

Department of Enterprise, Trade and Investment

ASSEMBLY QUESTIONS ORAL (AQO)

Due for answer on: **Monday 20 January 2014**

AQO No: **5323/11-15**

Put Down By: **Steven Agnew**
Political Party: **Green Party**
Constituency: **North Down**

Question:

To ask the Minister of Enterprise, Trade and Investment for her assessment of the level of uptake of the Renewable Heat Incentive.

Answer:

The NI Renewable Heat Incentive (RHI) launched on 1 November 2012 for the non-domestic sector. To date, there have been 85 applications, of which 58 have already received accreditation. The total capacity of these applications is 11.5 Mega Watts.

The performance of the Northern Ireland RHI over the first 12 months of the scheme compares favourably with the performance of the same scheme in GB in its first year of

operation. While accounting for less than 3% of the UK heat demand, the number of Northern Ireland RHI applications equates to 6.8% of GB applications and 3.2% of accredited heat capacity. This demonstrates that the Northern Ireland scheme is punching above its weight.

In addition, the performance of the Renewable Heat Premium Payment scheme, which provides support for the domestic market has been very positive, with over 1400 applications received and £1.9m committed by my Department. Through this scheme, over 11 Mega Watts of new renewable heat capacity has been supported.

In what is an emerging market, I believe the deployment of over 22 Mega Watts of new renewable heat capacity in the past 18 months is a good start in achieving a level of 10% renewable heat by 2020.

Whilst uptake has been positive, of course more can be done, therefore my Department will be shortly launching another marketing campaign to highlight the support available and the potential benefits of renewable heat for domestic and commercial applications. My Department is also considering expanding the RHI scheme further and I hope to make an announcement on this in due course.

Arlene Foster MLA
Minister of Enterprise, Trade and Investment

Date:

Supplementary Lines to Take

TOPIC: RENEWABLE HEAT INCENTIVE (GENERAL)

Positive Lines

- The RHI provides businesses, hotels, leisure centres, churches and schools with the opportunity to receive ongoing financial assistance to cover the costs incurred when switching to renewable heating.
- The RHI is an innovative scheme that is designed to support the achievement of 10% renewable heat by 2020. This is a challenging target considering a baseline position of 1.7% in 2010.
- By securing increased levels of renewable heating, Northern Ireland becomes more self-sufficient, more energy secure and reduces its carbon footprint. The RHI also presents a real opportunity for businesses and homes to take control of their heating bills by availing of the considerable support my Department is providing.
- Whilst being a demand-led scheme, a total budget of close to £25m is available for new renewable heat installations up to 2015.

- This is a positive news story for the Northern Ireland energy market as consumers embrace new technologies, reduce their carbon emissions and help support the development of this new sector.

Defensive Lines

Lower tariffs

- I am conscious that by using an oil counterfactual in designing NI RHI tariffs, the levels of support tend to be lower than in GB, this reflects the fact that the cost difference between oil and renewables is less than between gas and renewables – therefore GB require higher tariffs to move consumers away from gas.
- I am confident that the tariffs set for NI are appropriate and represent a reasonable return on the investment. This is further evidenced by the encouraging uptake of the scheme to date.
- Setting tariffs against a gas counterfactual would create over-generous tariffs and deliver less renewable heat against the set budgets.
- Despite the difference in tariffs, the financial benefits for consumers switching to renewables in NI will be similar to those experienced in GB when you factor in both the RHI payments and the ongoing fuel savings (which are greater in NI).

Timescales

- The first phase of the NI RHI was introduced 12 months after the GB scheme came into effect. This was because of the need to secure primary and secondary legislation; design, appraise and consult on an appropriate scheme; and put in place necessary administration arrangements.
- Work on Phase 2 of the NI scheme is well underway, with a policy consultation taking place between July – October 2013. Feedback from stakeholders was generally positive and my Department is currently finalising proposals.
- It could be expected that the timescales for the GB and NI domestic RHI schemes might dovetail although the introduction of changes to the non-domestic scheme is dependent on approval from the EU Commission.

CT Loans (further lines below)

- I am aware that there was a recent issue regarding the compatibility of the RHI with the 0% interest loan offered by the Carbon Trust.
- I understand that this issue has been resolved and it has been determined that availing of a CT loan will not prevent an installer from applying to the RHI.

Energy Efficiency (further lines below)

- My Department is very keen to promote energy efficiency alongside incentives for renewable heat technologies, such as biomass, as it is widely recognised that energy efficiency measures can be the most cost effective method for reducing energy bills.
- The RHI is, in no way, designed to incentivise the over-use of heating or the intentional wasting of heat. It is assumed that commercial properties seeking to reduce energy costs will attempt to become as efficient as possible before considering utilising renewable technologies.

TOPIC: PHASE 2 OF THE RHI (SUPPORT FOR DOMESTICS)**Positive Lines**

- My Department consulted during Summer 2013 on proposals to extend the RHI scheme to domestic customers and to expand the existing scheme to include new tariffs and technologies.
- The proposals were generally welcomed by stakeholders and my Department is currently finalising proposals before the implementation process begins.
- It could be expected that the domestic RHI will be launched in advance of changes to the non-domestic scheme. I hope this could be achieved during Spring 2014.
- Whilst the first phase of the NI RHI began 12 months after than the comparable GB scheme, it is expected that the domestic RHI will launch in NI around the same time as the GB scheme.
- There is significant potential for deployment of renewable heat in the domestic sector. Since the launch of the Renewable Heat Premium Payment scheme over 1400 domestic customers have begun the process to switch to renewables. These installers will be eligible to apply for the domestic RHI.
- This is a positive news story for the Northern Ireland energy market as consumers embrace new technologies, reduce their

carbon emissions and help support the development of this new sector.

Defensive Lines

- The policy consultation on Phase 2 of the RHI ended on 14 October 2013 with 50 formal responses received. My officials have had to take time to carefully assess all responses received and determine an appropriate way forward.
- The proposals in the policy consultation were often complex, with a wide range of stakeholders responding to the consultation process.
- I hope to make an announcement shortly on the introduction of a domestic RHI scheme in Northern Ireland, as well as some changes to the non-domestic scheme.
- It could be expected that the timescales for the GB and NI domestic RHI schemes might dovetail. The introduction of changes to the non-domestic scheme is dependent on approval from the EU Commission.

- **TOPIC: RHI AND ENERGY EFFICIENCY**

Positive Lines

- My Department is very keen to promote energy efficiency alongside incentives for renewable heat technologies, such as biomass, as it is widely recognised that energy efficiency measures can be the most cost effective method for reducing energy bills.
- Indeed my Department has sought to promote positive energy efficiency behaviours through the EnergyWise campaign.
- In designing the domestic RHI, DETI has included energy efficiency assumptions that will ensure that the tariffs are most appropriate and most beneficial for those that have already carried out energy efficiency improvements in their homes. In addition, by proposing to 'deem' payments there is a further incentive for those installing biomass under the future domestic RHI to be as efficient as possible.
- Again, within the existing RHI for commercial premises it is assumed that the installation of a biomass boiler, or another renewable technology, would be the final action taken by a business seeking to become 'low-carbon', with the costs involved in installing renewable heating much greater than those involved with simple energy efficiency measures

Defensive Lines

- The RHI is, in no way, designed to incentivise the over-use of heating or the intentional wasting of heat. It is assumed that commercial properties seeking to reduce energy costs will attempt to become as efficient as possible before considering utilising renewable technologies.
- Where accredited installations under the RHI are found to be wasting heat or using heat for ineligible purposes, Ofgem retain the right to suspend accreditation and withhold payments.

TOPIC: RHI AND CARBON TRUST LOAN**Positive Lines**

- I am aware that there was a recent issue regarding the compatibility of the RHI with the 0% interest loan offered by the Carbon Trust.
- I understand that this issue has been resolved and it has been determined that availing of a CT loan will not prevent an installer from applying to the RHI.

Defensive Lines

- The RHI scheme was developed by DETI and is underpinned by NI Regulations, however the actual day to day running of the scheme is administered by Ofgem, who interpret and enact the Regulations.
- It is expected that issues may arise between applicants, who wish to receive support, and Ofgem, who need to ensure eligibility standards are adhered to. Where conflicts arise, DETI can review disputed decisions.
- DETI works closely with Ofgem and is content that it is best placed to administer the NI RHI scheme given its expertise in delivering similar schemes such as the GB RHI and the Renewables Obligation.

**TOPIC: ACHIEVEMENT OF 10% RENEWABLE HEAT
TARGET****Positive Lines**

- The RHI is a key mechanism for Northern Ireland to achieve the Executive's target of 10% renewable heat by 2020 and to feed into the legally binding UK targets set by the EU.
- Good progress has been made through the RHI and RHPP with nearly 1000 new renewable heat technologies in place and new capacity of over 22 Mega Watts.
- The development of the renewable heat sector is vitally important to ensure the Northern Ireland heat market is more diverse, more secure and more sustainable. In addition, renewable heat offers real opportunities for businesses and homes to reduce their fuel bills.

Defensive Lines

- It is fair to say that renewable heating technologies are far less well-known or well understood than renewable electricity technologies such as wind or solar pv. The renewable electricity market has been incentivised since 2005 under the NIRO and in that time the NIRO has contributed to an increase in renewable electricity from 3% then to approximately 16% now. The renewable heat market remains in its infancy however.

- In comparison to the GB RHI, uptake in the NI scheme has been positive, with NI comparing very favourably in terms of number of applications. This demonstrates that there is significant potential in NI for renewable heating technologies; however installations will tend to be smaller than GB given the differences in heating requirements.
- In order for businesses and homes to move to renewable heating there needs to be a greater understanding of the technologies and awareness of the support available. My Department will therefore embark on a focussed marketing campaign to highlight the benefits of renewable heat and the RHI.
- The expansion of the RHI, both in terms of extending the scheme to the domestic market and new tariffs for commercial systems, will further widen the appeal of the scheme.
- The collection of up to date data on renewable heat demand is not as straightforward as gathering renewable electricity figures, given that there is no centralised heat network that can be monitored. DETI will assess the levels of heat incentivised through the RHI and RHPP however there will need to be further analysis to update assumptions on the overall heat demand as this obviously has an impact on the achievement of the target.

TOPIC: GAS NETWORK EXTENSION**Positive Lines**

- Extension of the gas network to main towns in the West and North-West will provide energy consumers with greater fuel choice and security of energy supply.
- Aim is to connect some 34,000 business and domestic consumers.
- The Utility Regulator is expected to issue a gas licence competition around end of January 2014.
- Option of natural gas pre-payment (pay as you go) meters will help consumers on lower incomes to more easily budget for their heating costs.
- Provision of new gas infrastructure in the West and North-West will allow energy consumers to convert to a lower carbon fuel than coal or oil.

Defensive Lines

- Without extension of the gas network, consumers will largely remain dependent on coal or oil, which are more polluting than natural gas.
- Whilst renewable technologies are becoming a more viable alternative to fossil fuels the capital costs remain prohibitively high. The support offered by DETI will of course assist deployment but it is likely that the upfront costs will remain too expensive for many businesses or homes. This is especially true in comparison to natural gas.
- The bulk purchase of heating oil (500 or 900Litres) requires a much more significant upfront financial outlay than natural gas, which many consumers cannot afford.
- Gas can be purchased in smaller quantities using pre-payment meters and is therefore more affordable than oil.
- Natural gas provision will be concentrated in urban areas in the West, with other energy options such as renewable heat or Liquefied Petroleum Gas (LPG) particularly suitable for rural areas.

Department of Enterprise, Trade and Investment**ASSEMBLY QUESTIONS ORAL (AQO)****AQO No: 5323 /11-15****Background**

1. The Northern Ireland Renewable Heat Incentive (RHI) was launched on 1 November 2012. The purpose of the scheme is to encourage uptake of renewable heating (biomass, solar thermal, heat pumps etc) to a level of 10% by 2020, in line with European and Executive targets. The budget for renewable heat to 2015 is in the order of £25m.
2. To date, uptake of the scheme has been positive with 85 applications under the commercial RHI and an accredited heat capacity of over 11 Mega Watts. This compares favorably to the GB RHI, with the NI scheme accounting for close to 7% of applications in comparison to the GB scheme over the first 12 months. In addition, the Renewable Heat Premium Payment scheme, a domestic grant based scheme administered by the Department, has received over 1400 applications since May 2012.
3. The Renewable Heat targets are - a level of 10% to be achieved by 2020 and a level of 4% to be achieved by 2015. The baseline for these targets was set in 2010, following a study into the potential development of the Northern Ireland renewable heat market.
4. The study assessed that the 2010 overall heat demand was in the order of 17,400 GWh, of which 300GWh (or 1.7%) came from renewable sources. At this time it was also assessed that by 2020 the overall heat demand in Northern Ireland would reduce to 16,700 GWh with improvements in thermal efficiency outweighing new developments.
5. Therefore, to achieve the 2020 target an additional 1,300 GWh of renewable heat needs to be developed. To achieve the 4% target by 2015 it is assumed that an additional 400GWh renewable heat is required.
6. The collection of up to date data on renewable heat demand is not as straightforward as gathering renewable electricity figures, given that there is no centralised heat network that can be monitored. To assess progress against the renewable heat targets DETI will track the amount of heat incentivised by individual installations under the Renewable

Heat Incentive (RHI) and the Renewable Heat Premium Payment against the predicted 1,300 GWh required.

7. Going forward follow up research may also be required to re-evaluate the predicted 2020 total heat demand and also to measure renewable heat output, from other installations that may have gone ahead without DETI support.

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