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**Subject:** RHI Background and LTT for Permanent Secretary 21 May 2015 (2)  
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John, updated briefing as discussed.

Thx, Stuart

Seamus, can you please TRIM.

**TOPIC: RENEWABLE HEAT INCENTIVE****Lines to Take:**

- I wanted to mention our Non-domestic RHI scheme (I believe this falls under Clive Maxwell's directorate).
- The RHI is funded through AME and the assumption has been that we would receive around 3% of DECC budget (in 2015/16 -£420m).
- However, our scheme has taken off massively recently and we're running at 5% of GB totals.
- I appreciate that this is ultimately a matter for HMT but would welcome dialogue with DECC to assess options (for example will DECC underspend in which case NI could use this funding; we've previously underspent, has DECC been able to carry money over?)
- Grateful for any help or shared knowledge on this.

**Background**

- The Executive's Strategic Energy Framework (SEF) includes targets to increase renewable electricity generation to 40% and renewable heat generation to 10% by 2020. It also includes interim 2015 targets of 20% and 4% respectively.
- 20% of our electricity needs are already met by renewables. This has been achieved through the Northern Ireland Renewables Obligation (NIRO) where generators of renewable electricity receive Renewable Obligation Certificate (ROC) payments for 20 years. These are funded by electricity consumers. During 2015, we also expect to achieve the 4% target for renewable heat. The increase in renewable heat can be attributed to the introduction of the NI Renewable Heat Incentive (RHI) in 2012.
- The RHI provides an ongoing financial incentive for non-domestic generators of renewable heat for 20 years. DECC operates a similar scheme in Great Britain. Phase 2 of the NI RHI extended the scheme to the domestic sector in December 2014 and will later expand the list of technologies / applications incentivised in the non-domestic sector.
- Like the NIRO, the RHI is a demand led scheme with owners of renewable heating systems eligible for payments for up to 20 years provided their installations meet pre-requisite standards. This makes it very difficult to manage demand for the scheme and in turn to manage RHI spending. However, unlike the NIRO, the RHI is funded by Government through a 'form' of AME funding from HMT. Making changes to the RHI scheme (including tariff reductions) requires subordinate legislation to be taken through the Assembly via the Affirmative Procedures which can take up to 6 months. This makes it difficult to react quickly to demand and reduce tariffs to manage spending.

**NI RHI Budgets**

- When the Non-domestic RHI was first introduced in 2012, HMT initially provided £25m of funding for the 4 year period (2011/12-2014/15). This was based on the Barnett's consequential (2.98%) of the DECC RHI funding for the same period. Due to a delay in getting the non-domestic RHI scheme introduced (Nov 2012) together with slow uptake initially, there has been around £15m of an under spend during this period. However an unprecedented increase in uptake of the scheme during the past 11 months has seen monthly application numbers increase from 208 (30 June 2014) to 651.
- This success will ensure we achieve our 4% renewable heat target before the end of 2015 and can largely be attributed to the poultry industry which is switching from LPG to biomass heating systems. In addition, biomass heating systems are also being installed

in all the new poultry sheds being constructed as part of Moypark's current expansion.

- However, this success comes at a price. The increase in applications has seen committed non-domestic RHI payments (for the next 20 years) rise from £430k to over £1.5m over the last 11 months. Forecast RHI expenditure in 2015/16 is now £23.2m. We await confirmation of the 2015/16 NI RHI AME allocation, but under the Barnett formula, we could expect to receive around £12.8m which is just over half what we need.
- Previous 2015/16 forecasts made in 2014 (based on a smaller sample of 200 applications) had assumed an average monthly increase in non-domestic payments of £60k which would have put total 2015/16 RHI expenditure within the proposed £12.8m budget. However non-domestic RHI payments are currently increasing by over £100k a month. Previous RHI budgets had been underspent so there was nothing to suggest there would be such a large increase in uptake over such a short time.

### **Introducing Tariff Reductions to Manage Demand**

- Changes to the Non-Domestic RHI Scheme including tariff reductions are planned to be introduced in October 2015 but these require legislative changes and are unlikely to be introduced sooner. Suspending the non-domestic scheme now until these changes can be made will leave the Department open to Judicial Review as investors will have already committed expenditure/finance on renewable heating systems on the basis of the current RHI tariffs. Introducing changes from 1 October will enable a 3 month notice period to be given for the proposed tariff changes. This means monthly RHI payments are likely to continue increasing by over £100k over the next 3 months. The revised AME forecast of £23.2m for 2015/16 factors this in.

### **Need for clarity over RHI Budgets**

- HMT have previously confirmed that future budget will definitely be made available to cover committed RHI payments (for the next 20 years) associated with any installations accredited onto the NI RHI during the current budget period.
- Although our current forecast of RHI expenditure (£23.2m) in 2015/16 is nearly twice the budget we're likely to receive, total expenditure during the 5 year (2011-2016) period will still be well within the allocated NI budget of £37.8m (£25m + £12.8m). Clarification is therefore needed if we can carry any of the unspent AME budget (£15m) from previous years through to 2015/16. We also still trying to seek confirmation from HMT on what the 2015/16 NI RHI budget allocation will be. If we're allowed to carry over the £15m of under spends and receive a budget of £12.8m, we will be able to meet our forecast RHI commitments of £23.2m in 2015/16.
- We will be submitting our revised RHI AME forecast as part of the current exercise to inform the Chancellor's July budget. We need to ensure HMT approve the NI RHI AME forecast and don't just allocate NI 2.98% of DECC's budget. Application numbers for the NI scheme are currently running at 5% of the GB scheme so the 2.98% allocation isn't appropriate going forward.
- If the future NI RHI budget is going to continue to be calculated as 2.98% of the DECC budget, we need to explore if there would be any opportunity/scope for DECC to increase its forecasts to either (i) ensure the NI consequential budget is in line with our forecast; or (ii) to enable surplus DECC RHI budget to be transferred to NI. DETI energy and finance officials have been trying to get clarity over the NI RHI budget from DECC/DFP/HMT for some time. Although HMT are ultimately responsible for future AME allocations, opportunities might exist for more funding to be secured for NI through DECC forecasts. The first opportunity to do this is through the current AME exercise to inform the Chancellor's July Budget.