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From: Fiona Hepper

Date: 25TH October 2010

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**COR 511/10: 2010 SPENDING REVIEW SETTLEMENT - NORTHERN IRELAND
EXECUTIVE – RENEWABLE HEAT INCENTIVE**

Issue: The Chief Secretary to the Treasury, Danny Alexander, has written to the First Minister and deputy First Minister detailing the Northern Ireland settlement of the 2010 Spending Review. The letter makes reference to possible funding for a Northern Ireland Renewable Heat Incentive (RHI).

Timing: Desk Immediate

Need for referral to the Executive: A future renewable heat strategy will require Executive approval in due course.

Presentational Issues: Key external stakeholders have for some time been seeking confirmation on the likelihood of a Renewable Heat Incentive (RHI) rollout in Northern Ireland. You will also be aware that the ETI Committee are currently undertaking an inquiry into renewable energy, the need for a renewable heat incentive is part of this inquiry.

Freedom of Information: This submission is exempted under Section 35 of the Freedom of Information Act.

Financial Implications: Her Majesty's Treasury (HMT) are proposing that funding of £2m/£4m/£7m/£12m is made available for a Northern Ireland heat incentive over the spending period, if one is introduced. This figures are broadly in line with early estimates of how much the Northern Ireland RHI would cost.

Legislation Implications: DETI does not have statutory powers for renewable heat and therefore primary legislation will be required in due course.

PSA/PFG Implications: None at present, but it is likely that new PSA targets

in relation to renewable heat will have to be developed.

Statutory Equality Obligations:

Not applicable.

Recommendation:

A draft part input for inclusion in the FM-dFM response to the Chief Secretary of the Treasury is included at Annex B for your consideration.

Background

Danny Alexander MP, Chief Secretary to the Treasury (CST), has written to the First Minister and deputy First Minister to outline the Northern Ireland settlement from the 2010 Spending Review. In his letter he makes reference to available funding for a Northern Ireland Renewable Heat Incentive (RHI), if the Executive agree to introduce such a scheme. OFMDFM has requested part input on this issue for inclusion in the overall response back to CST.

DETI support for Renewable Heat

2. From previous submissions and discussions on this issue you are aware of the work undertaken by Sustainable Energy Branch in determining the most appropriate method of supporting the Northern Ireland renewable heat market. A study into the potential development of the market, undertaken by AECOM Ltd and Pöyry Energy Consulting, has indicated that the current level of renewable heat in Northern Ireland is 1.7%, however there is significant potential to increase this to 10% by 2020. For this to be achieved there is a need for substantial Executive support through various policy levers and financial incentives.
3. In Great Britain, the Department of Energy and Climate Change (DECC) intend to support renewable heat technologies through a RHI which would reward installations with payments varying on the size and type of technology. The tariffs have been designed to cover the capital cost and operating costs of the technologies in question, with payments being made on either an annual or quarterly base dependent on size of installation. This RHI is only available in England, Scotland and Wales and therefore Energy Division has been assessing the nature and needs of the Northern Ireland market in order to determine an appropriate method of support.
4. The study into the renewable heat market has demonstrated that a RHI, specifically designed for Northern Ireland, is the most appropriate way of developing the renewable heat market. The incentive would provide long term, stable and consistent support and would give confidence to the industry and consumers to invest.
5. In light of this, you announced on 20 September that a RHI for Northern Ireland was the best way of developing the market. However, in light of budgetary constraints, before this could be introduced a full economic appraisal of the policy would need to be carried out. An undertaking was also given that all eligible installations made after 1 September 2010 would be able to avail of the RHI, if

introduced in the future. This commitment was similar to DECC proposals and was designed to prevent the market stalling in the interim.

6. You also announced that DETI would be adopting a target of 10% renewable heat by 2020. The target was formally agreed by the Executive as part of the Strategic Energy Framework.

Funding

7. The issue of funding for a prospective RHI has been a major issue, both for DETI and for DECC. Initially, DECC had proposed that the RHI would be funded through a levy on fossil fuel suppliers. However this proposal was dropped in advance of DECC's public consultation on the design and implementation of the RHI in February 2010.
8. In the Chancellor's statement on the Spending Review on 20 October 2010, he included provision of £860 million funding for the RHI over the period of the spending review.
9. The CST has now informed the First Minister and deputy First Minister that HMT will provide annually managed expenditure (AME) funding of £2m/£4m/£7m/£12m over the spending review period for a RHI for Northern Ireland, should one be introduced. The relevant reference in the letter is the penultimate bullet point at **Annex A**. This funding is broadly in line with early estimates of what the initial costs of the RHI would be over this period.
10. This funding should be welcomed and accepted. Sustainable Energy Branch had been scheduled to undertake an economic appraisal of Northern Ireland RHI to determine exact costs and identify funding routes. As funding has been offered, the economic appraisal can now focus on determining tariff levels, assessing eligibility requirements and developing a cost-effective RHI for Northern Ireland.

Next Steps

11. Providing you are content to welcome this offer of funding, Sustainable Energy Branch will need to begin significant work to design, develop and implement the RHI in Northern Ireland. This work will involve carrying out the aforementioned economic appraisal, liaising with DECC about the administration of the scheme, developing legislation to give DETI powers on renewable heat and drafting and consulting on a renewable heat strategy for Northern Ireland (to include details of the design and implementation of the RHI.)
12. This is a significant piece of work and I will update you in due course on how I propose to take this forward and the timescales involved. The securing of funding for this scheme is a good news story for the industry and for the sector at large.

Recommendation

13. I recommend that you respond to the First Minister and deputy First Minister using the draft at **Annex B**, welcoming the funding and explaining the background to this work and the benefits it presents for the wider economy.

(signed)

FIONA HEPPER
ENERGY DIVISION
(Ext 29215)

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Annex A

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principle, NIE is expected to introduce similar changes. Any future changes to the DEL/AME budgeting framework for DWP will apply to NIE in the same way. I would be happy for NIE, DWP and HMT officials to discuss the implementation of the welfare reform package in NI.

- The CSR10 settlement makes available £200 million of capitalisation in England in 2011-12 which can only be used for local authority redundancy costs. Barnett consequential will apply and therefore £6.7 million of LASFE AME will be available to NIE.
- A small amount of capitalisation will separately be made available to manage equal pay pressures in 2011-12, but not in subsequent years. You will continue to receive a consequential of the sum of agreed capitalisation for equal pay in England, when this is determined in England.
- The SR plans assume that you will take your share of the £6.2 billion cuts (£113.5 million RDEL and £49.0 million CDEL) in 2010-2011. If you wish to announce a smaller DEL reduction in 2010-11, you will need to do so at the time of Spring Supplementary Estimates, and your plans for 2011-12 will be reduced by the same amount. I have considered carefully your request that the Barnett formula should not apply to the HO and MoJ elements of the £6.2 billion savings. However the stage 2 financial package made clear that the Barnett formula would apply after devolution and the settlement letter did not state that the policing and justice budget would be protected. The treatment of NIE is equitable with the rest of the UK, and previous practice.
- If NIE choose to introduce an NI Renewable Heat Incentive Scheme then AME funding of £2/4/7/12 million will be available over the SR period based on a population based share of the GB scheme. NIE officials should inform my officials of their intentions to feed into AME forecasts.
- The Government will continue to liaise with the NIE in implementing its review of Arms Length Bodies.

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From the Office of the Minister

**FROM: ARLENE FOSTER MLA
 MINISTER OF ENTERPRISE, TRADE AND INVESTMENT**

DATE: OCTOBER 2010

TO: FIRST MINISTER AND DEPUTY FIRST MINISTER

**2010 SPENDING REVIEW SETTLEMENT - NORTHERN IRELAND
EXECUTIVE – RENEWABLE HEAT INCENTIVE**

The Chief Secretary of the Treasury, Danny Alexander, has written to you to outline the Northern Ireland settlement as part of the recent Spending Review. In this letter he makes reference to funding for a Renewable Heat Incentive (RHI) in Northern Ireland. As requested I have provided a part input (**Appendix I**) for inclusion in your response to cover this issue.

The offer of funding for a RHI in Northern Ireland should be accepted. The EU Renewable Energy Directive sets binding targets for member states in regards to renewable energy and, despite not being a member state, Northern Ireland is expected to contribute to the United Kingdom's share to meeting these targets. To this end, the Executive approved my Department's Strategic Energy Framework (SEF) which sets out energy policy for the next 10 years and includes a target of 10% renewable heat by 2020.

My Department has recently carried out a major study into the renewable heat market in Northern Ireland which has demonstrated that there is significant potential for deploying and developing these technologies in Northern Ireland. Currently only 1.7% of our heating fuels come from indigenous renewable sources, with Northern Ireland overly dependent on foreign fossil fuels. It is absolutely essential that Northern Ireland strives to create a more diverse and

secure fuel supply and the development of the renewable heat market is a key element of this objective. The renewable heat study has shown that 10% renewable heat by 2020 is possible but will require Executive support, both in terms of policy and finance.

The Department of Energy and Climate Change (DECC) plan to introduce a RHI for Great Britain in April 2011. Northern Ireland is not included in this RHI because the different nature of the heat market here, namely our dependence on oil; the presence of a developing gas market; the different energy costs; higher levels of fuel poverty and our rural nature, meant it was more appropriate for a separate assessment, focussing on supporting the market here, was carried out.

It has been determined that a RHI, which specifically considers the nature of the Northern Ireland market, is the most appropriate method of developing the industry here. The incentive would provide the industry with long term, stable and consistent support and allow investors and consumers to invest with confidence.

Following the conclusion of the study, I announced that DETI would pursue the development of a RHI, however this was subject to the availability of funding (I have attached my press release of 20th September at **Appendix II** for your information.) The level of funding offered by the Chief Secretary is broadly in line with early estimates of how much a Northern Ireland RHI might cost, roughly £2.5m per annum per %. My department will soon begin work to determine the actual tariffs of a RHI, assess eligibility requirements and estimate the overall cost of the scheme.

The development and implementation of a RHI will support the Executive goal of creating a more secure and diverse energy mix in Northern Ireland. It also presents opportunities to create green jobs, help tackle fuel poverty and reduce carbon emissions. Whilst DETI holds the policy lead on renewable heat there are many cross-cutting issues and therefore a future strategy for

renewable heat will be developed in conjunction with relevant departments and require the approval of the Executive.

This offer of funding should be accepted as, without it, the target agreed by the Executive in relation to renewable heat will not be met. The method of this funding is also welcome as it will ensure that the cost of the RHI will not be borne by consumers.

I am copying this letter to Sammy Wilson MP MLA, Minister of Finance and Personnel.

ARLENE FOSTER MLA
Minister of Enterprise, Trade and Investment

Appendix I**COR 511/10: 2010 SPENDING REVIEW SETTLEMENT - NORTHERN IRELAND EXECUTIVE – RENEWABLE HEAT INCENTIVE****Part Input into response to Chief Secretary of the Treasury**

We welcome the offer of funding for a Renewable Heat Incentive (RHI) and view the development and implementation of a RHI in Northern Ireland as an opportunity to develop a more secure and diverse fuel mix, create green jobs and reduce carbon emissions. As you will be aware, Northern Ireland is not included in the DECC RHI scheme as the specific nature of the heat market here meant that a separate assessment of potential support measures was needed. This work has indicated that a RHI, designed with Northern Ireland in mind, is the most appropriate method of developing and growing this market.

DETI Minister, Arlene Foster, made an announcement to this effect on 20 September 2010, indicating that a RHI would be introduced providing suitable funding could be secured. The offer of £2m/£4m/£7m/£12m over the spending period is broadly in line with early estimates of potential cost of a NI scheme. Officials in DETI will liaise with counterparts in DECC and HMT as this work progresses.

Appendix II

Press Release

Energy Minister Arlene Foster has today published the main findings from a significant study examining the potential for renewable heat in Northern Ireland.

The study has concluded that Northern Ireland has the potential to obtain 10% of its heat energy from renewable sources by 2020. It has provided a firm evidence base to allow decisions as to how the market can be most appropriately encouraged and developed.

Commenting on the conclusion of the study, Arlene Foster said: **"I recognise the contribution that an increased renewable heat market in Northern Ireland could have, not only on wider energy policy goals such as fuel security and reduced carbon emissions, but also the tremendous opportunities this sector presents for green jobs."**

Great Britain is currently planning to reward renewable heat installations from April 2011 through a Renewable Heat Incentive (RHI). Decisions on the final design of the RHI will be taken as part of the Government's spending review.

The Department of Enterprise Trade and Investment study examined the need for a similar scheme and has concluded that a RHI which takes into consideration the specific Northern Ireland heat market should be developed, providing it is economically viable.

The Minister continued: **"The renewable heat industry in GB has been bolstered by the Government's recent commitment to introduce an incentive scheme. I hope that my announcement today will give similar confidence to the renewable market in Northern Ireland."**

"The Northern Ireland heat market is very different to the market in GB and therefore a specific renewable heat incentive scheme needs to be developed here to take into account our unique circumstances. I believe an RHI model that would support renewable heat installations from September 2010, could work for Northern Ireland as it has the potential to provide long-term stable support and confidence for the market to invest."

"In light of the current financial constraints that government is facing, it is important that a full appraisal is carried out on a Northern Ireland specific RHI to ensure that it is viable, economic and could be appropriately funded in the future."

"My Department will start this work as soon as possible."

Notes to editors:

1. Renewable Heat is heating space or water through renewable sources or technologies. The most common domestic applications of renewable heat are biomass boilers, solar thermal hot water heating and ground source and air source heat pumps. On a larger scale heat can be created through the process of anaerobic digestion (AD) where biogas is produced and can be used to generate heat directly or can be injected into the gas network. Another example of large scale renewable heat technology is Combined Heat and Power ('CHP') technology, under this process electricity and heat is produced by and be therefore be captured and used.
2. The Executive Summary of the report can be found on the [DETI website](#)
3. For media enquiries, please contact DETI Press Office on 028 9052 9297. Out of office hours contact the Duty Press Officer via pager number Irrelevant information redacted
by the RHI Inquiry and your call will be returned.