

From: [McCoy, Laura](#) on behalf of [Hepper, Fiona](#)
To: [DfE Private Office](#)
Cc: [Sterling, David](#); [Thomson, David](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#); [Aiken, Glynis](#); [Ross, Alastair](#); [Neth_Energy](#); [DG_DETI Press Office](#)
Subject: FW: Invitation INV/1091/2012 : Renewable Heat Incentive: Biomass Installations exceeding 1MW - Magherafelt District Council
Date: 04 December 2012 16:58:00
Attachments: [image001.png](#)
[INV 1091 2012 - Renewable Heat Incentive - Biomass Installations Exceeding 1mw.DOCX](#)

Private Office

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

Regards,

Laura McCoy

Personal Secretary
Department of Enterprise, Trade & Investment
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www.ni2012.com

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From: Janet.McKernan@detini.gov.uk [mailto:Janet.McKernan@detini.gov.uk]
Sent: 27 November 2012 11:34
To: Hepper, Fiona
Cc: Dolaghan, Paul; Neth_Energy; Sterling, David; Lewis, Colin; Thomson, David; Aiken, Glynis; Stevenson, Valerie (DETI Private Office); DG_DETI Press Office; Cahoon, Gillian; McKernan, Janet
Subject: (Joanne / Peter - 4 DEC) Invitation INV/1091/2012 : Renewable Heat Incentive: Biomass Installations exceeding 1MW -Magherafelt District Council

DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

INVITATION - URGENT

Reference: INV/1091/2012
Invitation From: John McLaughlin

Subject: Renewable Heat Incentive: Biomass Installations exceeding 1MW -Magherafelt District Council

Referred To: HEPPER FIONA (MRS) (Energy Branch)

Date Referred: 27/11/2012

ACTION REQUIRED

Please provide advice and draft reply for signature by Minister. To be with Private Office not later than 04/12/2012.

Janet McKernan (Private Office)
Netherleigh House Tel:- Ext 29504

Copied To For Information:
cc Energy
Cahoon Gillian (Miss)
McKernan Janet (Mrs)



From: Fiona Hepper
Energy Division

Date: 4 December 2012

To: 1. Andrew Crawford
2. Arlene Foster MLA

Copy Distribution List Below

**INV/1091/2012: RENEWABLE HEAT INCENTIVE – BIOMASS INSTALLATIONS
EXCEEDING 1MW**

Issue: John McLaughlin, Chief Executive, of Magherafelt District Council, has written to you regarding the NI Renewable Heat Incentive (RHI). He specifically raises concerns that a biomass installation at Greenvale Leisure Centre will not receive support as it is excess of 1MW.

Timing: Routine

Need for referral to the Executive: Not applicable

Presentational issues: None

FOI implications: None

Financial Implications: N/A

Legislation Implications: N/A

PSA/PFG Implications: A target for renewable heat is in the Programme for Government.

Statutory Equality Obligations: None

Recommendation: That you approve the draft response to Mr McLaughlin which is attached at Annex B.

Background

Mr John McLaughlin, Chief Executive of Magherafelt District Council, has written to you about the Renewable Heat Incentive (RHI). Magherafelt District Council has recently completed a major refurbishment of Greenvale Leisure Centre; this work included the installation of two 800kw biomass boilers. Mr McLaughlin had installed the boilers on the expectation of receiving RHI payments however is concerned that, given the decision to include a tariff for schemes over 1MW in size, his installation may not now be eligible.

2. In his letter, Mr McLaughlin, also invites you to visit the newly refurbished leisure centre and the biomass installations. The letter is attached at **Annex A** for your information.

Renewable Heat Incentive

3. The RHI was launched on 1 November 2012 and provides long term financial support for those installing eligible renewable heating systems. The tariffs are designed to compensate investors for the additional costs of renewable heat compared to traditional fossil fuel systems. For each technology, all the various types of costs involved (including capital, financing, barrier, fuel and operating) are considered in order to produce a pence per kWh cost figure.
4. The RHI tariff setting methodology also includes the provision of a rate of return in order to stimulate interest in a developing unknown marketplace and to provide compensation for financing costs of making the necessary investment in capital projects. In most instances a rate of 12% has been set. For biomass installations up to 19kw in size the tariff is 6.2 pence, between 20kw and 99kw the tariff is 5.9 pence and above 100kw up to 999kw the tariff is 1.5 pence. Tariffs are for 20 years and indexed linked to the retail price index.
5. The tariffs were set following an economic appraisal carried out by independent energy economists and were subject to a public consultation in July 2011. Following the public consultation additional research was carried out to consider issues raised by stakeholders. The tariffs were then finalised and approved by DFP and the EU Commission.

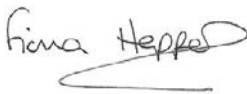
Biomass systems over 1MW

6. Under the scheme biomass systems that have a total capacity of over 1MW are not eligible for a tariff. This is based on evidence that these installations are already cost-effective over the lifetime of the technology. When using the agreed tariff-setting methodology no tariff can be produced for biomass installations over 1MW. The primary reason for this is because of the cost differences between oil and wood chip, with wood chip being 50% of the price of oil.
7. Using the technology and fuel cost assumptions for systems over 1MW the application of a tariff of 1 pence per kwh would lead to these installations having a payback period of less than 2 years. Given the RHI tariffs are for 20 years it could not be justified to support these large installations.

8. DECC encountered a similar issue when developing the GB RHI. DECC had proposed a tariff of 2.6 pence per kwh for biomass over 1MW, however the EU Commission ruled that the final tariff could not be in excess of 1 pence per kwh. The GB RHI is based on a natural gas counterfactual whilst the NI scheme based on an oil counterfactual. As the difference in price between gas and oil is more than a penny a NI tariff cannot be set at this stage.
9. This is an issue that Energy Division is to consider again as part of phase two and will seek new evidence from industry on actual costs for these installations. Consideration may also be able to be given to the length of tariff, eg a tariff of 1p/kwh for x years rather than 20 years. These issues will be considered in the upcoming work by external consultants and subject to public consultation in spring 2013.
10. As the installation at Magherafelt includes two separate 800kw boilers they could still apply to Ofgem for accreditation and support for one of installed boilers.

Recommendation

11. It is recommended that you reply to Mr McLaughlin and a draft letter is attached at **Annex B** for your consideration. Mr McLaughlin, in his letter, extends an invitation to visit the Leisure Centre and Biomass systems. It is recommended that you decline this invitation at this stage but leave it open for you to visit in 2013 depending on the output of the work on phase 2.



FIONA HEPPER
Head of Energy Division

cc: David Sterling
David Thomson
Joanne McCutcheon
Peter Hutchinson
Glynis Aiken
Alistair Ross MLA, APS
Neth Energy
Press Office



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Arlene Foster, MLA

 Minister of Enterprise, Trade and Investment

 Private Office

 Netherleigh

 Massey Avenue

 Belfast BT4 2 JP

19 November 2012

Renewable Heat Incentive: Biomass Installations exceeding 1 MW

Dear Minister Foster

The Council has requested that I write to you on their behalf concerning the recently announced tariffs in relation to the Northern Ireland Renewable Heat Incentive.

In particular the Council is concerned about the capping of the support to Biomass heat installations which exceed a total installed power of 1MW.

Magherafelt District Council has recently completed a major refurbishment of its Greenvale Leisure Centre which took over two and half years to complete at a cost to the Council of some £9 million.

The centre includes the first 50 metre swimming pool in Northern Ireland and as part of the project the Council included, at significant expense, a biomass heat installation which when fully commissioned would have a total combined power output of 1.6 MW. The installation includes two 800kW biomass boilers along with an underground fuel storage bunker for the woodchip. A crucial part of the decision to install these two 800 kW boilers was the fact that your consultation document suggested an RHI tariff of 1.3 pence per kWhr with no upper output limit applicable.

The planning of this facility started some two years ago with an economic appraisal which suggested that the cost of wood chip along with the receipt of the RHI (as contained in your consultation document) was more financially advantageous than using oil fired heating. At that point in time we had no other basis to work other than your consultation document.

Following the outcome of the recent consultation on the Northern Ireland RHI, the Council was concerned to learn that the Biomass RHI tariff would be 1.5 pence per kWhr 'capped' at a total of 1 MW (1,000 kW) of installed power. The outcome of the consultation also made it very clear that a combined output of two or more boilers which exceeded 1 MW would attract no RHI for any part of



JOHN A. McLAUGHLIN
Chief Executive

J. J. TOHILL
Director of Finance
and Administration

A. M. CAMPBELL
Director of Policy
and Development

A. CASSELLS
Director of Operations

W. I. GLENDINNING
Director of Building
Control

M. M. YOUNG
Director of ...

the installation. This decision has left the Council initially only confident of receiving the RHI tariff on one of the 800 kW boilers which have been installed.

As a consequence the Council has only commissioned the one boiler, with the second boiler completed in situ, but not commissioned. The entire installation has cost almost £1m, but because of the limit on output, following consultation, this installation is now only economic to work at 50% of its capacity; i.e.; one boiler.

The Council therefore feels, despite its best endeavours to engage in providing renewable heat for the Greenvale Leisure Centre, at considerable capital investment, that it will not now realise the full potential of that investment. This seems a ridiculous situation to us in so much as the largest savings in non-renewable fuels will be achieved with when substitution of non-renewable fuels by renewable fuels is carried out in facilities with the largest fuel usage. For this reason we do not see the logic in limiting the output to 1,000 kW (1 MW).

We note that a Supplementary Consultation on amendments to the Northern Ireland Renewable Obligation arrangements was issued in October 2012, which introduces the concept of a 'Grace Period' for Biomass installation over 1MW of power, but are disappointed to note that this appears to apply only to 'Combined Heat and Power Stations'.

The Council would urge the Minister to review the current RHI tariff levels to include installations such as that which this Council has embarked upon. The Council would welcome the Minister should you wish to visit the refurbished Leisure Centre including the Biomass installation.

An early response to the concerns raised by the Council would be welcomed.

Yours sincerely



John A McLaughlin
Chief Executive

Draft letter

John McLaughlin, Chief Executive
Council Offices
50 Ballyronan Road
Magherafelt
BT45 6EN
Northern Ireland

December 2012

Dear

Renewable Heat Incentive: Biomass Installations exceeding 1MW

Thank you for your letter 19 November 2012 regarding the Northern Ireland Renewable Heat Incentive (RHI), specifically relating to the installations at the newly refurbished Greenvale Leisure Centre. I was interested to hear about the renovation work at the Leisure Centre and the utilisation of renewable heating.

In terms of the RHI and the limit on support for installations over 1MW in size, I am sure you will appreciate that a great deal of work has been carried out to assess the appropriate levels of support under the scheme. The consultation in July 2011 set out the proposed policy for stakeholders to consider and comment. Following the consultation process some changes were made to the banding approach and additional research was carried out to ensure the final tariffs were appropriate. Given the finite budget and the need for approvals from the EU Commission, all tariffs had to be based on sound evidence and provide a suitable incentive for installers whilst not acting as an 'over-incentive'.

When agreeing the final policy, it was determined that biomass installations over 1MW in size were already cost effective in Northern Ireland over the lifetime of the technology. This was based on the assumed cost differential between oil and wood chip. When using the consistent methodology across all technologies and all bands, no tariff could be generated for biomass over 1MW. I understand that a similar issue arose in the GB RHI, where the Department of Energy and Climate Change had proposed a tariff of 2.6p/kwh however, following consideration by the EU Commission this tariff was reduced to 1p/kwh.

We will, however, be considering this matter further as part of the second phase of the NI RHI. Phase 2 of the scheme will largely focus on the extension of the scheme to the domestic sector, but consideration will also be given to the issue of support for installations over 1MW in size, like the one at Greenvale Leisure Centre. Phase 2 will be implemented in 2013 and will be preceded by a public consultation to gather the views of key stakeholders such as yourselves. In advance of this it might be useful for you to share information with my officials on the actual costs involved in your installation – this could support work to develop appropriate support for large biomass systems. If you are willing to share such information please contact ni.rhi@detini.gov.uk, information shared will be treated in confidence if necessary.

In the interim, I would encourage you to engage with Ofgem, as the administrator of the NI RHI, to explore whether support for one of your 800kw boilers can be accredited under the scheme and begin to receive support.

Thank you for your invitation to visit yourselves and see at first-hand the newly refurbished centre which is heated by biomass. I am sure you will appreciate my diary is very busy currently and therefore I must decline at this stage, however if I am able to schedule a visit in the future my office will be in contact.

Arlene Foster MLA

Minister of Enterprise, Trade and Investment