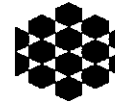


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21st June 2011

Dear Alban,

THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)

You are already aware of the work that my Department has been carrying out over the last 12 months or so to assess the potential of the Northern Ireland renewable heat market and to develop an appropriate incentive scheme for the local industry. I now wish to provide you with a further update on this work and advise that DETI intend to launch a full public consultation on the design of a Northern Ireland RHI in July. Following this, and assuming all appropriate steps are taken and legislation passed, I would anticipate implementation of the RHI in April 2012.

The final design of the (draft) scheme is still being worked on by officials in my Department but I wanted to give you an outline of my proposals at this stage, in advance of consultation and the summer recess. A full written briefing is attached at **Appendix I** which gives background to the work, the GB position, the proposed Northern Ireland scheme and consultation paper and the necessary next steps for full implementation.

It is proposed that the Northern Ireland RHI would have three elements;

1. A Renewable Heat Incentive for the non-domestic market to be in place by April 2012. The domestic market will be supported in phase 2 of the process, with a scheme for the domestic sector to be in place by October 2012, in-line with GB proposals.
2. Interim grant support for domestic installers, with £2m available for householders until 1 April 2012, this will not prevent their inclusion in a future incentive scheme. However, if a grant is accepted, any future incentive would be adjusted accordingly to ensure that applicants were not over-rewarded.
3. Support for the heavy industrial sector in the form of incentive payments however with different eligibility requirements than the mainstream RHI for the rest of the non-domestic sector.

The rationale for this approach is provided in more detail in the appended overview. However, in short, I believe that this approach provides the most appropriate approach for Northern Ireland. The most commercially viable installations will be incentivised first, the domestic market will receive up-front support for installations (in essence a front-loading of support) and the heavy industrial sector will be supported where installations are technically viable, provide value for money and can be sustainably developed without impacting negatively on the emerging gas market.

The RHI that will be in place in Northern Ireland will be quite similar in terms of eligibility requirements and administration; the major differences will be within the technologies incentivised and the tariffs available. At this stage, in addition to the technologies supported in GB, I am also considering the inclusion of some air-source-heat-pumps and some bio-liquids within the Northern Ireland scheme. The tariffs for all of the technologies are currently being finalised. These will be based along similar lines to GB (i.e. 12% rate of return for all technologies, barring solar thermal which will have a 6% rate of return). Northern Ireland tariffs will, however, be based on a counterfactual position of oil, rather than natural gas.

In the consultation I will be including a call for evidence into the potential for deployment of deep geothermal schemes in Northern Ireland, the costs of these schemes and the barriers, both financial and non-financial, that developers face. As the scheme stands, deep geothermal will be eligible for similar tariffs as ground-source-heat-pumps. However, I would be keen for more evidence to be gathered on this technology, given the potential resource in Northern Ireland, and to ensure an appropriate tariff level is set. I am sure you will support me in this.

Subordinate legislation which will prescribe how the scheme will be administered will be necessary in due course and my officials will be engaging with the Committee on this issue after the summer recess. The future legislation is, however, subject to the amendment tabled to the GB 2011 Energy Bill, relating to renewable heating powers for Northern Ireland, being successful. At this stage, I am hopeful that the amendment will be passed before Parliament rises for the summer.

In terms of next steps, my officials are currently in the process of finalising the consultation document with a view to this issuing in early July; unfortunately I am not in a position to share this document with you at this stage. I therefore propose to ensure that copies of the consultation and relevant appendices are sent to the Committee for your consideration as the consultation is launched. If any consultation events are held over the summer to gather early views on the scheme I will ensure that the Committee is notified and invited – although at this stage I do not anticipate any.

The consultation will last 10 weeks, this will allow final policy decisions to be taken in a timely manner and for work on implementation to begin. The Department will provide the Committee with an overview of the responses to public consultation and advise on the shape of a final scheme well in advance of implementation.

I trust that you find this letter and the attached overview useful and look forward to hearing the Committee's comments on the proposed scheme in due course.

*You sincerely,
Arlene Foster*

ARLENE FOSTER MLA
Minister of Enterprise, Trade and Investment

APPENDIX I

OVERVIEW OF PROPOSED DETI SUPPORT FOR THE RENEWABLE HEAT MARKET – CONSULTATION SCHEDULED JULY 2011**Introduction**

1. Renewable heat is simply heat produced from renewable sources such as solar radiation, biomass materials, heat pumps, geothermal energy, anaerobic digestion and waste materials.
2. The EU Renewable Energy Directive (2009/28/EC)¹, published in the Official Journal of the European Union on 5 June 2009, set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020. This requirement extends beyond electricity to heating and cooling and to transport. Northern Ireland is expected to contribute to the UK's share of the EU target and therefore DETI has carried out significant research into how best the local Northern Ireland renewable heat market could be encouraged, developed and incentivised.

The GB Renewable Heat Incentive (RHI)

3. The Department of Energy and Climate Change (DECC) has set a target of 12% renewable heat for England and Wales by 2020, this target, coupled with the 30% target for renewable electricity consumption, will assist in Great Britain meeting its requirements under the Renewable Energy Directive. Scotland has a separate target of 11%, although is included under the wider GB RHI.
4. In order to achieve this target, DECC has made clear plans to introduce a RHI in Great Britain from July 2011². The RHI in Great Britain will initially only be open to the non-domestic sector, DECC has recently initiated research to consider how the domestic sector should be incentivised with a view to supporting that sector from October 2012. In the interim, domestic consumers wishing to install renewable heating technologies can apply for 'renewable heat premium payments' to support the capital cost of the installation.
5. The RHI is seen as a ground-breaking initiative which will provide the necessary financial support to increase the level of renewable heat generation significantly. Over the next 4 years, DECC anticipate that £860m will be invested in new renewable heat installations, this investment will go beyond 2015/2016 as new installations are supported for 20 years under fixed tariffs. The tariffs set by DECC are designed to provide a rate of return of 12% (considering the capital costs, operating costs and non-financial 'hassle' costs) across each technology, barring solar thermal which will have a rate of return closer to 6%.

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:EN:PDF>

² <http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/Energy%20mix/Renewable%20energy/policy/renewableheat/1387-renewable-heat-incentive.pdf>

6. The scheme will be open to new applicants until 2020 and will be administered by Ofgem.

Tariff Name	Eligible Technology	Eligible Sizes	Tariff Duration (years)	GB Tariff Levels (pence per kWh)
Small Biomass	Solid biomass; Municipal solid waste (inc. CHP)	Less than 200 kWth	20	7.6 (1.9 after a certain level)
Medium Biomass		200 kWth and above; less than 1,000 kWth	20	4.7 (1.9 after a certain level)
Large Biomass		1,000 kWth and above	20	2.6
Small Ground Source	Ground-source heat pumps; Water-source heat pumps; deep geothermal	Less than 100 kWth	20	4.3
Large Ground Source		100 kWth and above	20	3
Solar Thermal	Solar thermal	Less than 200 kWth	20	8.5
Biomethane	Biomethane injection and biogas combustion, except from landfill gas	Biomethane all scales, biogas combustion less than 200 kWth	20	6.5
Likely levels of support for RHI Premium Payments for the domestic sector				
Solar Thermal		£300/unit		
Air Source Heat Pumps		£850/unit		
Biomass boilers		£950/unit		
Ground Source Heat Pumps		£1250/unit		

The Northern Ireland Renewable Heat Market

7. Northern Ireland is not included as part of the wider Great Britain RHI. There are many differences between the heat and renewable heat markets in Great Britain and Northern Ireland that mean that it is appropriate for a separate assessment to be taken on how the local market can be developed. These differences include Northern Ireland's high dependency on oil, with an emerging gas market, in comparison to GB's developed gas market and minimal use of oil. There are also differences in the heat density with Northern Ireland being much more rural in nature. Finally, variances in energy costs have meant a separate assessment was required.

8. In December 2009, DETI commissioned research into the existing heat and renewable market so an assessment could be made on the optimum growth potential of the market, methods for developing the market and an appropriate target for 2020. The study was carried out by AECOM Ltd and Pöyry Energy Consulting and was part financed by the European Regional Development Fund under the European Sustainable Competiveness Programme for Northern Ireland.
9. This study demonstrated that Northern Ireland is almost wholly dependent on imported fossil fuels for heating demand, with only 1.7% of heating demand coming from renewable sources. The total heat demand in Northern Ireland has been estimated at 17,362 GWh per year, this compares to 668,000 GWh per year in the United Kingdom as a whole and 64,534 GWh (heat consumption) per year in the Republic of Ireland.
10. The overwhelming heating fuel in Northern Ireland is heating oil. Oil accounts for over 87% of the heating demand in the domestic sector and around 77% of the entire heat demand overall. This is a very different situation in comparison to Great Britain where the natural gas market is prevalent and accounts for 68.8% of heating demand with heating oil only accounting for 10%. This mix of heating fuels in Northern Ireland is detailed below.

Fuel / Energy type	Domestic (GWh)	Industrial, Commercial and Public (GWh)	Total (GWh)
Oil	9,241	4,103	13,444
Gas	973	1,991	2,964
Economy 7 Electricity	176	41	217
Renewables	No information on split	No information on split	290
Coal	110	438	547
TOTAL			17,362

11. Looking towards 2020, analysis undertaken indicates that Northern Ireland's overall heat demand is predicted to fall from 17.4 TWh per year to 16.7 TWh with rises in demand from new development being outweighed by reductions in demand and energy efficiency improvements. Taking into account the existing 300 GWh of renewable heat already present a target of 10% for 2020 equates to an additional 1.3 TWh or 1300 GWh of renewable heat.

Economic Appraisal of a Northern Ireland RHI

12. In February 2011, DETI commissioned Cambridge Economic Policy Associates (CEPA) and AEA Technologies to carry out an economic appraisal of various methods of potential financial assistance for the renewable heat industry. Funding of £25m over the next 4 years has been made available to DETI from Her Majesty's Treasury (HMT) for the development of renewable heat in Northern Ireland. The options considered were as follows;

- i. ***Do Nothing***
- ii. ***A Renewable Heat Challenge Fund*** – A competitively awarded grant where applicants would be ranked on the amount of renewable heat produced and the cost-effectiveness. Capital grant funding would be made available to successful applicants and the process repeated on a yearly basis.
- iii. ***50% Capital Grant*** – Similar to the scheme run by the ‘*Reconnect*’ scheme administered by DETI between 2006-2008, successful applicants would be awarded 50% grant funding for eligible installations. Unlike the challenge fund concept this would be on a ‘first come first served’ basis rather than competitively awarded.
- iv. ***Implement the GB RHI*** – Implementation of the existing GB scheme with no specific alteration for Northern Ireland.
- v. ***Specific RHI for Northern Ireland*** – A scheme that would be similar in nature, design and administration to that of the GB scheme, however with specific consideration of the nature of the Northern Ireland renewable heat market in terms of tariffs, technologies and other issues.

Proposed approach

13. Following consideration of the various options it was concluded that the best approach for Northern Ireland was the introduction of a specific RHI, tailored to suit the needs of the Northern Ireland heat industry. This approach is in line with the GB view that long-term consistent support is required to grow this important industry, rather than stop-start grant funding. This approach is also similar to the experience of the Northern Ireland Renewables Obligation (NIRO) which provides long term support for renewable electricity generation and has supported a trebling of renewable electricity generation since its introduction.
14. The public consultation will therefore set out the measures required to develop the renewable heat industry and to utilise the funding provided by HMT. Within the consultation there will be various elements raised, as follows.

RHI for Northern Ireland

15. A RHI will be introduced in Northern Ireland from 1 April 2012 for all non-domestic customers, barring the heavy industrial sector which will be treated separately. The RHI will incentivise a range of technologies by providing tariffs for actual renewable heat generated; these tariffs will last for 20 years.
16. At this stage, the scheme will be open to new applicants until 31 March 2015, at which stage there will be a review. However it is anticipated that the scheme will be extended to 2020, with any required modifications, in line with GB. HMT has confirmed to DETI that funding will be provided to cover the 20 year tariff payments for all those who enter the scheme before 31 March 2015.
17. The tariffs and eligible technologies are still being finalised. The tariffs are based on providing a 12% rate of return for all technologies, barring solar thermal which will receive a 6% rate of return, against a counterfactual position of heating oil.

All established technologies will be supported from the out-set and consideration is being given to the inclusion of bio-liquids and air-source-heat-pumps (both excluded from the GB scheme) from the beginning of the scheme.

18. The consultation will also include consideration of the treatment of anaerobic digestion (AD) systems. Evidence would suggest that the current levels of support under the NIRO for AD systems producing renewable electricity are sufficient and therefore providing additional RHI would not be value for money.

Interim Support for Domestic Consumers

19. As the domestic market will not be able to avail of the RHI immediately, DETI intends to make £2m available this year (2011-12) for capital grant support for those wishing to install renewable heat technologies. This is similar to the 'Renewable Heat Premium Payments' in GB.
20. Consideration of long-term incentivisation of the domestic market will then be given in conjunction with DECC with a view to having a suitable RHI scheme in place by October 2012.

Support for heavy industrial market

21. Given the nature of the heavy industrial sector (17 sites accounting for 22% of total heat demand) they will be treated outside of the mainstream RHI with differences in eligibility and accessibility. This will include DETI considering applications for support from those within this sector and determining whether support will be granted. By applying the same eligibility standards to this sector there could be danger that schemes that are unsustainable, in terms of fuel supply, or already cost-effective, would be supported.
22. In addition, DETI has an obligation to develop and maintain the growing natural gas industry. Industrial heat loads, in many cases, are vital to the existing and future gas market. DETI does not wish to incentivise large scale sites that might be key to the viability to the existing, or future, gas network.

Call for evidence on Deep Geothermal Energy

23. Similar to the GB scheme, it is currently recommended that deep geothermal energy systems are awarded the same tariff level as ground-source-heat-pumps. DETI is aware of the potential within this market and is keen for the correct incentive levels to be developed. The consultation will therefore include a call for evidence on the barriers to deep geothermal energy, both financial and non-financial. This call for evidence will assist in the development of specific deep geothermal tariffs, if appropriate.

Establishment of a Cross-Departmental Group on Renewable Heat

24. In order for opportunities for renewable heat deployment to be realised and the potential benefits maximised it is important that a strategic view is taken. In order to achieve this it is proposed to establish a renewable heat strategy group which will consider such issues as the implementation of the RHI, maximising indigenous fuel supply, developing opportunities for business and considering linkages to related issues such as fuel poverty.
25. Executive Ministers have been asked to provide appropriate nominations to this group so it can meet following the summer recess to consider cross-cutting issues on renewable heat.

Renewable Heat in Republic of Ireland

26. The Department of Communications, Energy and Natural Resources (DCENR) is currently reviewing possible policy options which are available to support the renewable heat market in the Republic of Ireland. Currently there are no direct incentives for renewable heating; however some renewable heat is indirectly supported in the form of the Renewable Energy Feed-in-Tariff for renewable combined heat and power plant.

Timescales and Next Steps

27. The consultation paper on the development of the Northern Ireland Renewable Heat Market and the proposed incentive mechanisms will be finalised in the next few weeks. The public consultation will then be launched in early July and last 10 weeks. We will ensure that the consultation document and associated appendices are sent to the Committee; however this may be during the summer recess.
28. Following the consultation period the final scheme will be developed and presented to the Committee and published on the DETI website, with all interested stakeholders notified. Subordinate legislation will then be put in place to provide the legal framework for the scheme to be administered and for payments to be made. It is anticipated that the scheme will be in place by 1 April 2012.
29. The first meeting of the Renewable Heat Strategy Group will take place on 18 October 2011. This meeting will focus on discussing the membership, objectives and purposes of the group, the shape of the NI RHI and the ongoing bio-energy issues that the group is already tasked with.
30. DETI will undertake to carry out regular reviews of the incentive scheme and will endeavour to keep the Committee up to date with any proposed amendments to the scheme.

Recommendation

31. The Committee is invited to note the proposed outline of the Northern Ireland RHI and the next steps in the design and implementation of the proposed scheme.