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[Briefing Pack - RHI Motion Debate - 16.2.16.DOCX](#)

Andrew

See briefing, inc. Speaking note, questions and background for meeting later today at 17:00. The second doc is lines to take on RHI issues but don't think you will need. Stuart on leave but I am attending

Stuart

Thanks

Briefing - Meeting with Moy Park**Speaking Notes****General**

- The total number of renewable heating installations under the Non-domestic scheme increased from just over 250 to over 1800 during the last 14 months.
- A significant and unexpected surge in applications occurred in the six week run up to scheme changes in November 2015 which were intended to help manage demand. Over 900 applications were received in that short period.
- This, together with reductions in available funding means we now face significant budgetary pressures.
- To fund existing RHI commitments, as much as £100m may have to be fund from resources available to the Executive (on top of the allocations from Treasury) over the next 5 years.
- In addressing the Assembly in November (when making the tariff changes) the Minister confirmed that total applications for the Northern Ireland non-domestic scheme were exceeding our highest estimates and that the he might need to curtail the scheme should Treasury funding be restricted.
- So following the outcome of the Spending Review and confirmation that future RHI funding was to be capped at less than three percent of GB, the Minister had no choice but to close both Renewable Heat Incentive schemes
- The suspension of the scheme will not lead to a loss of government investment in the local economy as existing installations will continue to be supported for twenty years and this will bring around an additional £130 million investment into NI over the next five years to add to the £50 million already supplied under the schemes. However, in contrast to previous years, local funding will have to contribute to paying for the RHI over the next five years.
- We are open to suggestions on how we might engage with developers and installers and others to see where we can go in the future to promote renewable heat. This might involve consulting on the long term position, looking at developments in other jurisdictions or considering other options.

Poultry Industry

- I recognise the benefits that the RHI brings to the poultry industry with biomass heating in broiler houses providing a much healthier environment for the chickens. Looking to the future, we therefore recognise the industry can continue to play a leading role in promoting renewable heating.
- I would be concerned, however, if the industry was reliant on RHI payments to be competitive. The aim of the RHI is to incentivise businesses to switch from fossil

fuels to renewable technologies to help reduce our emissions. It provides a return on the investment and contributes to additional fuel and maintenance costs associated with biomass.

- Perhaps, you can outline how the RHI has helped the local poultry industry.

Possible Q & A

- Do Moy Park currently require its producers to have biomass heating systems? If so, without the RHI, will Moy Park no longer make this a requirement?
- Can Moy Park provide heating figures for a typical poultry house? CAFRE produced a paper for DETI saying that a typical poultry house requires 380,000 KWh per year – does these seem reasonable?
- Would Moy Park support a cap being introduced for all existing RHI recipients? Could Moy Park implement a heating cap?
- What does Moy Park think of allegations of abuse?

Background

It would appear that most of Moy Park's production is carried out directly by the Company on their sites which include a hatchery, abattoir and production and packaging plants. All these processes are carefully monitoring for QA purposes to ensure high quality standards are maintained.

The only part of their process which seems to be outsourced is the 'growing of the poultry' by individual poultry farmers. Each poultry producer receives batches of chicks from Moy Park which they grow for 4 or 5 weeks before the 'crop' is returned to Moy Park. It would appear that for quality assurance purposes, Moy Park may now be insisting on biomass heating systems because of the environmental and animal welfare benefits they bring compared to LPG.

Apparently, the heating requirements of a poultry house in NI can be considerably higher than other parts of the UK. The RHI helps address this. So without the NI RHI, Moy Park will argue that biomass heating systems are simply unaffordable for its producers and whilst the GB RHI scheme remains open, they will have a commercial disadvantage.

With 20% of the UK poultry industry based in NI and over 75% of Moy Park's production is based in NI, it is unlikely that the NI RHI could afford to subsidise all poultry producers with only 3% of GB funding.

Mike Mullan

HR Director Europe

Mike rejoined Moy Park in 2011, returning to the company having spent close to ten years in the business in the 1990's. He is responsible for leading the Human Resources, Corporate Responsibility, Risk and Sustainability functions to develop and harness the talent and contribution of the Moy Park team. Mike has extensive experience in food processing and prior to his return was HR Director with Dale Farm, a leading UK dairy foods business. Mike is chair of the NI CBI Employment & Skills Committee, he is also a member of the Food and Drink Sector Skills Council in NI, a board member of Improve the National UK Skills Council for Food and Drink and a member of the Skills Action Group for the food sector in NI.



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Why the need to close the RHI?

- The Renewable Heat Incentive, (RHI), introduced in November 2012 to the non-domestic sector and in December 2014 to the domestic sector has been taken up very successfully.
- With over 3,500 renewable heating installations incentivised to date, uptake has been higher than GB. We've exceeded the Executive's 2015 target of 4% with around 6% of Northern Ireland's heating needs now provided through renewable heating technologies.
- Over the last 18 months the number of non-domestic RHI applications has grown from around 200 to over 1,800. Over 900 of these applications were received in the run up to the scheme changes of 18 November 2015. However, this, together with reductions in available funding means we now face significant budgetary pressures.
- In the circumstances I have no choice but to propose immediate closure of the scheme.
- The urgent need to manage the financial risk means that the draft Regulations must be approved today. Subject to their approval, I will publish a notice to close both schemes to new applications from 29 February 2016.

Why not just close the Scheme?

- The scheme is set out in legislation and can only be changed through legislation.
- I must allow some time for households and businesses who are in the process of installing a renewable heating systems to complete.

Defer closure until 31 March 2016?

- With the RHI budget exhausted, both RHI schemes must close as soon as possible.
- I have listened to the concerns expressed in relation to both RHI schemes and I fully appreciate that closure presents considerable difficulties for those who have invested in new technology and are in the midst of preparing for application.
- Having taken those concerns on board, I am proposing that both schemes remain open for a further two weeks until 29 February.
- I realise that this will not be long enough for everyone but the longer the RHI scheme remains open, the greater the risk of increased costs.

The Industry was working towards closure on 31 March 2016

- Have heard people say that the legislation refers to 31 March 2016 as a closure date.
- This is not the case.
- The reference to the 31 March 2016 is simply the point at which the existing tariff changes to take account of inflation.
- The legislation provides for the scheme to be ongoing, that is why we need this legislation.
- Otherwise the scheme will stay open indefinitely.

Not Consulting on the Decision

- With the RHI budget exhausted, suspension of both RHI schemes is the only viable option. £30m of additional funding (over and above the allocations from Treasury) will have to be found in 2016/17 from the resources available to the Executive.
- This must be brought under control immediately.
- I am willing to consult on the long term future of the RHI.
- But we must plug the funding gap now.

Will compensation or a grace period be available for those in the process of installing?

- The longer the RHI scheme remains open, the greater this deficit will grow. Given the urgency of the situation, both RHI schemes must close as soon as possible, subject to Assembly approval of the legislation.
- I have however listened to concerns raised by individuals and businesses over the last few days and recognise the impact scheme closure will have.
- Having taken those concerns on board, I am proposing that both schemes remain open for a further two weeks until 29 February.

How many households and businesses will be affected?

- Unlike traditional grant schemes, RHI applications are made after the installation is in place and has been commissioned. This makes forecasting the number of future applications extremely difficult.
- With the Domestic scheme, we've been receiving on average 50 applications a month.
- In the non domestic scheme, we currently have 981 accredited installations and 846 live applications. Most these relate to the spike in November.
- Prior to the spike in applications, around 50 applications per month were being received. However, in the three months since November, we've received less than 30 applications.
- It is therefore very difficult to predict how many proposed installations will be affected by closure.

Not seeking ETI Committee Approval

- Given the urgency of the situation I am seeking this Assembly's approval of the necessary legislation to close both RHI schemes.
- Regrettably, the situation did not allow time to follow the established convention of seeking the ETI Committee's approval of the policy and draft legislation.
- I recognise the importance of the Committee's role but I must take the course of action which addresses the risk to the public finances and seek to progress the necessary legislation before you today.
- To anyone who intends to oppose this legislation I have to sound an important warning. Opposing this legislation means opposing the ability to suspend the scheme at all.
- This means continuing with an open ended commitment to fund renewable heat no matter what the cost.
- I cannot believe that, given the competing priorities for funding we face, it is tenable that we should give open ended funding commitments.

DETI Mismanagement of Scheme

- The Non Domestic RHI scheme was introduced by my predecessor in November 2012.
- Low levels of uptake initially, created a £15m under-spend in the first 3 years. Uptake improved in 2015 following promotional campaigns and the introduction of the Domestic scheme in December 2014.
- A sustained increase in applications in the spring was the catalyst for the demand control measures I brought forward for the Non Domestic scheme in November 2015.
- However, in the run up to these changes, there was an unprecedented surge in applications with over 900 applications received in 6 weeks. This doubled the number of installations on the non-domestic scheme.
- The increased costs associated with this surge in applications together with budget reductions arising from the November Spending Review means the available budget for new applications has been exceeded.

Why didn't you react sooner to close the schemes?

- Making any changes to the RHI schemes requires legislation.
- An increase in uptake of the non domestic scheme in Spring 2015 was the catalyst for the legislative changes I brought forward in November.
- It is the spike of over 900 applications in the run up to these changes and the reductions in funding following the Spending Review that has caused these budgetary pressures.
- But more significant was the confirmation received from Treasury just before Christmas that future NI RHI funding would be capped at 3% of GB funding. This is despite the NI non domestic scheme incentivising over 6% of the UK total.
- I have therefore brought this legislation forward within 8 weeks of receiving this confirmation from Treasury.

Have you tried to get more funding from Treasury?

- Clearly NI is contributing to a UK target and has the potential to make a much larger contribution than 3%.
- A case for increased funding has already been made to Treasury by DFP officials. However, following the November Spending Review, Treasury wrote to DFP in December confirming that future RHI allocations would be capped at 3% of GB funding.
- This is despite the NI non domestic scheme incentivising over 6% of the UK total.
- The DECC Minister has recently written to inform me of changes to the GB scheme and highlighting the importance of the RHI going forward.
- I will use this as opportunity to raise my concerns over the NI funding caps.

Why no tiered tariff or cap like GB?

- The GB and NI RHI schemes are two different schemes targeting two different heating markets. Over 70% of NI is reliant on oil whereas around 80% of GB is reliant on natural gas.
- Because of these differences, the GB scheme was introduced with much larger tariffs to attract a switch from gas which was cheaper than oil. Although, the GB tariffs have since been reduced through digression.
- The lower initial NI tariffs reflected the fact that oil was more expensive and shouldn't require as much of an incentive for households and businesses to switch.
- The GB scheme included a tiered tariff where the tariff reduces after 1,314 hours of operation. A tiered tariff was viewed as unattractive for potential investors and considered not appropriate for the NI scheme at the outset.
- To manage future costs, I brought forward changes to the NI non-domestic scheme in November which included a tiered tariff and a cap. The GB scheme doesn't currently include a cap on annual payments to recipients.
- Also, unlike GB, the NI Domestic Scheme includes an annual cap of £2,500.

Differences between GB and NI RHI Schemes

Differences in Budgets

- GB scheme has much larger budget and therefore easily manage spikes in demand for certain technologies whereas one spike in demand.
- For instance, the large spike in applications we experienced in November 2015 which doubled the number of installations and associated RHI payments on the NI scheme would have had very little impact on the GB scheme.

Differences in Tariffs

- The GB and NI RHI schemes are two different schemes targeting two different heating markets. Over 70% of NI is reliant on oil whereas around 80% of GB reliant on natural gas.
- Because of these differences, the GB schemes were introduced with much larger tariffs to attract a switch from gas which was cheaper than oil. Although, the GB tariffs have since been reduced through digression
- The GB non domestic scheme included a tiered tariff where the tariff reduces after 1,314 hours operation. A tiered tariff was viewed as unattractive for potential investors and considered not appropriate for the NI non domestic scheme at the outset.
- I brought forward changes to the NI non domestic scheme in November which included tiered tariff and a cap.

Tariff Degression in GB

- In 2013, a system of automatic tariff degression was introduced to the GB schemes where tariff for individual technologies and plant sizes can be reduced without legislation if certain budget triggers are reached.
- Degression still enables spikes in applications to occur between tariff changes. It is therefore not clear whether a much smaller NI RHI budget could absorb these increases in expenditure.
- In 2013, my predecessor consulted on Phase 2 proposals for the RHI which included widening the scheme to new technologies, introducing a domestic scheme, introducing sustainability requirements and annual cost control measures.
- With the Non Domestic RHI scheme underperforming and creating a significant under spend, the priority at that time was focussed on improving uptake and not cost control.
- With this in mind, resources were focussed on introducing a domestic scheme and promoting both schemes. The Domestic scheme was introduced in December 2014 and campaigns were run to promote uptake during 2014 and early 2015.
- Following an increase in uptake in the Spring of last year, work began to develop the cost control proposals which I brought forward to the Assembly in November 2015.

Domestic Scheme

- The NI domestic RHI scheme was introduced in December 2015 six months after the GB scheme.
- The GB scheme includes 7 years of payments. The NI Domestic scheme on the other hand includes an upfront payment followed by 7 reduced annual payments.
- The NI domestic scheme also includes an annual cap of £2,500. There is no cap on the GB scheme.

Are existing recipients safe?

- Existing RHI recipients and anyone who installs and submits a full application before the closure date will be eligible for RHI payments.
- Similarly, any preliminary applications made for installations greater than 200KW in size will also be accepted before the scheme closure date.

Are tariffs for existing recipients protected?

- The proposed closure of both RHI schemes will not impact on RHI payments to existing RHI recipients.

Is this the end of the NI RHI?

- Looking ahead, those who are already part of the RHI schemes will continue to receive support for up to 20 years.
- With over 3,500 renewable heating installations incentivised to date, we've exceeded the Executive's 2015 target of 4% with current estimates suggesting that around 6% of Northern Ireland's heating needs now provided through renewable heating technologies.
- Our challenge will be to meet the Strategic Energy Framework target for 10% renewable heat by 2020.

How will we achieve the 10% 2020 target?

- Looking ahead, those who are already part of the RHI schemes will continue to receive support for up to 20 years.
- Our challenge will be to meet the Strategic Energy Framework target for 10% renewable heat by 2020.
- I am open to suggestions as to how we look at this.

Are you aware of claims of scheme abuse?

- There has been anonymous correspondence, alleging abuse of the non domestic scheme. I can confirm this has been brought to the attention of the scheme administrator - Ofgem.
- I take these allegations very seriously even if the evidence is not clear at the moment. I have asked officials to work with OFGEM, which administers the non-domestic scheme across the UK, to undertake extra checks and look at existing processes to make sure the scheme is operating in compliance with the legislation.
- An audit of internal procedures is also underway to assess management of the scheme and how it was set up to see where things could have been improved.
- However, I think we need to be careful when talking about abuse on how the scheme is operating. There will be many hard working and committed households and businesses who have properly complied with the scheme and it would be quite wrong to suggest that abuse is common without any evidence to back this up.

Managing Fraud Risk

- The unprecedented increase in demand requires special scrutiny. DETI has initiated procurement of additional auditing and checks to supplement the programme of audits already completed by Ofgem – who administer the non domestic scheme.
- Measures will be taken to ensure that the operation of the schemes is in compliance with the scheme requirements and the underpinning legislation.

Allegations of Fraud

- There has been anonymous correspondence, alleging abuse of the non domestic scheme. I can confirm this has been brought to the attention of the scheme administrator - Ofgem.

Independent Investigation

- Measures will be taken to ensure that the operation of the schemes is in compliance with the scheme requirements and the underpinning legislation.

Success of both Schemes

- The RHI provides homes, businesses, hotels, leisure centres, churches and schools with the opportunity to receive ongoing financial assistance to cover the costs incurred when switching to renewable heating.
- The RHI has been very successful supporting over 3,500 renewable heating installations.
- The RHI is an innovative scheme that is designed to support the achievement of 10% renewable heat by 2020. This is a challenging target considering a baseline position of 1.7%.
- The PfG interim target of 4% renewable heat by 2015 has been met and exceeded. The current estimate suggests 6% has been achieved.
- By securing increased levels of renewable heating, Northern Ireland becomes more self-sufficient, more energy secure and reduces our carbon footprint.
- The RHI is a positive news story for the Northern Ireland energy market as consumers embrace new technologies, reduce their carbon emissions and help support the development of this new sector.

How has the RHI been funded to date?

- Both RHI schemes (non-domestic and domestic) are paid out of Annual Managed Expenditure, (AME) which normally would not have an impact on the NI DEL Block funding.
- Even though total renewable heating capacity through the NI RHI equates to around 6% of total capacity in the GB scheme, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%.
- This means that the Block DEL will have to meet any funding in excess of this.
- Total heating capacity of the NI RHI currently equates to around 7% of total capacity of the GB scheme.
- This means a significant shortfall in funding which has to be met from NI DEL.

Investment

- The RHI scheme has already resulted in bringing over £50m of investment into NI.
- We now face a significant pressure going forward because Treasury will no longer fund the entire RHI.
- Nonetheless, RHI will still bring something like £130 million into the NI economy over the next five years.
- We will have to contribute around £100 million over the next five years.
- But the £130 million is additional investment over and above our block grant.

RHI Statistics

Both Schemes

- Over 3,500 installations on both schemes. Current estimates suggest that over 6% of our heating needs are now met through renewable heating.

Non Domestic

- Over 1,800 installations in place and over 170MW of capacity in place – over 6% of GB scheme
- Over 90% of installations are for small or medium biomass below 200KW in size.

Domestic

- Over 2,000 installations in place.
- Biomass most popular technology but air and ground source heat pumps and solar thermal also very popular.

THREE KEY REASONS FOR BUDGETARY PRESSURES

(1) Spike in Demand

- Unprecedented spike in demand in run up to November tariff changes doubled number of applications and increased RHI expenditure by £19m (£26 - 45m) - this equates to 800% rise in applications.

(2) AME Cap

- Both RHI schemes are paid out of Annual Managed Expenditure which normally would not have an impact on the NI DEL Block funding. Even though total renewable heating capacity through the NI RHI non domestic scheme equates to around 6% of total capacity in the GB scheme, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%.

(3) SR Reductions in RHI Funding

- The Autumn SR increases GB RHI funding from £614m in 2016/17 to £1.152b in 2020/21. However, this represents a 38% reduction on previous DECC forecasts in Spring 2015.

Before SR (£ms)	2016/17	2017/18	2018/19	2019/20	2020/21
DECC Forecast (Spring 15)	629	867	1146	1469	1842
NI Barnett's Consequential	18.7	25.8	34.2	43.8	54.9
DECC Forecast (Spring 15)	614	748	862	970	1151
NI Barnett's Consequential	18.3	22	26	29	34
Annual Reduction in NI AME allocation	0.4	3.5	8.5	14.9	20.6
	2%	14%	25%	34%	38%

ECONOMIC IMPACT

- The RHI has a positive economic impact in NI.
- That is, its benefits (jobs and reductions in emissions) outweigh its costs to NI.
- This will remain the case even going forward when NI has to meet a significant part of the schemes costs from its own DEL resources.
- Our analysis suggests this is the case if we close the scheme or leave it open.
- But, if we leave it open, I can't guarantee that we are focussing on the highest spending priority as other budgets would be affected.

JOBS IMPACT

- Based on an average estimate of around four jobs per megawatt of installed heat capacity suggests around 800 jobs are generated by the RHI.
- With the suspension of the scheme we can expect no further expansion.
- We might also anticipate some contraction as new installation supports more jobs than maintenance.