Northern Ireland Assembly

6. SL1. RHI - Introduction of Cost Control Measures & Ensuring Effective Administration of Domestic Scheme

This agenda item will commence in public session, with an indicative time of 11:10 AM

To: Committee Members

From: Angela McParland

Date: 3 September 2015

Subject: SL1 – THE RENEWABLE HEAT INCENTIVE SCHEME AMENDMENT REGULATIONS (NORTHERN IRELAND) 2015

Details

Enclosed is the SL1 mentioned above which provides a full explanation regarding the nature and scope of the proposed Statutory Legislation.

The rule is subject to **affirmative resolution.**

The anticipated date that the rule would come into operation in November and apply to all new installations made from 10 November 2015.

This is the Committee's opportunity to consider the policy set out in the SL1, as it is not possible to amend once the Rule has been made and laid in the Assembly Business Office. Any points of clarification can be obtained from the Department in writing, if so required.

Purpose of the proposed Rule

The Northern Ireland Renewable Heat Incentive (RHI) was introduced on 1 November 2012, following the passage of the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012. This scheme provides long term incentive payments for new generators of eligible renewable heating in the non domestic sector.

The RHI scheme was extended to the domestic sector in December 2014 following passage of the Domestic Renewable Heat Incentive Scheme (Northern Ireland) 2014. This replaced the Renewable Heat Premium Payment Scheme which was introduced in May 2012 to provide interim financial support to domestic renewable heat customers.

The proposed Statutory Rule will provide the legislative basis for:

- Extending the non-domestic RHI scheme to provide support for heat generated from combined heat and power (CHP) installations. This needs to coincide with changes in the ROC regime from October 2015 whereby ROC will no longer support heat generated by new CHP installations.

- Introducing a tiered tariff for non-domestic biomass installations to ensure affordability and value for money.

Department of
Enterprise, Trade
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3 September 2015

Dear Jim

SL1 – THE RENEWABLE HEAT INCENTIVE SCHEME AMENDMENT REGULATIONS (NORTHERN IRELAND) 2015

1.1 The Department of Enterprise, Trade and Investment (**the Department)** proposes to make a Statutory Rule in exercise of the powers conferred by section 113 of the Energy Act 2011.

1.2 The Statutory Rule will be subject to affirmative resolution in the Assembly.

Purpose of the Statutory Rule

2.1 The Northern Ireland Renewable Heat Incentive (RHI) was introduced on 1 November 2012, following the passage of the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012. This scheme provides long term incentive payments for new generators of eligible renewable heating in the <u>non domestic</u> sector.

2.2 The RHI scheme was extended to the domestic sector in December 2014 following passage of the Domestic Renewable Heat Incentive Scheme (Northern Ireland) 2014. This replaced the Renewable Heat Premium Payment Scheme which was introduced in May 2012 to provide interim financial support to domestic renewable heat customers.

2.3 The proposed Statutory Rule will provide the legislative basis for:

- Extending the non-domestic RHI scheme to provide support for heat generated from combined heat and power (CHP) installations. This needs to coincide with changes in the ROC regime from October 2015 whereby ROC will no longer support heat generated by new CHP installations.

- Introducing a tiered tariff for non-domestic biomass installations to ensure affordability and value for money.

Consultation

3.1 The Department consulted on Phase 2 proposals for the RHI from 22 July 2013 to 14 October 2013. Consultation seminars were held in Armagh, Belfast and Coleraine. A total of 50 responses were received and the vast majority of respondents were supportive of the Phase 2 proposals which included:

- Introducing a Domestic RHI Scheme in place of the interim RHPP scheme;
- Introducing cost control measures to manage RHI expenditure and ensure future scheme affordability and value for money;
- Introducing biomass sustainability and emissions requirements; and
- Expanding the non-domestic scheme to include a number of new tariffs and technologies (including CHP).

3.2 The Domestic RHI scheme was introduced in December 2014. We have taken account of the consultation feedback and prepared a final policy paper on initial cost control measures and the introduction of a new tariff for CHP. Further cost control proposals are still under consideration with the other Phase 2 proposals above and will be take forward separately at a later date. The attached final paper (**Annex A**) will be published on the DETI and NI Direct websites.

Position in Great Britain

4.1 DECC legislated for an incentive scheme in the Energy Act 2008 and laid the Renewable Heat Incentive Scheme Regulations 2011 before Parliament in November 2011. Again in April 2014 following Parliamentary agreement, the scheme was extended to the domestic sector through the Domestic Renewable Heat Incentive Scheme 2014. DECC have already introduced a system of tariff digression for both GB RHI schemes.

Equality Impact

5.1 In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, an equality screening exercise has established that the proposed Regulations do not have any significant equality impact.

Regulatory Impact

6.1 The Regulatory Impact Assessment, (**RIA**), completed and signed off for the Renewable Heat Incentive in April 2012 covers this phase 2 extension of new technologies and tariffs. The Regulations will support the implementation of the Renewable Energy Directive 2009/28/EC (**RED**) which requires the UK to ensure that 15% of its energy consumption comes from renewable sources including electricity, heating and cooling and transport.

6.2 The Department's preferred and previously agreed option is a specifically tailored NI RHI scheme. This has been determined as the most appropriate method of providing long term support to the local industry, with tariffs developed specifically for the Northern Ireland heat market which will utilise available funding most efficiently. The Department also anticipates that there will be secondary benefits to the development of the renewable heat market other than increased renewable uptake. These associated benefits include a reduction in CO_2 emissions as fossil fuels are displaced, an increase in fuel security as Northern Ireland's dependence on imported fuel reduces and growth for "green jobs" as companies benefit from the opportunities presented by renewable heat.

6.3 As the funding for the RHI scheme will come from direct Government expenditure there will be no impact on Northern Ireland consumers' energy bills.

Scheme Performance

7.1 Both RHI schemes are demand led and difficult to predict future uptake / spend. Up until late last year, uptake of the RHPP and RHI schemes had been low and the AME allocations were not spent. The Department's focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address these under spends. This included introducing the Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes.

8.1 Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), uptake of the non domestic scheme has increased significantly over the last 12 months. Total non-domestic RHI applications have increased from 200 to 800 during this period and we're now on course to meet the PfG 4% renewable heat target before the end of the year.

Financial Implications

8.2 This recent success however has put pressure on the NI RHI budget and we now need to implement cost control measures to manage future RHI expenditure. The proposed Statutory Rule will introduce a tiered tariff for biomass which currently accounts for nearly 99% of non-domestic RHI applications.

EU Implications

8.1 The Renewable Energy Directive requires the UK to ensure that 15% of its energy consumption comes from renewable sources. The requirement extends beyond electricity to heating and cooling and transport. Almost half of the final energy consumed in the UK is in the form of heat, producing around half of the UK's CO_2.

8.2 The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration level. However, while energy is a devolved matter for Northern Ireland, each devolved administration is expected to contribute as much as possible to the overall UK target.

Section 24 of the Northern Ireland Act 1998

9. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that the proposed Rule does not contravene the Act.

Section 75 of the Northern Ireland Act 1998

10. The Department has considered section 75 of the Northern Ireland Act 1998 and is satisfied that the proposed Regulations will have no negative implications or possible infractions under Section 75.

Operational Date

11.1 It is proposed that the Regulations will come into operation in November and apply to all new installations made from 10 November 2015.

11.2 I would be grateful if you would bring this matter to the attention of the Enterprise, Trade and Investment Committee.

Yours sincerely

STUART WIGHTMAN
Head of Energy Efficiency Branch
Energy Division

cc Human Rights Commission
Legislative Programme Secretariat

Department of
Enterprise, Trade
and Investment
www.detini.gov.uk

Department of Enterprise,
Trade and Investment

The Northern Ireland Renewable Heat Incentive

Response to consultation on phase 2 proposals and final policy on CHP and Cost Control

September 2015

Contents

Background

On 22 July 2013, DETI launched a public consultation on Phase 2 of the Northern Ireland Renewable Heat Incentive (RHI). These proposals included the following main elements:-,

- The introduction of the domestic RHI
- Cost control measures to manage future RHI expenditure
- Biomass sustainability and Emission control requirements
- Expansion of the non domestic RHI to include new tariffs and technologies

The consultation ran for 12 weeks and as part of the process, DETI held stakeholder events in Armagh, Belfast and Coleraine. These were attended by nearly 100 people and were useful in gauging opinions regarding the draft proposals. The consultation closed on 14 October 2013 and 50 responses were received, two of which offered no comment. All responses received are available on the DETI website.

The domestic scheme was introduced on 9 December 2014 and the remainder of the phase 2 proposals are under consideration. Some of these proposals including the introduction of support for new technologies will be taken forward at a later date

This paper seeks to respond to the comments received relating to the non domestic RHI proposals for combined heat and power (CHP) and cost control measures and sets out the Department's final policy position and the next steps in terms of implementation.

1. EXPANSION OF THE NON DOMESTIC NI RHI

ISSUE: BIOMASS AND BIOLIQUID COMBINED HEAT AND POWER

Original Proposal

1.1 Biomass and bioliquid Combined heat & Power (CHP) is currently incentivised under the NIRO, with CHP that is accredited in receipt of an additional 0.5 ROC uplift. DETI had indicated that from October 2015 the 0.5 ROC uplift will be withdrawn – and CHP projects accredited after this date would be eligible for the relevant electricity only ROC level together with the appropriate RHI tariff. This position is largely consistent with GB

1.2 In developing an appropriate CHP tariff under the non domestic RHI, DETI has assumed an investment lifetime of 10 years and a plant lifetime of 20 years. DETI is proposing a tariff of 3.5 p/kWh for new biomass and bioliquids CHP systems.

1.3 In addition to the tariff for new CHP systems, DETI proposes to introduce a second tariff for existing fossil fuel CHP systems that wish to convert to renewable CHP. For existing fossil fuel CHP sites' converting to renewable fuelled CHP the proposed tariff is 1.7 p/kWh.

1.4 DETI expects heat from renewable CHP sites to provide a significant contribution towards the development of the renewable heat market and the achievement of the renewable heat target.

Stakeholder Response

1.5 There was general agreement with the proposals. One respondent expressed concern that two separate tariffs (one for conversion) will increase risk of gas CHP converting to renewables – but in fact the opposite is likely to be true because if there was one tariff it would be the 3.4pence and therefore conversion would be more attractive.

Final Policy

1.6 Two new non domestic RHI CHP tariffs will be introduced, 3.5 pence per kWh for new systems and 1.7 pence per kWh for those converting from fossil fuels. The response to the public consultation and subsequent engagement with the industry has confirmed significant interest in this tariff. Large CHP plants have a significant role to play in meeting RHI targets. The new tariff will be in place to coincide with the removal of the 0.5ROC uplift from October 2015.

SUMMARY OF KEY POINTS

- A tariff of 3.5 pence per kWh will be introduced for new biomass and bioliquid CHP installations.
- A tariff of 1.7 pence per kWh will be introduced for biomass and bioliquid CHP installations converting from fossil fuels.
- The new tariffs are to coincide with the removal of the 0.5 ROC uplift for heat from CHP from October 2015.

2. COST CONTROL

ISSUE: COSTS CONTROL

Original Proposal

2.1 The original DETI proposal was to introduce a number of annual trigger points that would provide forewarning to potential applicants that committed RHI expenditure was approaching the set budget limit. Depending on the level of in-year expenditure /application numbers, DETI would implement administrative measures to manage curtail demand / applications numbers including ultimately closing both schemes to new applications until the following year.

Stakeholder Response

2.2 Several responses were received on this issue. There was a concern expressed that a trigger method of budget management could be viewed as a disincentive and cause further uncertainty in the market. Comment was also made that confirmation was required that any suspension of the scheme would only apply to new applications and not existing accreditations. The need for good clear advance warning with guidance and parameters for any cost control measures was also emphasised.

Final Policy

2.3 Levels of uptake on the non domestic RHI scheme have increased significantly over the last 12 months with total applications increasing from 130 to over 800. Committed monthly expenditure is now over £1.4m. Cost control measures now need to be introduced to ensure future budgetary levels wouldn't be breached and to ensure the scheme continues to be affordable and provide value for money.

2.4 The Department for Energy and Climate Change (DECC) has introduced an annual system of tariff digression in both GB RHI schemes. Work is ongoing to develop suitable systems of digression/reduction for the NI RHI schemes. The detail on these will be published at a later date. However, to control expenditure and ensure continued value for money in the interim, DETI is introducing a tiered RHI tariff structure from 5 October 2015 for biomass heating systems. This will apply to non-domestic biomass installations made on or after 5 November 2015. The first 1314 hours will be paid at the standard tariff with a reduced tariff of 1.5 pence per kWh applied thereafter. It is expected that the higher tier will cover the capital cost and the reduced tier the ongoing running costs.

2.6 Currently the non domestic medium biomass tariff reduces from 6.4 p to 1.5 p for installations over 99kW. In the GB Non Domestic RHI scheme, the equivalent biomass tariff reduces at 200kw. The majority of applications to date to the NI RHI scheme have been for 99kw biomass installations. DETI is therefore proposing to extend the existing 6.4p biomass tariff banding (20-99kw) to installations above 99kw in size. The maximum installation size in the revised tariff banding will be 199kW. In addition a cap of 400,000kWh will be applied as a maximum annual heat payment. Any additional heat over this cap will not be eligible for payments.

SUMMARY OF KEY POINTS

- Provision will be made in the scheme legislation to introduce a tiered tariff structure for new non domestic biomass installations from November 2015 where the first 1314 peak hours be paid at the standard tariff and hours thereafter reducing to 1.5 pence per kWh.
- Provision will be made in the scheme legislation to extend the existing 6.4p non domestic biomass tariff to installations up to 199kw in size from November 2015.
- A cap of 400,000 kWh will be applied as a maximum annual heat payment. Any additional heat over this cap will not be eligible for payments.