

RESTRICTED – NI EXECUTIVE COMMITTEE

BRIEFING FOR DETI MINISTER ON DETI EXECUTIVE PAPER

Title/Paper: Approval for a Legislative Consent Motion to Grant Enabling Powers for Renewable Heat to Northern Ireland

Agenda Item No: E (10)

Speaking Notes:

- This paper recommends that the Executive agrees to the tabling of a Legislative Consent Motion, once appropriate legislative language is agreed by DETI and DECC, that would enable the Department of Energy and Climate Change (DECC) to amend the current Energy Bill (2011) to extend general powers for renewable heat to Northern Ireland.
- Taking legislative powers in this method will allow DETI to introduce a support scheme for renewable heat, once the scheme is designed and agreed, in a timely manner via secondary regulations.
- DETI is committed to supporting the development of the renewable heat market and to reaching 10% renewable

heat by 2020, a target agreed by the Executive as part of the Strategic Energy Framework.

- To support the growth of renewable heat my Department is developing a Renewable Heat Incentive (RHI) for Northern Ireland, this scheme will be similar to proposals in Great Britain but will be specifically tailored for Northern Ireland. Funding of £25m (11/12 £2m, 12/13 £4m, 13/14 £7m, 14/15 £12m) has been allocated to DETI by Her Majesty's Treasury (HMT) to implement a Northern Ireland RHI.
- In order to ensure that a scheme can be implemented in a timely manner and the secured funded utilised, DETI requires primary powers for renewable heat. These powers are contained within the 2008 Energy Act; however do not extend to Northern Ireland. An amendment to the current DECC Energy Bill (2011) to extend these powers to Northern Ireland is therefore required. For an amendment to be tabled to the DECC Bill to cover Northern Ireland a Legislative Consent Motion is required.

- If this opportunity is missed then the introduction of a Renewable Heat Incentive in Northern Ireland could be unduly delayed.
- Responses from OFMDFM, DFP, DHSSPS, DoE, DCAL, DoJ, DEL, DSD, DE and the Attorney General have been received and all have indicated that they are content with the proposed approach. No comments have been received from DRD or DARD.
- **[ONLY IF RAISED BY dFM.]** The deputy First Minister commented, in the joint response from OFMDFM, that he would be interested in the ways in which new powers could be modelled to include a levy on fossil fuel suppliers as part of a scheme established to promote renewable heat. Currently there are no plans to include powers to allow a levy on fossil fuel, this would indeed be a reserved matter to be considered on a UK-wide basis. The funding of £25 from HMT is ‘annually managed expenditure’ (AME) directly from DECC’s budget. This method of funding should be welcomed as it means the cost of the RHI is not borne by consumers. The issue of levying fossil fuels was considered by DECC and HMT when sourcing funding for the RHI but it was discounted.

- In advance of a RHI scheme coming into affect in Northern Ireland there will be a full public consultation and the Executive's endorsement will be sought.
- **I would recommend the Executive's agreement to the tabling of a Legislative Consent Motion, providing appropriate wording can be agreed between DETI and DECC, to extend enabling powers on renewable heat to Northern Ireland.**

Background Notes:

Background

- 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. In line with this, the Strategic Energy Framework (SEF) includes a target for DETI to achieve a level of 10% renewable heat by 2020. This is broadly in line with targets of 12% for England and Wales, 11% for Scotland and 12% for the Republic of Ireland over the same time period.

GB Renewable Heat Incentive

- In order to develop and encourage the renewable heat market in Great Britain, the Department of Energy and Climate Change (DECC) intend to introduce a Renewable Heat Incentive (RHI) from June 2011. This policy was first suggested in the DECC Renewable Energy Strategy in July 2009 with the detail regarding the design and implementation of the scheme published in February 2010 through a public consultation document. DECC are currently in the process of submitting final proposals for the design and implementation of the RHI to Ministers.

Northern Ireland Heat Market

- Generally speaking, across the UK the heat market has been traditionally less well understood than the electricity market. This is due to the number of different fuel types, conversion technologies and scales, and different heat demand types. In comparison most electricity is centrally generated and distributed over a single grid.
- In order to better understand the Northern Ireland heat and renewable heat markets and to determine the most appropriate method of developing the market, DETI appointed AECOM Ltd and Pöyry Energy Consulting to carry out a significant study. This study completed in summer 2010 and has demonstrated that Northern Ireland has the potential to reach 10% renewable

heat by 2020, but only with significant support from the Executive, in regards to policy, finance and cross-departmental working.

- A significant element of this study was gathering up to date, reliable information on the Northern Ireland heat market. It was determined that the total heat demand for Northern Ireland is around at 17,362 GWh per year. Oil provides the majority of heat demand at 77% of the overall demand, with gas the second largest heating provider at 17% of the overall demand. The level of renewable heat is around 1.7%, of which the vast majority is from biomass. The majority of heat used is in the domestic sector, at 61% of the total heat demand or 10,644 GWh. The large industrial sector consumes an estimated 22% of the total heat demand, the commercial sector 12% and finally the public sector 4%.
- Looking forward to 2020, Northern Ireland's overall heat demand is predicted to drop from 17.4 TWh per year to 16.7 TWh per year with rises in demand from new development being outweighed by reductions in demand with efficiency improvements in the existing sector.

Developing a Renewable Heat Incentive for Northern Ireland

- In September 2010, DETI announced that it would seek to support the renewable heat market in Northern Ireland by developing a Renewable Heat Incentive scheme. This scheme would be similar to GB proposals, but specifically designed and

tailored to incentivise the local market. In response to this announcement, Her Majesty's Treasury (HMT) allocated £25m for the spending review period for a Northern Ireland RHI, should one be introduced.

- It is important that any RHI in Northern Ireland is designed specifically with the Northern Ireland heat market in mind, this is because of the differences between the heat markets in GB and in Northern Ireland. Northern Ireland is largely dependent on oil with a developing natural gas market, whereas in GB the gas market is well established and is the predominant fuel source. There are also differences in fuel prices between GB and Northern Ireland and the amount of our income that goes towards heating our homes and businesses, as a consequence the levels of fuel poverty are higher. Finally the geography of Northern Ireland is very different to GB, with Northern Ireland being more rural with fewer larger cities and therefore having a very different heat density. All these factors have meant that it was appropriate for a separate consideration to be given as to how the heat market here might be encouraged and incentivised.

Benefits of developing the renewable heat market

- Developing the renewable heat market presents many potential benefits. The current reliance on imported fossil fuel (over 98%) is unsustainable, by increasing levels of renewable heat and decreasing dependence on oil there is the potential to significantly increase Northern Ireland's fuel security, whilst

cutting carbon emissions. The renewable heat market also presents opportunities for new 'green jobs' for manufacturers, suppliers and installers of renewable heating technologies. In designing the Northern Ireland RHI consideration will also be given to how the RHI could assist those in fuel poverty, specifically considering opportunities for renewable heating in social housing.

Work plan

- Cambridge Economic Policy Associates (CEPA), in partnership with AEA Technologies, have been appointed to carry out an economic appraisal of a Northern Ireland RHI. This work will inform the future design of an incentive scheme and will complete in April 2011. Following the completion of this work there will be a full public consultation on the design of the Northern Ireland RHI in advance of implementation.

Legislative issues

- In order for a RHI to be introduced in Northern Ireland DETI require primary powers for renewable heat, this would then allow the introduction of a scheme via secondary regulations in due course. By amending the current DECC Energy Bill 2011 enabling powers for renewable heat contained in the Energy Act 2008 could be extended to Northern Ireland. For this to happen the Executive must agree to the tabling of a Legislative Consent Motion and the Assembly must pass this motion.

- DETI Energy Division has commissioned external legal advisors to consider this issue and draft appropriate instructions to parliamentary council, these instructions will then be passed to DECC (via DSO) to allow the amendment to be drafted and tabled.

Query from deputy First Minister

- The deputy First Minister has commented that he is *“interested in the ways in which new powers could be modelled, particularly the inclusion of the power to include a levy on fossil fuel suppliers as part of a scheme established to promote renewable heat.”*
- When first considering how the RHI was to be funded in GB, DECC considered the introduction of a levy on fossil fuels, however following further exploration of the issue it was decided that this would be too costly and difficult to administer and was therefore discounted. Instead the RHI is funded by ‘annually managed expenditure’ (AME), £860m in GB and £25m in Northern Ireland for the CSR period. This method of funding ensures that the cost of the RHI is not borne by consumers. DETI has no plans, at this stage, to include powers for a levy on fossil fuel, this would be a UK wide reserved matter.
- In designing the RHI for Northern Ireland there will be consideration on the potential impact on the fossil fuel industries, specifically in regards to demand and pricing. There may be potential for the gas and oil industries, in particular, to

embrace and utilise renewable heating technologies,
specifically, biogas and bio-liquids respectively.

For Minister's Comments Only

Briefing Provided By: Peter Hutchinson
Sustainable Energy Branch
Ext 29532

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