From: Brankin, Bernie
To: Cooper, Trevor
Subject: FW: Future RHI Budget - Northern Ireland
Date: 04 June 2015 17:09:12
Attachments: Response from Rt Hon Gregory Barker MP07 01 14.pdf
150119_RHI Jan 2015 OBR return.doc
Importance: High

Trevor

Stuart's answers to your earlier questions.

Bernie

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From: Wightman, Stuart
Sent: 04 June 2015 16:59
To: Brankin, Bernie
Cc: Mills, John (DETI)
Subject: FW: Future RHI Budget - Northern Ireland
Importance: High

Bernie

The second attachment sets out DECC's forecasts. According to the accompanying narrative/commentary, DECC's profiles factor in the need for future tariff reductions in general terms.

'Using our forecasting methodology as set out in regulations, this translates to a central estimate of spend which is right at the top of the RHI spending envelope. This means that we expect degressions to play an important but unpredictable role over the next 12 months. Resulting tariff reductions are expected to be up to 50% in high deploying technologies such as small biomass, biomethane and domestic biomass.'

Our AME profile assumes that there is a year-on-year decrease in average monthly application. Like DECC, we may need to introduce tariff reductions to achieve this.

In terms of the 2.98% I used for Barnett's, it appears in the email exchange below from DECC.

Happy to discuss.

Thanks

Stuart

From: Clydesdale, Alison [mailto:Alison.Clydesdale@detini.gsi.gov.uk]
Sent: 15 April 2011 12:36
To: 'Parker, Jon - HMT'
Cc: Hutchinson, Peter; Garcia, Nicolas - HMT; Parkinson, Mark - HMT; Mike.brennan@dfpni.gsi.gov.uk
Subject: RE: [RESTRICTED] RE: RHI NI

Jon
Many thanks - this is most helpful and will help us clarify our options in our economic appraisal.
We will of course still require Ministerial and DFP approval in due course for any scheme proposed here.
DFP would, I think , lead on feeding back to you on forecasting so I have passed on your email to our finance team here who will liaise with DFP in that regard.
Best Regards
Alison

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From: Parker, Jon - HMT [mailto:Jon.Parker@hmtreasury.gsi.gov.uk]
Sent: 15 April 2011 12:13
To: Clydesdale, Alison
Cc: Hutchinson, Peter; Garcia, Nicolas - HMT; Parkinson, Mark - HMT; Mike.brennan@dfpni.gsi.gov.uk
Subject: [RESTRICTED] RE: RHI NI

Alison,
Sorry for the delay in coming back to you. Taking your points in turn:

i) With DECC, we have agreed that they can make commitments to spending in future years (up to 20 years) for installations that are installed within the SR period (i.e. the initial payments have to affordable within the SR profile), and providing that the policy is set up so that payments should be basically flat over the 20 year period in real terms (i.e. no backloading to ease short-term affordability pressures). This same agreement would apply to any NI scheme.

ii) DECC's GB RHI profile is £56m/133m/251m/424m. NI's share of this is 2.98%, so £1.7m/4.0m/7.5m/12.6m. The NI scheme would need to follow this profile as much as possible – on which further below. We will need you to feed into us forecasts of NI RHI spending for the Office of Budget Responsibility's bi-annual forecasts – this can be fed through me or Mark Parkinson (in the Devolved Countries Unit within Treasury).

iii) This funding does have to be used for renewable heat, but if NIE decide you would like to use it for a grant scheme or some such then this would be permissible as long as the cost of NIE spending is constrained to the AME consequential.

The other key point it is necessary to let you know about is that the DECC RHI spending is not being treated as standard AME, where the Exchequer takes on all risks of overspend. Instead, there is a risk-sharing arrangement whereby should RHI spending in one year exceed the SR profile, then DECC would need to repay this in future years. They can do this through announcing changes to the SR that will bring cost savings relative to the SR profile in future years. However, a small proportion of any required future savings (still to be determined, but likely to be of the order of 5%) will have to be funded through contributions from DECC's DEL. Again, these rules would be applied in equivalent fashion to NI.
Happy to discuss any of these issues in more detail.
Jon
Jon Parker| Joint Head, Energy Branch **|** Energy, Environment and Agriculture

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From: Clydesdale, Alison [mailto:Alison.Clydesdale@detini.gsi.gov.uk]
Sent: 11 April 2011 13:00
To: Parker, Jon - HMT
Cc: Hutchinson, Peter
Subject: RHI NI

Jon

We spoke briefly the other day about the £25m allocation to NI for an RHI.

Can I ask you to clarify for me :-

(i) The position with the commitment to 20 year payments within NI.

(ii) The process for advising on the spending profile of the £25m AME that we have been allocated.

(iii) If the £25m can solely be used for an RHI - or we can use it to incentivise in a different way e.g grant ?

Happy to discuss.

Alison

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DFE-146519

Department of Energy & Climate Change

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Minister of State

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Your ref: DETI COR 595/2013

7 January 2014

Dear Arlene

Thank you for your letter dated 16 December in response to mine of 29 November that included detail of the government's proposed response to the consultation on extending the non-domestic RHI scheme, and details of the budget management mechanism for the domestic RHI scheme.

I am pleased you were able to support the Government's range of proposals, which have since been formally published on 4 December.

You raised a point about the Northern Ireland budget for the RHI in 2015/16, and in particular sought clarification of whether this comes from the £430m settlement agreed for the GB RHI scheme.

The standard arrangement is that the population-based Barnett Formula is applied to all departmental settlements in Spending Reviews in the normal manner, with full details of the formula set out in the Statement of Funding Policy. Funding for the Northern Ireland RHI scheme for 2015/16 would therefore be derived from the £430m 2015/16 settlement figure agreed for the GB scheme, but not paid directly from that.

I understand that your Department should have received RHI funding directly from HMT in the 2015/16 Spending Round.

I hope this is helpful.

Yours ever

Greg

Renewable Heat Incentive expenditure forecast note

SECTION 1 - Background to the forecast:

Overview: A Market Intelligence based approach is used for forecasting until 16/17, with upside risk controlled by an automatically responsive budget management policy. Beyond that point profiles reflect various scheme growth rates that may be achievable but depend on the outcome of Spending Review settlements.

Economic assumptions - RPI Inflation

Judgements required & Key issues:
RHI forecasts are limited by weak evidence and uncertainty across the board due to:

1. Lack of evidence on demand and supply stemming from nascent technologies and markets.
2. Heterogeneity in costs, performance, end-use, scale and consumers covered by RHI.
3. Heat demand: the non-domestic scheme is paid on the basis of metered heat; therefore annual variation in expenditure can result from changes in heat demand on existing stock.
4. Response of the market to changes in tariff levels brought about by automatic budget management.

Latest developments:
Since the previous forecast, a number of step changes have occurred in the RHI policy:

1. We have concluded the Biomethane Tariff Review (reduction) which will be made in regulations in February.

2. We have seen continued high deployment in Biomass in Domestic and Non-domestic schemes, leading to total tariff reductions of:

    a. Over 20% in Small Biomass

    b. 10% in Domestic Biomass

Recent Analysis: We have recently completed an updated Market Forecast, based upon the following sources:

- Updated pipeline and market intelligence information
- Evidence work on constraints and growth rates experienced across EU
- Statistical analysis of scheme data.

However these forecasts are still highly uncertain, especially when factoring in the interaction with budget management (tariff decreases) associated with high deployment. These have an impact on the cost of deployment, but also on the attractiveness of tariff levels; the response of consumers to these changes are uncertain. Tipping points at which actual deployment levels will change as a result of tariff changes are very difficult to predict with accuracy.

These forecasts are based on scheme performance up to the end of November 2014.

SECTION 2 – Forecast summary and description:

Table 1. Previous OBR return forecasts

(£m, nominal)		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Spending Forecast	Spending Limit	**251**	**424**	**430**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	High (central MI)	83	232	428	645	912	1273	1747	2362
	Central	**80**	**211**	**365**	**531**	**736**	**1010**	**1371**	**1843**
	Low (low MI)	77	187	302	417	559	747	994	1323
Expenditure incl. accruals		**56**							

Table 2. Updated forecasts *

(£ m, nominal)	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
High	218	469	670	882	1216	1650	2212
Central	**208**	**428**	**629**	**867**	**1146**	**1469**	**1842**
Low	198	387	509	857	1102	1363	1640

*2017/18 onwards are central growth scenarios

Table 3. Indicative number of accreditations *

	2014/15	2015/16	2016/17
Non Domestic	8-9,000	8-12,000	9-14,000
Domestic	30-35,000 (including legacy since 2009)	11-24,000	11-34,000

*Sensitive to spikes in monthly applications, and size of installations

NB The following narratives describe the approaches taken to reflect the uncertainty of RHI cost estimates. There is a further uncertainty that can be applied to all scenarios of around 20% caused by the unpredictability of heat demand caused by variables such as weather in any given year.

<u>2014/15 expenditure</u>

The previous return estimated an expenditure of £211m this year; we now expect to spend £208m. However, this is still subject to around +/- £10m uncertainty.

This estimate is based on current scheme data on installed capacity, heat use and seasonality factors. It also allows for MI forecasts of new installations over the remainder of the financial year, however these have diminishing impact on 14/15 expenditure as there is little time left to generate heat.

<u>2015/16 expenditure</u>

Estimates for next financial year are based on the same principle of applying Market Intelligence forecasts of deployment to our current stock. This MI includes a wide range of uncertainty, which is compounded by the interaction with degression policy and its potential impacts on both price and volume of deployment.

Current Market Intelligence suggests that applications to the scheme next year could be in the range of 8-15,000 (building from around 8,000 this year). However, given the scale of tariff degressions (as much as 50% over the year) that would occur at the top end of that range, as well as the unknown impact of the recent drop in oil prices, we do not consider it likely. Therefore we are using the lower half of the range of MI estimates at this time, leaving a range of 8-12,000 installations.

Using our forecasting methodology as set out in regulations, this translates to a central estimate of spend which is right at the top of the RHI spending envelope. This means that we expect degressions to play an important but unpredictable role over the next 12 months. Resulting tariff reductions are expected to be up to 50% in high deploying technologies such as small biomass, biomethane and domestic biomass.

Given the lag between degression announcements and coming into force, there is still a possibility of a high spend scenario of £469m in 2015/16. However we believe there is some further downside pressure on these estimates on top of the potential market response to lower tariffs:

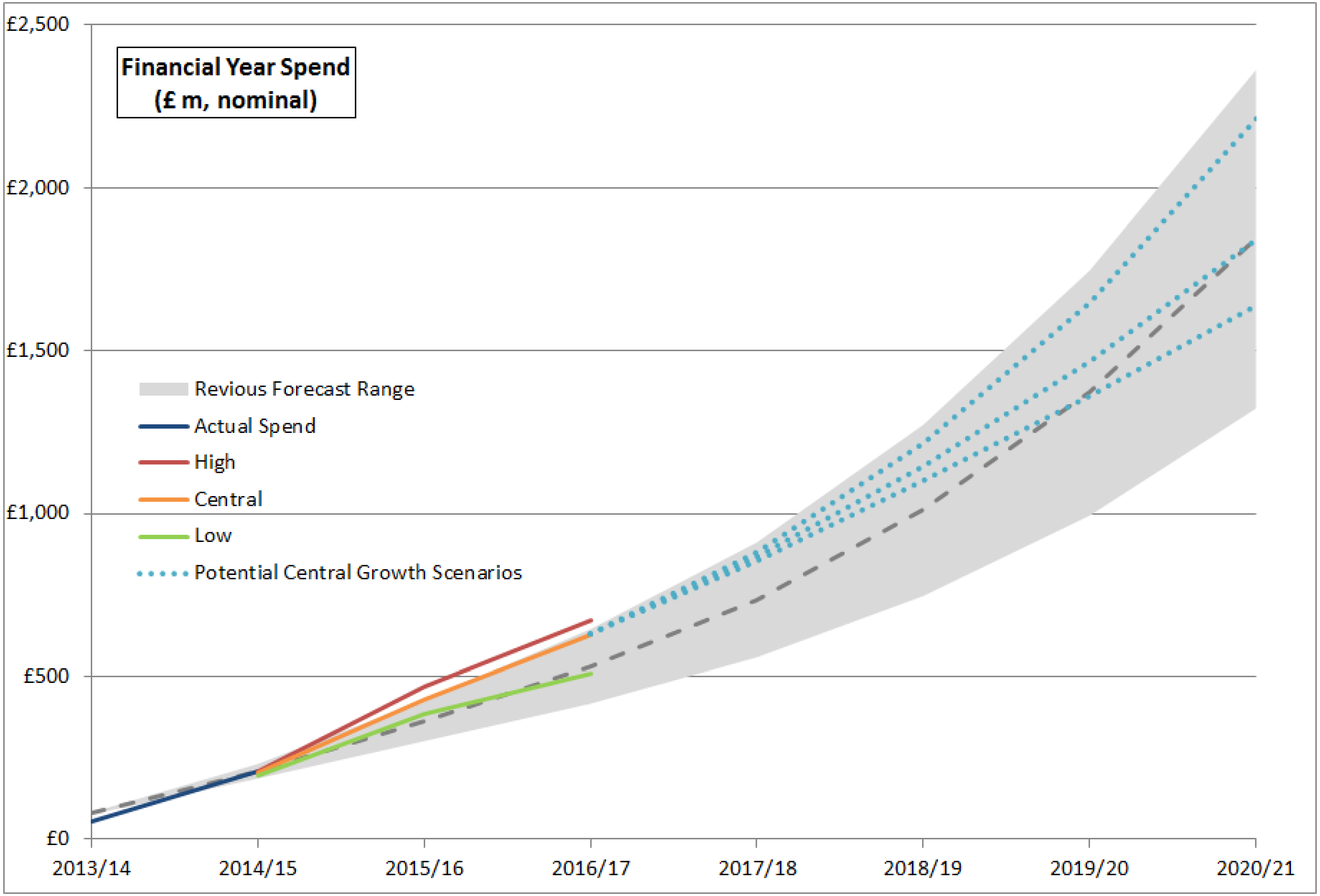
- The forecasting methodology set in regulations does not consider items including drop-out rates (either before or after receiving payment), or the lag between large plants being accredited and achieving full capacity, meaning actual spend may be less than forecast;
- The unknown impact of the drop in oil prices, as for many projects and consumers the attractiveness of the offer provided by the RHI will be reduced as the counterfactual heating technology becomes cheaper.

2016/17 onwards expenditure

Expenditure beyond the end of 16/17 will depend not just on scheme performance but also on the budget available after the coming Spending Review and any associated controls or policy changes made on the back of that settlement. Here we present scenarios for growth, as in previous returns that are based on the central (MI driven) expectation of spend in 16/17 followed by an assumed scheme-level growth rate out to 2020.

These growth rates are lower than the previously assumed 30% annual growth. This is largely because we expect to start from a higher base in 16/17, near the high end of spend profiles previously agreed, and so ambition of the scheme is likely to be constrained by budget rather than technical potential. As such, we present a subset of potential central growth scenarios compared to the previous range of expenditure uncertainty for 2020 agreed with OBR and HMT in the chart below.

Chart 1. Near term forecasts and potential central growth scenarios



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