I am somewhat limited as to the level of detail I can provide at this time. However, I am very hopeful that we will hear from the EU in the near future and will, of course, provide the requested information on bandings and tariff levels once this approval has been obtained.

What I can say is that, on 27 April, the necessary DFP approvals were received. This is very encouraging as this means that the Renewable Heat Premium Payment element of the overall scheme can proceed as this does not require State Aid approval or legislation to be in place.

I have therefore asked officials to make the final necessary arrangements to enable the Premium Payments to be launched and I expect to make an announcement before the end of May 2012. I will keep you informed as to the actual date when I have this confirmed and will provide details of the premium payment levels at this time.

FIONA HEPPER
Head of DETI Energy Division

REQUEST FROM THE COMMITTEE

In relation to SL1 Renewable Heat Regulations: The Committee asked the Department for more details on:

- incentives for domestic installations (Regulation 15 (1));
- 15 (2) payment to participants, levels of tariffs and how these will be calculated (Regulation 37);
- the timeline; and
- availability of consultation responses.

DEPARTMENTAL RESPONSE

The SL1 letter on the Renewable Heat Incentive (RHI) regulations was an early notification that DETI would be seeking to legislate in this area in the near future. The draft regulations are currently being finalised along with the final policy position. At this stage DETI is limited as to the detail that can be provided, as approval is still required from the EU Commission (re State Aid).

The Committee will be aware that following the consultation process (July – October 2011) DETI carried out further economic analysis on the proposed RHI in order to consider a number of issues raised by stakeholders. This analysis has informed the final policy position. DETI has also been working to achieve all the necessary approvals that are required for the scheme to be in place, these include;

- **DETI Casework Approval:** Given the scale of the proposed incentives and the overall cost of the scheme an internal DETI Casework Committee considered draft proposals on 9 March 2012. The Committee was content with the proposals.
- **Ministerial Approval:** Following DETI Casework Approval, and in parallel with seeking DFP approval, the detailed proposals were sent to the Minister for consideration and approval. This has been received and the Minister is content.
- **DFP Supply Approval:** Following DETI Casework Approval, DFP Supply considered a full business case on the range of incentives proposed by DETI. DFP Supply advised DETI on 27 April 2012 that it was content with the proposals.
- **EU Commission consideration of State Aid regulations:** DETI submitted a pre-notification document to the EU Commission in December 2011; this was updated by a further submission in February 2012 containing the post consultation revised tariff levels etc. DETI is now awaiting correspondence from the EU Commission in regards to the Northern Ireland RHI scheme. To date, informal comments received through UKREP have been positive. However, the scheme cannot be implemented until the Commission advises that it is content. (Note : State Aid approval is required for the RHI only; the Renewable Heat Premium Payments does not require State Aid approval).

Agreement with Ofgem to act as the administrator of the RHI scheme: Following DETI Casework Approval, DETI sought and received DFP (Central Procurement Directorate), DETI Accounting Officer and Ministerial approval for Ofgem (the GB Energy Regulator) to act as the administrator of the Northern Ireland RHI. This will be implemented via an Agency Services Agreement with Ofgem.

Given the scheme is still subject to EU approval, DETI cannot provide specific figures on the actual tariffs etc, however as much information as possible has been provided on the Committee's queries below.

- ***Incentives for domestic installations***

As detailed in the consultation, the RHI is expected to be implemented in a **phased approach** with the **first phase including established cost-effective technologies in the non-domestic sector** and the **second phase to consider domestic installations and other potential technologies**. This is **consistent with the GB RHI**.

In advance of a longer term scheme being introduced for domestic installations, grants will be made available in the form of *Renewable Heat Premium Payments (RHPP)*. The levels included in the July 2011 consultation were as follows;

Technology	Support per unit (£) in a detached dwelling	Support per unit (£) in any other dwelling
Air Source Heat Pump	1860	1170
Biomass boiler	2580	1620
Ground Source Heat Pump	2250	1410
Solar Thermal	480	480

The proposed figures were reviewed in light of consultation responses and further analysis. DETI has also re-considered the proposed separation of tariffs for detached and non-detached dwellings and the exclusion of customers already on natural gas. The Minister will be announcing details of the commencement of the RHPP scheme by the end of May 2012.

- ***Payment to participants, levels of tariffs and how these will be calculated***

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. Payments will be made by the scheme administrator.

The exact tariff levels are still to be confirmed and cannot be released until they are approved by the EU Commission. The tariffs published in the July 2011 consultation were as follows;

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

Following the consultation further analysis on the tariffs was carried out. This focused on tariff levels, banding and eligible technologies and there will be changes to the above table in the final scheme (provided that the EU Commission is content).

The main objectives in designing the NI RHI tariffs are;

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

- To support a range of technologies, installation sizes, and investors to order to achieve 10% renewable heat by 2020;
- To provide adequate compensation to create a level playing field between renewable heat technologies and fossil fuel alternatives whilst avoiding overcompensation;
- To consider potential linkages with other renewable energy support mechanisms (primarily the Northern Ireland Renewables Obligation) and to guard against areas of overcompensation in these areas.

The RHI tariffs (set at pence per kilo watt hour of renewable heat output) are designed to cover the cost difference between the heat generated from renewable heat technologies and heat generated from the fossil fuel alternative (for Northern Ireland oil is set as the “fossil fuel counterfactual”). This cost difference accounts for capital costs and ongoing operating costs. The tariff also includes consideration of non-financial costs or ‘hassle factors’ that installers might face when considering renewable heat.

A rate of return is also offered on the net capital expenditure to ensure the renewable energy technology is attractive to investors. This rate of return is also essential to reflect the potential financing costs of the investment as well as accounting for the perceived risk associated in investing in a relatively new technology.

The tariff setting methodology has three general principles:

- a. Renewable installations are divided depending on the type of technology and size of installation;
- b. Within each banding a reference technology is chosen to develop a consistent tariff across technologies and scales; and
- c. The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined.

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.

The costs are determined by assessing the differences in the costs of installing a renewable technology, over and above the fossil fuel counterfactual. In order to assess these costs data was gathered for a number of components for both the renewable heat technology and the fossil fuel alternative:

- Ongoing Costs
 - o Fuel/electricity costs (variable)
 - o Maintenance costs (fixed)
 - o Ongoing demand-side barrier/administrative costs (non-financial hassle factors)

- Upfront Costs
 - o Capitals costs of equipment and installation
 - o Up front demand-side barrier/administrative costs (non-financial hassle factors)

The 'hassle' factor costs are included to account for non-financial choices that consumers have to make when considering the uptake of renewable heat technologies. These account for time/understanding required in considering installing renewable heat technologies, the potential disruption (digging up ground for GSHPs) or the additional space required (biomass boilers). Changing to renewable heat is a considerable behaviour change and therefore it is important that non-financial barriers are accounted for.

The RHI is designed to provide support on an ongoing basis, over the lifetime of the equipment (a maximum of 20 years). The 20 year payments therefore seek to address all the ongoing and upfront costs which would be additional to the counterfactual installation.

- ***The timeline***

The timescale for implementation of the NI RHI is not within DETI's control, as approval from the EU Commission is required before the scheme can be progressed. However, given that DFP approval has recently (27/4/12) been secured, the Premium Payment scheme will be able to move ahead as detailed above (it does not require EU Commission approval)

Once State Aid approval is in place a public announcement will be made outlining the design of the RHI, accessibility arrangements and expected timescales.

The RHI cannot be launched until legislation is in place and the administration arrangements set up. Once the final policy is approved the legislation will be finalised and submitted to the Committee for consideration. Concurrently, Ofgem will be instructed to begin the implementation process of the RHI. Once the legislation is approved and administration arrangements in place the RHI will be open for applications.

DETI wish this to be in place as soon as possible but cannot progress further at this stage without EU Commission.

- ***Availability of consultation responses***

An overview of the consultation responses is included at **Appendix I**; this was previously provided to the Committee on 23 November 2011. All consultation responses can be found on the DETI website.

Energy Division
30th April 2012