



From: Peter Hutchinson
Renewable Heat Branch

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To: 1. Fiona Hepper
2. Paul Brush **Copy Distribution List Below**

**DEVELOPMENT OF PHASE 2 OF THE NORTHERN IRELAND
RENEWABLE HEAT INCENTIVE (RHI)**

Issue: To seek the agreement of the Managing Authority to approve a project called Development of Phase 2 of the NI Renewable Heat Incentive under Priority 3 of the ERDF Competitive Programme.

Timing: Urgent. This work must begin immediately so issues relating to phase 2 of the RHI can be considered and implemented. Delays would lead to NI consumers being disadvantaged in comparison to GB consumers and leave money allocated by HMT unspent.

Presentational issues: None.

Freedom of information: Parts of this submission may be exempt under Section 35 of the Freedom of Information Act.

Financial implications: This project, if approved will require up to £85,000 from the ERDF Competitive Programme. This resource is available and has been allocated to Energy Division.

Recommendation: That the Managing Authority agrees to select this project, Development of Phase 2 of the Northern Ireland RHI, as eligible under the programme.

Background

The European Sustainable Competitiveness Programme for Northern Ireland 2007-2013 cites three spending priorities in its overall aim to help create a more competitive and sustainable Northern Ireland:

- Priority 1: Sustainable Competitiveness and Innovation;
- Priority 2: Sustainable Enterprise and Entrepreneurship; and
- Priority 3: Improving Accessibility and Protecting and Enhancing the Environment.

2. Priority 3 relates to energy and focuses on two key areas:
 - a. Protecting and enhancing the natural environment; and
 - b. Promoting sustainable development and creating sustainable communities.
3. Renewable Heat Branch has developed proposals on the appointment of consultants to undertake work on the development of phase 2 of the Northern Ireland Renewable Heat Incentive (RHI). We believe this policy area is fully in line with the aims, objectives and key areas of Priority 3 and indeed the Programme overall.

Northern Ireland Renewable Heat Incentive

4. The Northern Ireland RHI was launched on 1 November 2012. The RHI is a long term incentive mechanism that provides financial payments to generators of renewable heat. The scheme is in place to support the development of the renewable heat market to a level of 10% by 2020. The development of the renewable heat market provides opportunities in Northern for reduced carbon emissions, increased fuel security and significant potential for 'green jobs'.
5. This first phase of the scheme is available for non-domestic consumers only and provides support for the most well-established and understood technologies (i.e. biomass, heat pumps, solar thermal and biogas). Phase 1 will act as a primer for the market in advance of the scheme being extended to the domestic sector and additional technologies being supported. This is in line with the position in GB. Renewable Heat Branch now wish to carry out research into the key issues for phase 2 of the scheme. This research will inform policy and will support a public consultation on phase 2 of the RHI.
6. Renewable Heat Branch believe that by developing a support mechanism for renewable heat, which increases the roll-out of renewable technologies and in turn increase general awareness amongst consumers, is fully in line with the aims and objectives of Priority 3 and the Programme as a whole. A key element of phase 2 of the RHI will be extending the scheme to the domestic sector and therefore increase the appeal, understanding and uptake of renewable heat across Northern Ireland.

Renewable Heat Policy in the EU, GB and Northern Ireland

7. 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, DETI has committed in the Executive endorsed Strategic Energy Framework 2010, to achieving a renewable heat target of 10% by 2020.
8. The Department of Energy and Climate Change (DECC) announced in July 2009 that it intended to introduce a RHI to support the roll-out of renewable heat technologies and assist in achieving the EU targets. The RHI rewards those who install eligible renewable heat technology with a set tariff to be paid over a number of years, the level of tariff and length of payment is determined by the size and type of technology involved. The tariffs have been set in order to cover the capital, operating and other non-financial costs of installing such technologies.
9. The Chancellor of the Exchequer has provided £860m of funding for the RHI over the spending review period. Of this, £25m was made available to Northern Ireland over this period for the implementation of the RHI.
10. The GB RHI was launched in November 2011 (for non-domestic consumers only). More recently, DECC has carried out a public consultation on the second phase of the GB scheme, this includes extension of the RHI to domestics and additional technologies supported under the commercial RHI. The significant differences between the heat markets here and Great Britain meant that a separate assessment on the nature and growth potential of the Northern Ireland market was needed. Therefore an economic appraisal, that informed the policy design of the NI RHI, was completed in June 2011 by Cambridge Economic and Policy Associates and AEA Technologies. This piece of work was co-funded through the ERDF Competiveness Programme.

Purpose of this assignment

11. The terms of reference for this project are attached at **Annex A** and a signed business case attached at **Annex B**. These have been considered and approved by the DETI Minister.
12. It is proposed to appoint external consultants to carry out an assessment of a range of issues relating to a second phase of the Northern Ireland RHI scheme. This is a specialist task that requires the advice of specialist heat economists as well as technical advice from energy consultants.
13. Consideration must also be given to the appropriate levels of support for emerging and innovative renewable heating technologies and issues involved in extending the current RHI scheme to the domestic sector. This

work will ensure that the heat market is encouraged in the most cost-effective way possible. Consultants will be appointed by a competitive tender process administrated by Central Procurement Directorate.

14. The work carried out under phase 2 will ensure that Northern Ireland will remain in line with measures proposed by DECC for the GB scheme and will support the achievement of targets. The second phase of the scheme will further assist in the development of the renewable heat market in Northern Ireland and will provide opportunities for the exploitation of innovative renewable heating methods.

15. The key objectives for phase 2 of the NI RHI are:

- consideration on the introduction of tariffs for additional technologies, to include air source heat pumps, deep geothermal energy, bioliquids and landfill gas;
- consideration on the extension of the RHI scheme to the domestic sector;
- assessment of evidence of need for financial support for large biomass installations (over 1MW);
- consideration of the need for an additional 'uplift' for renewable heating applications that service more than one building or dwelling i.e. community or district heating;
- provision of a detailed analysis of the expected costs of each of the additional measures under phase 2 and the expected benefits in terms of renewable heat delivered and wider impacts;
- Recommendations on the implementation of phase 2 of the Northern Ireland RHI based on analysis carried out, the expected costs of additional measures and the monetary and non-monetary benefits.

Budget

16. It is estimated that this assignment will cost in the region of £85,000. Budget cover is currently available within the EU Competiveness Fund (match funding from the Innovation Fund) subject to Managing Authority approval.

Current Position

17. The business case has been approved by the Head of Energy Division, the Departmental Accounting Officer and the DETI Minister (as detailed in **Annex C**). As the project is over £70k it has been considered also by DFP. Approval from DFP was received on 3 December 2012.

18. **Annex D** is a completed template setting out how Sustainable Energy Branch believes this project, Economic Appraisal of a Renewable Heat Incentive for Northern Ireland, meets the approved high-level selection criteria to be used by the Managing Authority in selecting operations to be funded under Priority 3 of the ERDF Competitiveness Programme.

19. An Equality Screening exercise has also been carried out (**Annex E**) and it is not considered that this proposal has any impact on equality of opportunity. In addition, a Development Path Analysis has been carried out for this project (**Annex F**) and we believe that the proposed project fully meets the most positive and environmentally sustainable path.

List of Annexes

20. Annexes to this submission are attached separately as follows;

- **Annex A:** Terms of Reference for the project “Development of Phase 2 of the Northern Ireland RHI”
- **Annex B:** Signed Business Case for this project
- **Annex C:** SUB 516/12 detailing DAO and Ministerial Approval.
- **Annex D:** Completed template detailing selection criteria
- **Annex E:** Signed Equality Screening
- **Annex F:** Development Path Analysis

Recommendation

21. It is recommended that the Managing Authority approves the inclusion of this Development of Phase 2 of the NI Renewable Heat Incentive within Priority 3 of the programme. I am happy to provide any additional information or clarification as needed.

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