

**NORTHERN IRELAND RENEWABLE HEAT INCENTIVE**

1. The Department for the Economy in Northern Ireland (DfE) would like advice from DG Competition on whether changes they are proposing to make to the Northern Ireland Renewable Heat Incentive scheme fall within the scope of the European Commission's no objection decision (SA.34140).

**Background**

2. State aid approval for the Northern Ireland Renewable Heat Incentive Scheme was granted by the Commission on 12 June 2012 (SA.34140).
3. The scheme supports the UK objective of contributing to the Renewable Energy Directive target of 20% overall EC energy consumption from renewable sources by 2020, of which the UK's share of the target is 15%.
4. The UK plans to achieve this through a combination of 12% renewable heat and 30% renewable electricity by 2020.
5. Locally in Northern Ireland the renewable heat target is 10% by 2020. The current assessment is that around 6% has been achieved to date.
6. The State aid approval in place covers a 20 year scheme supporting the following technologies and was originally intended to be open to new applications until 2020:
  - Biomass;
  - Ground Source Heat Pumps;
  - Biomethane; &
  - Solar Thermal
7. Plans to expand the range of technologies under the non domestic scheme, which were suggested in the notification, were not progressed as the scheme underperformed in the early years and expansion of technologies was not considered a priority.

**Scheme experience to date and the emerging issue with biomass tariff levels**

8. The scheme started in November 2012 and, as uptake was very slow in the early years, there was an under-spend of budget in those years, 2011/12 – 2014/15. There was a total allocation of budget of £25m during this period and an under spend of just under £15m. 564 applications were received during the same period.
9. However, applications started to increase significantly from mid 2015, particularly with the biomass technology, largely driven by uptake in the Poultry Sector which has a high prominence in Northern Ireland.
10. During 2015/16, a total of 1,568 applications were received with annual expenditure of £30.5m on all existing and new commitments.

11. This significant increase had knock on implications for the limited budget of the scheme and, on 29 February 2016, the scheme closed to new applications.
12. The department has been trying to understand what factors drove this significant increase in applications and there are some early indications that this may have been because the technology costs for biomass were much lower than originally predicted and it is possible that the rate of return enjoyed by successful biomass RHI applicants is therefore much higher than the 12% rate of return agreed with the Commission.
13. DfE is currently conducting a detailed review of the biomass position but it is likely that the 12% rate previously chosen and approved has been exceeded.
14. This review only concerns the biomass technology which represents the vast majority of installations. There is no change for the other technologies.

### **Proposed cost control options**

15. On 18 November 2015 a number of cost control measures were introduced for biomass installations which in summary were:-
  - A change in the medium biomass banding for 20-199kWh, (in line with the UK mainland scheme);
  - Introduction of an annual tiered tariff, (first 1314 operating hours at standard rate, reducing thereafter to 1.5 p per kWh); and
  - Introduction of an annual cap of 400,000kWh after which no payment would be made.
16. Whilst these changes impacted on new installations post 18 November 2015, they were not enough to reduce budgetary pressures.
17. In the run up to the changes DfE experienced a significant and unprecedented spike in applications which saw some 900 applications, (approx the same number as had applied throughout the entire three years of the scheme to date) in the six week period immediately prior to the changes.
18. This, coupled with a reduction in available RHI budget in the UK Chancellor's November statement, ultimately resulted in the scheme being suspended to new applications from midnight 29 February 2016.
19. However, despite the scheme being closed to new applications, budgetary pressures remain and DfE must now consider further cost control measures that could be applied to all accredited installations to bring scheme expenditure and the rate of return on the biomass installations back into line.
20. DfE are intending to consult on potential cost control options for those businesses that joined the scheme before 18 November 2015 and these options are likely to include the introduction of:-
  - I. a reduced tariff after a set level of usage (hours/kWh) each year; and/or

II. a cap on annual payments.

21. DfE is currently exploring the legal implications around making such changes and, whilst wanting to address any potential over compensation, DfE is very mindful the scheme was established on the basis of the 'grandfathering' principle under which scheme aimed to provide a reasonable and predictable rate of return for participants.
22. DfE is confident that such actions, subject to consultation and all the relevant approvals and legislative change, will bring the rate of return back towards the approved 12% rate. An 8 week consultation is planned to commence in September 2016.
23. At this stage DfE would welcome any views the Commission may have around the increased rate of return and the proposed measures to address this.
24. Specifically, the department would welcome the Commission's opinion on whether this change in the scheme needs to be notified.
25. In this regard, DfE would highlight that:
  - (a) the scheme has been closed to new entrants; and
  - (b) the proposed reduction in the tariffs and the cap on annual payments are intended to ensure the rate of return is reasonable and there is no overcompensation.
26. Alongside these actions DfE is also increasing monitoring of the scheme and will be introducing a programme of site audits to ensure compliance with the scheme and to minimise the potential for misuse and abuse of the scheme.

### **Next steps**

27. As indicated above we would welcome the Commission's views/comments on whether this change in the scheme needs to be notified.
28. Officials from DfE would also be happy to meet with the Commission (or discuss via video conference or telephone) to clarify any points or answer questions directly, if this would be helpful.
29. The contact point in DfE is Stephen Moore, DfE State aid unit, [stephen.moore@economy-ni.gov.uk](mailto:stephen.moore@economy-ni.gov.uk), telephone +44 (0) 29 9052 9415.