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|---|---|--|--|
| <b>Title:</b><br>The Renewable Heat Incentive Schemes (Amendment) Regulations 2016  | <b>Regulatory Impact Assessment (RIA)</b>     |  |  |
|   | <b>Date:</b> 5 February 2016                  |  |  |
|   | <b>Type of measure:</b> Secondary Legislation |  |  |
| <b>Lead department or agency:</b><br>Department of Enterprise, Trade and Investment | <b>Stage:</b> Final                           |  |  |
|   | <b>Source of intervention:</b>                |  |  |
| <b>Other departments or agencies:</b><br>N/A  | <b>Contact details:</b> Stuart Wightman       |  |  |
|   | Energy Division, DETI                         |  |  |
|   | Ext 29425                                     |  |  |

### Summary Intervention and Options

**What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)**

The RHI schemes have been very successful. Over 3,500 renewable heating installations have been incentivised to date and the Executive's 2015 target of 4% renewable heat has been met and exceeded (currently 6%). Over the last 18 months the number of non-domestic RHI applications in particular has grown from around 200 to over 1,800. This increase in committed RHI payments coupled with recent changes to the arrangement for budget allocations means that the NI's available (Annual Managed Expenditure) AME funding allocations from 2016/17 onwards will be exceeded. The budget issue must be addressed and the proposed legislation establishes a mechanism under which the RHI schemes can be suspended in the absence of available funding.

**What are the policy objectives and the intended effects? (7 lines maximum)**

The objective of the Regulations is to establish a mechanism for suspension of the RHI schemes. Both RHI schemes will be suspended immediately after the Regulations come into operation which will mean they will be closed to new applications. The suspension of the scheme rather than legislative closure leaves open the possibility of reintroduction relatively quickly if the budget position changes.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)**

The only viable option is closure or suspension of the RHI schemes. Keeping the RHI open is not possible as the available AME budget from 2016/17 onwards has already been exceeded with existing RHI commitments. Around £95m may have to be found from the NI Block (on top of the AME budget) to meet existing RHI commitments over the next 5 years. The Department considered the possibility of reallocating funds from elsewhere within its budget but in the current economic climate this was not possible.

Legislation is necessary to establish the mechanism for suspension. Given the exceptional circumstances in relation to the budget deficit and the absence of any immediately viable alternatives the legislation needs to be progressed urgently without the usual policy consultation. However, proceeding by way of suspension rather than legislative closure offers the greater flexibility to reopen the scheme/s should additional funding be allocated.

**Will the policy be reviewed? Yes, should additional funding become available.**

**If applicable, set review date:** N/A

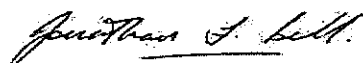
### Cost of Preferred (or more likely) Option

| Total outlay cost for business<br>£m | Total net cost to business per<br>year £m | Annual cost for implementation<br>by Regulator £m |
|--------------------------------------|---|---|
| N/A                                  | N/A                                       | N/A   |

|   |   |   |  |
|---|---|---|--|
| <b>Does Implementation go beyond minimum EU requirements?</b> |   | <b>NO</b> <input checked="" type="checkbox"/>                                       | <b>YES</b> <input type="checkbox"/>  |
| <b>Are any of these organisations in scope?</b>               | <b>Micro</b><br>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> | <b>Small</b><br>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> | <b>Medium</b><br>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
|   | <b>Large</b><br>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |   |  |

**The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.**

Approved by:



Date: 8 February 2016

## Summary: Analysis and Evidence

Description: Make Regulations to establish suspension mechanism and suspend both schemes immediately after Regulations come into operation

**ECONOMIC ASSESSMENT (Net benefit £91m NPV)**

| Costs (£m)           | Total Transitional (Policy)<br>(constant price) Years |  | Average Annual (recurring)<br>(excl. transitional) (constant price) | Total Cost<br>(Present Value) |
|----------------------|---|--|---|-------------------------------|
| Low                  | Optional  |  | Optional  | Optional                      |
| High                 | Optional  |  | Optional  | Optional                      |
| <b>Best Estimate</b> |   |  | <b>£19m</b>   | <b>£91m</b>                   |

**Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines**

Even by closing the schemes, around £95m may have to be found from the NI Block (on top of the AME budget) to meet existing RHI commitments over the next 5 years.

**Other key non-monetised costs by 'main affected groups' Maximum 5 lines**

Closing the scheme may pose a risk to the achievement of the Executive's target of 10% renewable heat. Closing the scheme will also impact on the renewable heating industry however, the much larger GB RHI schemes will remain open and continue to offer opportunities.

With over 1,000 non domestic applications received in the run up to tariff changes in November 2015, current demand is low with only 5 applications received in past 3 months.

| Benefits (£m)        | Total Transitional (Policy)<br>(constant price) Years |  | Average Annual (recurring)<br>(excl. transitional) (constant price) | Total Benefit<br>(Present Value) |
|----------------------|---|--|---|----------------------------------|
| Low                  | Optional  |  | Optional  | Optional                         |
| High                 | Optional  |  | Optional  | Optional                         |
| <b>Best Estimate</b> |   |  |   |                                  |

**Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines**

Costs savings of up to £90m over the next 5 years associated with new applications had both schemes remained open.

**Other key non-monetised benefits by 'main affected groups' Maximum 5 lines**

Suspension rather than legislative closure offers greater flexibility to revisit the policy should additional funding become available. Any such review would be subject to further analysis and consultation.

**Key Assumptions, Sensitivities, Risks Maximum 5 lines**

Assumptions on forecast applicants and existing RHI commitments (over 800 applications not yet accredited).

**BUSINESS ASSESSMENT (Option )**

| Direct Impact on business (Equivalent Annual) £m |               |          |  |
|--|---------------|----------|--|
| Costs: N/A                                       | Benefits: N/A | Net: N/A |  |

**Cross Border Issues (Option )****How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines**

As noted above, the much larger GB RHI remains open. Any future support/incentives to encourage businesses to switch to renewable heating technologies will be the subject to policy consultation and funding availability.

## Evidence Base

There is discretion for departments and organisations as to how to set out the evidence base. It is however desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing), with reference to the evidence base to support the option selection;
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business;
- Wider impacts (in the context of other Impact Assessments in Policy Toolkit Workbook 4, economic assessment and NIGEAE)

### **Inserting text for this section:**

**Text can be pasted from other documents as appropriate.**

## **Background**

In September 2010, the Executive adopted a target to secure a level of 10% renewable heat in Northern Ireland by 2020 and an interim target of 4% by 2015. The target is in line with obligations under the EU Renewable Energy Directive (RED) that each Member State had to secure certain levels of renewable energy by 2020. The Renewable Heat Incentive Schemes were introduced in pursuit of these targets.

The RHI schemes have been very successful. Over 3,500 renewable heating installations have been incentivised to date under the NI RHI schemes and we have met and exceeded the Executive's 2015 target of 4% renewable heat. It is currently estimated that around 6% of Northern Ireland's heating needs are provided through renewable heating technologies.

Over the last 18 months the number of non-domestic RHI applications in particular has grown from around 200 to over 1,800. Nearly 1,000 of these applications were received in the run up to the cost control measures introduced on 18 November 2015. This success has however placed significant pressures on the available budget.

Funding for the NI RHI is provided through Annual Managed Expenditure (AME) by Treasury, and is additional to the NI Block Grant, meaning that it has not been taking funding away from other NI public services. However, the increase in committed RHI payments associated with the recent influx in non domestic applications means that the NI AME allocations from 2016/17 onwards will be exceeded even if both schemes were closed to new applications now. This situation is exacerbated by the UK Government's November Spending Review which included a significant cut in future RHI funding.

To meet RHI commitments for existing installations, around £95m of funding may have to be found from within the NI Executive's budget for the next 5 years to address the current funding deficit. This will take much needed funding away from other important public services. To prevent further overspend, immediate legislation is needed to suspend/close both schemes to new applications.

## **Rationale for Intervention/Policy Objective**

The policy objective of these Regulations is to establish a mechanism to enable the costs of the schemes to be managed. Suspension of the scheme rather than permanent legislative closure allows more flexibility for reopening should additional funding become available.

### Description of options considered

The only viable option is closure or suspension of the RHI schemes. Keeping the RHI open is not possible as the available AME budget from 2016/17 onwards has already been exceeded with existing RHI commitments. Around £95m may have to be found from the NI Block (on top of the AME budget) to meet existing RHI commitments over the next 5 years. The Department considered the possibility of reallocating funds from elsewhere within its budget but in the current economic climate this was not possible.

Legislation is necessary to establish the mechanism for suspension. Given the exceptional circumstances in relation to the budget deficit and the absence of any immediately viable alternatives the Executive has agreed that the legislation should be progressed without the usual policy consultation.

### Rationale and evidence that justify level of analysis

The forecast costs of future expenditure for suspension versus keeping both schemes open are summarised below:

#### Scheme Suspension / Closure from March 2016

| Year                       | 1            | 2            | 3            | 4            | 5            | 5 Year        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                            | 16/17        | 17/18        | 18/19        | 19/20        | 20/21        | Total         |
| Domestic RHI Capital*      | 1,800,000    | 3,000,000    | 3,750,000    | 3,962,500    | -            | 12,512,500    |
| Domestic RHI Resource      | 2,530,284    | 3,130,284    | 5,386,284    | 7,198,784    | 8,161,284    | 26,406,920    |
| Non Domestic RHI Resource  | 47,971,314   | 52,806,764   | 56,286,639   | 58,656,834   | 59,433,804   | 275,155,357   |
| Total Resource             | 50,501,598   | 55,937,048   | 61,672,923   | 65,855,618   | 67,595,088   | 301,562,277   |
| Total (Resource & Capital) | 52,301,598   | 58,937,048   | 65,422,923   | 69,818,118   | 67,595,088   | 314,074,777   |
| NI AME Allocation          | 18,300,000   | 22,300,000   | 25,700,000   | 28,900,000   | 34,300,000   | 129,500,000   |
| DEL Pressure               | - 34,001,598 | - 36,637,048 | - 39,722,923 | - 40,918,118 | - 33,295,088 | - 184,574,777 |

#### Both Schemes remain open until 31 March 2020

| Year                       | 1            | 2            | 3            | 4            | 5            | 5 Year       |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                            | 16/17        | 17/18        | 18/19        | 19/20        | 20/21        | Total        |
| Domestic RHI Capital*      | -            | -            | -            | -            | -            | -            |
| Domestic RHI Resource      | 1,987,284    | 1,987,284    | 1,987,284    | 1,987,284    | 1,987,284    | 9,936,420    |
| Non Domestic RHI Resource  | 43,208,021   | 43,208,021   | 43,208,021   | 43,208,021   | 43,208,021   | 216,040,105  |
| Total Resource             | 45,195,305   | 45,195,305   | 45,195,305   | 45,195,305   | 45,195,305   | 225,976,525  |
| Total (Resource & Capital) | 45,195,305   | 45,195,305   | 45,195,305   | 45,195,305   | 45,195,305   | 225,976,525  |
| NI AME Allocation          | 18,300,000   | 22,300,000   | 25,700,000   | 28,900,000   | 34,300,000   | 129,500,000  |
| DEL Pressure               | - 26,895,305 | - 22,895,305 | - 19,495,305 | - 16,295,305 | - 10,895,305 | - 96,476,525 |

The estimated cost of £90m of keeping both schemes open (the difference in the totals of the two tables) is based assumed average annual payments of £16,910 and on the following assumptions on application numbers:

2016/17 – 30 / month  
 2017/18 – 20 / month  
 2018/19 – 15 / month  
 2019/20 – 10 / month

**Direct costs and benefits to businesses**

The Non Domestic RHI helps businesses with the cost of an alternative to traditional heating systems by incentivising renewable heating. Assessment of data relating to the Non Domestic RHI suggests that uptake of the scheme has been high in rural areas for agricultural related enterprises.

The other main group of businesses affected by the suspension of both schemes is installers of renewable heating technologies. Suspension is likely to have a financial impact on this group. However, the much larger GB RHI schemes will remain open and continue to offer opportunities.