Mr Patsy McGlone MLA
Chair of ETI Committee
Room 375
Northern Ireland Assembly
Parliament Buildings
Stormont
BELFAST
BT4 3XX

XX January 2016

Dear Patsy

CONSULTATION ON CLOSURE OF THE RENEWABLE HEAT INCENTIVE SCHEME (RHI)

I am writing to inform the Committee of a consultation on the closure of the RHI. A copy of the consultation document is attached.

You will recall that I brought cost control measures for the Non Domestic scheme forward in November 2013. At that time I said that further measures might be necessary. A sustained increase in applications during March/April 2015 was the catalyst for these changes. However, in the run up to these legislative changes, there was an unprecedented surge in new applications with a further 900 applications received in 6 weeks. This doubled the total number of installations under the non-domestic scheme.

The increase in demand equates to around 7% of total installed heat capacity under the GB non domestic scheme. It is estimated that over 6% of NI's total heating needs are now provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded. However, this success comes at a price. Total expenditure for RHI in 2015/16 is now forecast to exceed £30m. Even if no new applications are received in 2016/17 (i.e. both schemes are suspended/closed), forecast RHI expenditure in 2016/17 is expected to be around £42m.

The affordability of the NI RHI going forward obviously depends on the budget available. The RHI is paid out of Annual Managed Expenditure (AME), which normally wouldn't have an impact on the NI Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as standard AME, where the Exchequer takes on all risks. Instead, a budget of 3% of GB spending was applied to NI with 5% of any overspend to be funded by NI through DEL.

The effect of the Chancellor's Autumn Statement has been to reduce the NI RHI budget further. The NI allocation will continue to be based on 3% of a reduced DECC budget. This is despite the NI non domestic scheme delivering 7% of the installed capacity under the GB scheme. DFP officials have also advised that HMT's position will be that NI will have to cover the full costs (not 5%) of any overspend. This creates significant budgetary pressures with additional costs of up to £75m over the next 5 years even if no new applications are received after the end of this financial year.

Discussions between DFP and HMT are ongoing but I must proceed on the basis that the overspend which has now arisen will not be covered by HMT. I will seek the views my Executive colleagues and will write to the Committee again following consultation and Executive consideration.

JONATHAN BELL MLA

Minister of Enterprise, Trade and Investment