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Subject: Meeting with DFP - RHI Budgets / Approvals
Date: 11 June 2015 16:51:22
Attachments: [RENEWABLE HEAT INCENTIVE – BUSINESS CASE ADDENDUM.DOCX](#)

Trevor / Iain

Please find attached discussion / briefing paper for tomorrow morning's meeting with DFP.

Happy to discuss.

Thanks

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RENEWABLE HEAT INCENTIVE – BUSINESS CASE ADDENDUM

BACKGROUND

In its Programme for Government (PfG), the Executive has 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.*

NEED TO SECURE FURTHER DFP APPROVAL FOR NON-DOMESTIC SCHEME

DFP approval is required to extend the Non-domestic RHI scheme by one year to cover 2015/16.

In 2014 there were a number of key staff changes in DETI Energy Division. Firstly a new Director at the start of the year and secondly, the renewable heat team (Grade 7 and DP) were replaced at the end of June. Unfortunately there was a gap of around 6 weeks between previous renewable heat staff leaving and new staff taking up post. On joining DETI, the priority for the new Heat Team was to take forward development and implementation of the Domestic RHI Scheme which was the Minister's priority. The 'hand-over' material focussed on development of the Domestic RHI Scheme with no mention of the need for DFP approval to continue the Non-domestic Scheme beyond March 2015. And with the scheme up and running for only 2 years there was no reason to suggest that further approval was needed. The need for DFP approval was recently flagged by DETI Finance officials. Had the need for DFP approval been known sooner it would have been taken forward at the time by the Heat Team as a matter of urgency.

The original DFP approval for the Non-domestic RHI Scheme was for the period 1 July 2012 to 31 March 2015 which represented the period for which £25m of AME funding had been secured from HMT. A letter from the DECC Minister to the DETI Minister in January 2014

confirmed that DECC had been allocated £430m for the RHI in 2015/16 and that NI could expect to receive the Barnett's consequential of this which would be around £12.8m.

With the extension of the SR period from 2011-2015 by one year to 2016 and the confirmation of the NI RHI allocation for 2015/16, would it be possible to secure a one year extension to the original DFP approval for the RHI.

CONTINUED VALUE FOR MONEY

The Non-domestic RHI scheme still provides value for money in terms of the level of Government intervention (funding) needed to achieve the Executive's targets of 4% renewable heat by 2015 and 10% renewable heat by 2015. With current levels of uptake, it is expected that the Executive's PfG target of 4% renewable heat 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 received from 1 October.

Even though DECC have been reducing their RHI tariffs for the last few years, most of the GB tariffs remain higher than the NI RHI scheme as shown on the Table below. However, the NI scheme is still outperforming the GB in terms of levels of uptake and heat generation. NI application numbers are currently running at 5% of GB numbers. The total estimated annual renewable heat generated through installations on the GB scheme (April 2015) is 3,225 GWh. The total estimated heat generation through the NI scheme is around 300 GWh. This is over 9% of the GB figure – 3 times the Barnett's percentage.

Technology	NI Scheme		GB Scheme (from 1/4/15)	
Biomethane all scales, biogas combustion	All Scales	3.3	On the first 40,000 MWh of eligible biomethane Tier1	7.62
			Next 40,000 MWh of eligible biomethane Tier 2	4.67
			Remaining MWh of eligible biomethane Tier 3	3.45
Biogas Combustion	Less than 200kWth	3.3	Less than 200kWth	7.62
	N/A	N/A	200kWth and above & less than 600kWth	5.99
	N/A	N/A	600kWth and above	2.24
Biomass	Less than 20kWth	6.7	Less than 200kWth	Tier 1: 5.87
	20kWth up to 100kWth	6.4		Tier 2: 1.56
	100kWth and above, less than 1000kWth	1.5	200kWth and above, less	Tier 1: 5.18

			than 1000kWth	Tier 2: 2.24
	1000kWth and above	N/A	1000kWth and above	2.03
Solid Biomass CHP	N/A	N/A	All Scales	4.17
Ground Source / Water Source Heat Pumps	Less than 20kWth	9.0	All Capacities	Tier 1: 8.84
	20kWth and above, less than 100kWth	4.6		Tier 2: 2.64
	100kWth and above	1.3		
Solar Thermal	Below 200kWth	9.1	Below 200kWth	10.16
Deep Geothermal	20kWth and above, less than 100kWth	4.6	All Capacities	5.01
	100kWth and above	1.3		

REVIEW OF THE RHI (RHI PHASE 2)

In line with the Business Case approval, officials commenced a Phase 2 review of the domestic and non-domestic RHI schemes in 2013 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 a review of tariffs. Due to the low levels of uptake of both schemes at the time and the availability of staff resources, the priority in 2014 was to implement the Domestic RHI Scheme and increase public awareness of both schemes through marketing / public awareness. Completion of the Phase 2 review for the Non-domestic Scheme 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 had reduced considerably towards the end of 2014, so it was considered prudent to wait until these prices had stabilised before considering 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.

In light of the current budget pressures, the rest of the RHI Phase 2 proposals have been deferred until later this year and will be considered as part of a wider Business Case Review of the RHI including the administration arrangements with Ofgem.

COST CONTROL (TARIFF REVIEWS)

A review of the existing Non-domestic tariffs is ongoing with proposals to introduce a number of tariff changes later in the year. This includes introducing a tiered tariff for the most popular non-domestic biomass tariff from 1 October 2015. New applicants will only receive the current 6.4p tariff for their first 1,314 hours after which a reduced 1.5p tariff applies. Officials are also exploring other possible legislative cost control options measures including future annual tariff reductions.

RHI BUDGET ALLOCATION

DFP approval is required for an increased RHI AME profile submitted as part of the recent AME exercise to inform the Chancellor's July Budget.

Both RHI schemes are demand led. It is therefore difficult to predict future uptake / spend. For this reason HMT agreed to fund the RHI through AME. £25m of AME was initially allocated to the NI RHI for the 4 year 2011-15 period. In the absence of any robust evidence on likely uptake/spend, this initial allocation was based on 2.98% of the DECC allocation. However the scheme underperformed in terms of achieving our renewable heat target with an under spend of around £14m over the first 4 years. Our focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address these under spends. This included introducing the full Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign.

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 and we're now on course to meet the PfG 2015 target of 4% renewable heat by October. However this 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 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).

We have submitted our revised RHI AME forecast as part of the current exercise to inform the Chancellor's July budget. We need to ensure HMT approve the NI RHI AME forecast and don't simply allocate NI 2.98% of DECC's budget. Application numbers for the NI scheme are currently running at 5% of the GB scheme so the 2.98% allocation isn't appropriate going forward.

FUTURE RHI AME FORECASTING

The previous AME 2015/16 forecast (made in Nov 2014) which was based on a smaller sample of 300 applications had assumed an average monthly increase in payments of £60k. This had been the average increase in the 6 months previous as highlighted in the table above. A £60k increase would have left committed RHI expenditure within profile. There was nothing to suggest that the increase in non-domestic application numbers during the last quarter of 2014 would be sustained through to 2015, so no action was taken. However, following a further increase in application numbers during the first quarter of 2015 which seen the average monthly increase rise to £105k, we have been reviewing how we forecast future non-domestic RHI payments. This review is what has led to our revised forecast for 2015/16 and the late accrual and overspend in 2014/15.

Rather than simply including fixed increases of £60k/month, forecast increases in future RHI payments are now based on historic payment data (i.e. average hours x tariff x installation capacity) and recent application numbers (i.e. 50/month). Previously, there wasn't enough payment history to use for forecasting. The majority of the applications are from the poultry industry for 99kw biomass boilers so we're now also seeing much more consistent operating hours and monthly payments. We will continue to refine our forecasting system as information improves. However, there will always be an element of unpredictability about future RHI payments. Estimated quarterly payments must be accrued for all accredited systems until such time as the individual businesses submit their meter readings online to Ofgem. This can take many months. There can also be quite a variation on payment depending on the type of business and of course the weather. Uptake will also vary from month to month. This is why DECC produce 3 different forecasts (low/medium/high).

The Domestic RHI scheme on the other hand is much easier to predict with fixed upfront payments and annual payments determined by the EPC for the property. However, the Domestic RHI Scheme currently only accounts for 13% of total RHI expenditure.

GB RHI Amendments¹

Date	Key changes
Autumn 2013	<ul style="list-style-type: none"> • Introduction of tariff digression • Simplified metering arrangements • Air quality standards introduced for biomass
Spring 2014	<ul style="list-style-type: none"> • Support introduced for air to water heat pumps • Biogas limits extended beyond 200kW • Energy from waste extended to include industrial and commercial waste • Ability to repay grants/other public support extended to all applicants • GB Domestic RHI introduced • Changes to tariff calculation method linked to expenditure
Early 2015	<ul style="list-style-type: none"> • Revised tariff for biomethane injection to grid • Biomass sustainability requirements introduced,(introduced in legislation February) mandatory from October 2015

¹ Key changes only, other minor changes not listed