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Mr Paul McGinn  
Departmental Solicitors Office  
Victoria Hall  
12 May Street  
Belfast  
BT1 4NL

27 May 2016

Dear Paul

**NON DOMESTIC RENEWABLE HEAT INCENTIVE SCHEME (RHI) – POTENTIAL ANNUAL CAP ON PAYMENTS**

I am writing to seek your further views on the potential for the introduction of an annual cap on RHI recipients who had installations accredited prior to the 18 November 2015 tariff and scheme changes. We touched on this previously and your advice from 25 June 2015 and 16 October 2015 refers.

You are aware of the budgetary pressures that unfortunately forced the suspension of the RHI schemes to new applications from 29 February 2016. Even though the RHI is closed to new applicants the ongoing budgetary pressure remains with a potential funding shortfall of some £140m over the next 5 years having to be met from the NI block grant.

The Department is therefore seeking to reduce this impact as much as possible. There is an added complication of some irregular expenditure between 1 April 2015 and 29 October 2015 because the necessary scheme approvals had lapsed. This means the Departmental accounts will have to be qualified annually by NIAO until such time as this expenditure (£20m per year) is regularised by the Department of Finance (DoF). One of DoF's primary concerns around approving this expenditure is that we are over incentivising these installations. It is hoped that the introduction of further cost controls might enable this expenditure to be regularised.

We are currently about to undertake an evaluation of the RHI and part of this will be exploring further policy options for cost controls, one of which may be a potential cap on annual payments for installations prior to 18 November 2015. The work being undertaken as part of the evaluation will inform our thinking around possible policy options. Subject to the views of the Minister, it is not our intention to reduce incentives to a level which would bring into question a sufficient return on investment. However we would welcome your views, in relation to a situation where there may be a need to reduce the current rate of return, if it is deemed that previous tariffs are over-incentivising participants.

One of the proposed cost controls that is being considered may take the form of an annual cap on the maximum number of eligible hours. Taking a similar approach to that of the November 2015 tariff changes, an annual cap of around 4,000 hours (or 11 hours a day) seems reasonable. In any event a consultation would be undertaken around the nature of any proposed cap and of course legislation would be required to introduce any scheme change. I would be grateful for your views on this approach.

My reason for writing to you at this juncture is to establish if you consider there to be any legal impediments which would prevent the Department proceeding down the proposed line of considering a cap on payments and introducing same following consultation and agreement of the Minister etc.

Thank you for your assistance in this matter.

Yours sincerely

A handwritten signature in black ink that reads "S. Wightman". The signature is written in a cursive style with a large initial 'S'.

Stuart Wightman  
**Energy Renewables Division**