



Copy Distribution List Below

From: David Thomson

Date: 2 March 2012

To: Trevor Cooper

CASEWORK PAPERS FOR THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE AND THE RENEWABLE HEAT PREMIUM PAYMENT SCHEME

You will have received papers outlining the proposals from Energy Division regarding the introduction of a Northern Ireland Renewable Heat Incentive (RHI) and *Renewable Heat Premium Payments* (RHPP). These papers are to inform the meeting of the Casework Committee scheduled for **Friday, 9th March 2012 at 2pm**.

The RHI is a major new policy initiative from Energy Division and has been signposted in the Strategic Energy Framework (SEF), Ministerial statements and a public consultation process initiated in July 2011. The aim of the RHI, and the associated RHPPs, is to develop the renewable heat market to an overall market share of 10% by 2020, in-line with EU and SEF targets. To support the uptake of these technologies, the RHI will aim to equalise the cost of conventional heating and alternative renewable heating technologies over a period of 20 years, in a similar way to the incentives in place for renewable electricity under the Northern Ireland Renewables Obligation.

Significant work and research has already been undertaken by Energy Division to assess the appropriate support levels for these technologies. This work includes an initial study into the Northern Ireland heat market, an economic appraisal into the potential incentive mechanisms, a consultation on the proposed design of the RHI and a feasibility study into administration systems. The Northern Ireland RHI is similar in many ways to the RHI scheme which was introduced in GB in November 2011; it is therefore important that the Northern Ireland scheme is implemented as a matter of urgency to ensure that the local renewable heat market is not unduly disadvantaged.

It is proposed that the RHI will be introduced in two phases; the first phase will be for the non-domestic market with the domestic market becoming eligible at a later date. Short term capital support for domestic customers in the form of *Renewable Heat Premium Payments* will be made available to domestic customers in the interim; again this is similar to proposals already in place in GB.

I am content that the proposals outlined have been thoroughly researched, analysed and appraised and note the supportive comments from the DETI economist, specifically that the proposed scheme is the most effective way of allocating the resources provided by HMG. From the evidence available, I consider that the implementation of the RHI in Northern Ireland represents the most appropriate way for the renewable heat market to be incentivised to a level of 10% by 2020. The development of the renewable heat market will support wider Energy Division policy, and indeed Departmental and Executive policy goals of energy security, reduced emissions and 'green jobs'. I am also content that the introduction of short term domestic grants (RHPPs) is appropriate and that the administration of the RHI scheme via Ofgem is value for money.

I would be grateful if you consider the documentation provided in assessing the appropriateness of this scheme.



DAVID THOMSON
Head of DETI Policy Group

cc Fiona Hepper
 Philip Angus
 Shane Murphy
 Joanne McCutcheon
 Peter Hutchinson
 Dan Sinton
 Sam Connelly