From:	Hepper, Fiona
To:	Private Office DETI
Cc:	Sterling, David; Thomson, David; McCutcheon, Joanne; Hutchinson, Peter; Clydesdale, Alison; Harris, Michael; Sinton, Dan; Aiken, Glynis; Fullerton, Karen; Wallwin, Judith; Ross, Alastair
Subject:	LETTER TO FINANCIAL INSTITUTIONS REGARDING RENEWABLE INCENTIVE SCHEMES
Date:	31 December 2012 15:12:20
Attachments:	Incentives Financial Institutes.DOC

Private Office

Please see attached for consideration

Fiona

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From: Fiona Hepper
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Copy Distribution List Below

Date: 31 December 2012

To: 1. Andrew Crawford
2. Arlene Foster MLA

LETTER TO FINANCIAL INSTITUTIONS REGARDING RENEWABLE INCENTIVE SCHEMES

Issue:	At the last meeting of SEIDWG it was agreed that, once the Renewable Heat Incentive (RHI) was launched, a letter would be sent to financial institutions to advise them of the Department's renewable energy incentive schemes.
Timing:	Routine
Need for referral to the Executive:	N/A
Presentational issues:	None
FOI implications:	This submission is fully disclosable.
Financial Implications:	None
Legislation Implications:	N/A
PSA/PFG Implications:	None
Statutory Equality Obligations:	None.
Recommendation:	That you note the attached submission and issue a letter to financial institutions – draft attached at **Annex A.**

Background

At the last meeting of SEIDWG, there was some discussion regarding the forthcoming RHI and the other incentive schemes for renewable energy. It was noted that there was anecdotal evidence that some applicants had encountered problems securing financial support from lenders, and you suggested that, at an appropriate time you would write to the main institutions to explain how the mechanisms operated and encourage more positive engagement.

Current Position

The Renewable Heat Incentive is now in place for businesses and Ofgem is ready to accredit installations. In addition, the development work for Phase 2 (which will include domestic installations) is underway and will be subject to public consultation in the Spring. It is therefore a good time to draw attention to both renewable heat and other renewable electricity incentives.

Recommendation

A draft letter to the financial institutions is attached at **Annex A** for your consideration

(signed)

FIONA HEPPER
Energy Division
(Ext 29215)

cc: David Sterling
David Thomson
Joanne McCutcheon
Peter Hutchinson
Alison Clydesdale
Michael Harris
Dan Sinton
Glynis Aiken
Karen Fullerton
Jude Wallwin
Alistair Ross MLA, APS

Annex A – Draft Letter to financial institutions

Relevant contacts are :

Ulster Bank - Jim Brown
Danske bank - Gerry Mallon
Bank of Ireland - Stephen Kirkpatrick
First Trust (AIB) - David Duffy
HSBC - Stephen Young

Dear

There is general consensus that greater quantities of renewable energy are now an imperative for Northern Ireland. We are heavily dependent on imported fossil fuels for most of our needs and this dependency creates uncertainty in terms of security of supply and exposes Northern Ireland to the volatility of world energy prices. Similarly, the high proportion of fossil based fuels in our energy mix creates a significant carbon footprint which contributes to the problems of climate change. My Department is committed to increasing levels of renewable energy and has committed to ambitious targets of 40% renewable electricity consumption and 10% renewable heat by 2020. In the longer term in order to improve security of supply low carbon generation needs to compete fairly on cost.

You will be aware of the Northern Ireland Renewables Obligation (NIRO) which has been operating since 2005 and provides Renewables Obligation Certificates (ROCs) to renewable electricity generators. The NIRO, because of its ability to operate in a wider UK context, is credited with increasing renewable electricity generation in Northern Ireland from 2% or so in 2005 to over 14 % in 2012, which has exceeded the Government target of 12%.

The NIRO will close to new generation in 2017 and a Feed-In Tariff with Contracts for Difference will be introduced for large scale (above 5 meagawatts capacity) low carbon generation projects commissioning from 2016 through the Electricity Market Reform proposals. However renewable electricity generators will still be able to accredit under the NIRO up until 31

March 2017 and will still be able to receive the full 20 years support under the NIRO if they choose this support mechanism post the introduction of the Feed in Tariff.

A contract for difference will be a 15 year contract that provides stable revenues for low carbon energy projects at a fixed level known as a strike price. These contracts will help developers to secure the large upfront amounts of capital investment required for low carbon infrastructure. By providing a fixed price they will help lower the cost of capital. They will protect consumers from high bills by clawing back money from generators if the market price of electricity rises above the strike price. Electricity Market Reform is designed therefore to put in place market and institutional arrangements to provide certainly for investors going forward.

In addition, as the Contracts for Difference mechanism is regarded as too complex for small scale generators (i.e. those up to 5MW), the Department is proposing to introduce a small scale Feed-In Tariff similar to that already in operation in Great Britain. DETI is currently developing an Energy Bill which will include the legislative powers to introduce a small scale FIT which is anticipated being in place during 2015/16. As with the large scale FIT, the small scale mechanism will provide generators with a fixed price for the electricity generated.

I would also like to draw your attention to the Renewable Heat Incentive (RHI) which my Department launched in November 2012. This scheme supports the installation of renewable heat technologies in businesses throughout Northern Ireland. Under the RHI, eligible and accredited technologies can expect to receive quarterly payments for the lifetime of the technology (to a maximum of 20 years). The level of payment will be dependent on the heat output of the installation and the eligible tariff for the specific technology. The 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 both capital and operating costs, as well as seeking to address non-financial ‘hassle’ costs. In addition, a rate of return is also included on the net capital expenditure to ensure the renewable energy technology is attractive to investors. The rate of return has been set at 12% for all technologies incentivised under the NI RHI (barring solar thermal which has a rate of return of 6%). These rates of return reflect, amongst other things, the potential financing costs of the investment. Tariffs are *'grandfathered´* providing certainty for investors by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews. However they will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation. DETI believes that the RHI is a real opportunity for consumers and investors to install new renewable heating systems and enjoy lower energy costs and ongoing incentive payments. Traditionally the operating costs of renewable systems have been less than conventional oil systems however the capital costs have been somewhat prohibitive. The RHI aims to bridge that gap and provide a return on investment.

It is intended that the NIRO and the RHI will help to incentivise the market to achieve the ambitious renewable targets mentioned above. However, I am aware that in many cases the uptake of the schemes is dependent on potential installations being able to access the appropriate finance to cover the initial capital outlay. I am therefore writing to encourage you to look favourably on approaches from businesses that are seeking finance to install renewable technologies. The government support, on offer through the incentive schemes, is reliable, long term and offers a good return on investment. If you would find it useful, DETI officials would be happy to arrange a seminar for financial institutions, to explain further the current and proposed financial mechanisms.

Your support in working towards a more secure and sustainable energy future would be much appreciated.

Yours

ARLENE FOSTER, MLA