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To: [Brankin, Bernie](#)
Cc: [Hughes, Seamus](#); [Mills, John \(DETI\)](#); [Cooper, Trevor](#)
Subject: RHI Budgets / Expenditure
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Bernie,

I've tried to put together a narrative below for you to give to DFP on how/why we went over budget and why our proposed tariff review has been deferred. I have tried to cover the vfm angle in the last few paragraphs.

Happy to discuss.

Thanks, Stuart

Background

In its Programme for Government (PfG), the Executive has set a target of achieving 4% renewable heat by 2015. This is an interim milestone to achieving 10% renewable heat by 2020 in line with the Executive endorsed Strategic Energy Framework (SEF). In pursuit of these targets, the interim Renewable Heat Premium Payment (RHPP) and the Non-domestic RHI schemes were introduced in May and November 2012 respectively. The full Domestic RHI Scheme was introduced in December 2014 to replace the RHPP.

The Business case for the Non-domestic RHI and RHPP schemes was approved by DFP in April 2012 on the basis that:

- 1. Whilst the scheme is envisaged to be open to new installations until 2020, approval is given for the period 1 July 2012 to 31 March 2015, representing the period for which HMT funding has been secured. Any decision to continue the scheme beyond 2015 would require further/separate DFP approval;*
- 2. As outlined in Section 7.53 of the Business Case, arrangements are put in place for scheduled reviews to allow the progress of the scheme to be monitored, assessed and if necessary, changes implemented. It is noted that the first review is scheduled to start in 2014 and that the reviews will be carried out by DETI.*

In October 2013, DETI commenced a Phase 2 review of the domestic and non-domestic RHI schemes and completed a public consultation in October 2013 - http://www.detini.gov.uk/consultation_on_phase_2_of_the_ni_rhi.pdf. This included proposals to introduce a full Domestic RHI Scheme, extend the Non-domestic Scheme to new technologies and proposals for cost control. Due to the low levels of uptake of both schemes and the availability of staff resources, the priority in 2014 was to implement the Domestic RHI Scheme and increase public awareness of both scheme through marketing / public awareness. Following DFP approval the Domestic RHI Scheme was introduced in December 2014. Completion of the Phase 2 review for the Non-domestic Scheme and the Cost Control Proposals was deferred to 2015 until after the Domestic RHI Scheme was fully implemented and an effective marketing campaign had been completed. In addition, oil prices reduced considerably towards the end of 2014, so it was considered prudent to wait until these prices had stabilised before considering cost control measures including tariff changes (low oil prices mean there is less incentive for consumers to renewable heating). Otherwise, with the low uptake and low oil prices, it is likely that tariffs would have been increased.

Achieving RHI Targets

Our focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address the consequential

underspend. Despite the drop in oil prices over the winter months, we have successfully increased uptake of the Non-domestic RHI scheme over the last 12 months. Total Non-domestic RHI applications have increased from 200 to 700 during this period. The majority of these applications are for biomass heating systems from local poultry producers switching to biomass. For environmental reasons, there is a major shift in the poultry sector away from traditional LPG heating systems to biomass radiator systems. This accounts for the recent increase in uptake. With current levels of uptake with the non-domestic scheme (particularly for biomass), it is anticipated that the 2015 target of 4% will be achieved by October 2015. We are currently developing proposals to introduce a tiered/reduced tariff for the most popular biomass tariff for new applications to manage demand guard and against over-incentivisation.

This recent increase in uptake has seen committed monthly non-domestic payments rise from £430k to over £1.3m over the same period. Forecast expenditure in 2015/16 (at 323m) is now twice our previous AME 2015/16 forecast (made in November 2014) although total expenditure during the 2011/12 - 2015/16 period is still expected to be within the allocated NI budget of £37.8m (£25m + £12.8m). The existing non-domestic tariffs will be reviewed during 2015/16 as part of a wider review of both RHI schemes.

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