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**Subject:** NI RHI Phase 2 review- Feasibility Study  
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**Attachments:** [Non domestic phase 2 policy review template - cost control.DOCX](#)

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Katy

Attached please find a revised policy template for cost control which now includes a proposal for a tariff tier in addition to the tariff reduction proposals. The timing of the tariff tier is indicated as 1 April 2016 but we may seek to bring this forward to October 2015 if there is sufficient time locally for the legislative process. You will want to factor the tiering proposal into your Feasibility Study consideration.

Regards

Seamus

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## PROPOSAL COST CONTROL

### RATIONALE

Given the introduction of tariffs for larger systems and the need to maintain confidence and consistency in the scheme DETI is proposing to introduce cost control measures that would ensure budgetary levels wouldn't be breached and to remove the need for emergency reviews or reductions in tariffs at short notice. DECC has introduced a system of tariff degression in GB whereby tariffs will automatically reduce when deployment levels reach set trigger points. DETI expect to introduce similar measures in the future but in the interim it is proposed that a simpler system is put in place.

The RHI is different in nature to the NIRO in that there is a finite budget for new installations and these budget limits cannot be breached. Whilst tariffs are designed to ensure that the budget is adhered to there is always a risk that renewable heat technologies might be deployed in greater numbers than what is forecast and payments exceed expectations. The risk of this increases as tariffs become available for larger technologies such as biomass over 1MW, biomass/bioliquids CHP and deep geothermal. Therefore DETI must retain the right to suspend the scheme if budget limits could be breached; however this will only happen at a last resort and, at this stage, is not envisioned to happen

In order to ensure confidence in the scheme continues DETI proposes to introduce a number of trigger points that will provide forewarning to potential applicants that the committed budget is nearing the set limit. The trigger points are set out in summary as follows, (detail in the consultation document).

Trigger 1 **50%** of annual budget committed – DETI will make public announcement on committed budget.

Trigger 2 **60%** of annual budget committed – DETI will make an announcement on committed budget and advise that the domestic RHI may need to close if next budget trigger point is reached.

Trigger 3 **70%** of annual budget committed – DETI will make an announcement on committed budget and begin procedures to close the RHI for the financial year.

Trigger 4 **80%** of annual budget committed – DETI will make public announcement on committed budget and formally advise administrator to prepare for closure.

Trigger 5 **90%** of annual budget committed – DETI will make a public announcement and begin actions to close the scheme for the financial year.

### CONSULTATION RESPONSES

- Trigger method of budget management could be viewed as a disincentive and cause further uncertainty in the market.
- DETI would need to clarify if any suspension of the scheme would impact only on new applications and not existing accreditations.
- Good clear advance warning with guidance and parameters would be needed for any cost control measures.

**DISCUSSION**

- The proposed tripper points are too proscriptive therefore DETI should have the flexibility and control to restrict/close the scheme to new applicants at any given point to help manage the budget.
- This needs to be provided for in the Regulations.
- On the wider issue of affordability/future tariff levels there is a lack of clarity over RHI funding beyond March 2015.
- Consideration should be given to plan for reduced tariffs now as part of the phase 2 review.
- The most popular tariff, (6.4 pence biomass), should be reduced at different intervals.
- A tier system should also be introduced from 1 April 2016 for the 6.4 pence biomass tariff where the first 1314 hours will be paid at the standard tariff and hours thereafter will be reduced to 1.5 pence per kWh.

**Ofgem COMMENT**

**RECOMMENDATION To include tariff reduction for biomass in April 2017 and April 2018. The level of reduction will be 2.1 pence per kWh on each occasion. In addition a tier system will be introduced from 1 April 2016 for the 6.4 pence biomass tariff with the first 1314 hours paid at the standard tariff and hours thereafter reduced to 1.5 pence per kWh.**

**LEGISLATIVE CHANGES NEEDED**

Need to consider further before drafting.

Final policy agreed

Signed:

Date: