

From: [Cooper, Trevor](#)
To: [Murphy, Shane](#)
Subject: FW: Draft Submission - RHI Budgets
Date: 16 June 2015 11:09:40
Attachments: [Submission to Minister on deferral of RHI phase 2, cost control consultation, and engagement with Amber Rudd MP, 15 June 2015.DOCX](#)
[Draft letter to Amber Rudd MP re NI RHI funding.DOCX](#)

Shane

Will give you a shout on this..

Trevor

From: Wightman, Stuart
Sent: 15 June 2015 18:15
To: Brankin, Bernie
Cc: Cooper, Trevor; Hughes, Seamus; Dolaghan, Paul; Mills, John (DETI)
Subject: Draft Submission - RHI Budgets
Bernie, as discussed, I attach a draft Submission and letter to the DECC Minister comment.
This can be discussed at the meeting with Andrew later this week.

Thanks, Stuart

Stuart Wightman

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Submission

From: Stuart Wightman
Energy Division

Tel No: Ext 29425

Date: Xx June 2015

cc: Copy distribution list below

To: 1. Timothy Cairns
2. Jonathan Bell MLA

RENEWABLE HEAT INCENTIVE (RHI) - PHASE 2 DEFERRAL, CONSULTATION ON COST CONTROL PROPOSALS AND ENGAGEMENT WITH AMBER RUDD MP ON NORTHERN IRELAND RHI BUDGETS

Issue: *Proposed deferral of Renewable Heat Incentive (RHI) phase 2, proposed consultation on RHI cost control measures and confirmation of RHI budgets.*

Timing: *Urgent*

Executive Committee Referral: *N/A*

PFG Implications: *The PSA targets for renewable heat are 4% by end of 2015 and 10% by 2020.*

Presentational Issues: *Likely to be significant interest from key stakeholders and the media on proposed cost control measures. A Press Release will be prepared and issued in due course.*

FOI Implications: *Likely to be exempt under s.35 – formulation of government policy.*

Financial Implications: *HMT has provided £25m AME funding up to 2015 for the Northern Ireland RHI, with further AME profiled to 2020.*

Legislation Implications: *Subordinate legislation is required prior to the announcement of RHI changes.*

Statutory Equality Obligations: *Equality screening for RHI completed and no equality implications identified.*

Recommendation: *That you:*

- a) Agree the deferral of RHI phase 2*
- b) Approve the consultation paper on cost control (Annex A).*
- c) Approve and issue the letter to ETI Committee, (see Annex B)*
- d) Approve and Issue the letter to Amber Rudd MP (see Annex C)*

BACKGROUND

1. The Renewable Heat Incentive,(RHI), was launched in November 2012 operated by Gas and Electricity Markets Authority,(Ofgem), initially to provide an ongoing financial incentive for non-domestic generators of renewable heat for the lifetime of the technology,(maximum 20 years). A similar scheme applies in Great Britain albeit with different tariff levels. Phase 2 of the scheme extended the scheme to the domestic sector in December 2014 and will later expand the list of technologies / applications incentivised in the non-domestic sector.
2. Prior to the introduction of the full Domestic RHI, DETI operated the Renewable Heat Premium Payment Scheme (RHPP) for the domestic market which provided upfront incentive payments for accredited renewable heating systems. Households with accredited RHPP installations will be able to apply to receive annual tariff payments under the Domestic RHI Scheme.
3. The PSA target is to achieve 10% of heat from renewable sources by 2020 with an interim target of 4% by 2015. Current DETI estimates suggest that around 3.5% renewable heat is now in place.

SCHEME PERFORMANCE

4. 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 Annual Managed Expenditure (AME). £25m of AME was initially allocated to the NI RHI for the 4 year 2011-15 period. This initial allocation was based on the Barnett's principle with NI receiving 2.98% of DECC's allocation for the GB RHI scheme(s). However the NI RHI scheme(s) underperformed generating an under spend of around £14m over the first 4 years.
5. 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 to promote both schemes. Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), 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 before the end of the year.

RHI BUDGETARY PRESSURES

6. This recent success however has put pressure on our RHI budget with committed monthly RHI payments (for the next 20 years) rising from £430k to over £1.3m over the past 11 months. This has been largely driven by the move in the poultry sector away from LPG heating systems to biomass heating systems in broiler houses. Forecast expenditure in 2015/16 is now twice our previous AME 2015/16 forecast (made in November 2014) although total forecast 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 recently submitted a revised RHI AME forecast as part of the current exercise to inform the Chancellor's July budget, but we await confirmation of budgets.

7. We need to ensure that DECC/HMT approve our revised NI RHI AME forecast and don't continue to restrict NI funding by the Barnett's formula (i.e. 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. With over 70% of NI reliant on oil (as opposed to 15% in GB), there is much more potential for households and businesses to switch to renewable heating systems here than GB where gas is the predominant fuel. 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 and justifies the need for future NI RHI funding to be determined by need and not restricted by Barnett's. The first step in getting HMT to agree increased budgets is to get DECC's agreement. A draft letter with the current DECC Minister Amber Rudd MP to is therefore provided at **Annex C**.

COST CONTROL PROPOSALS

8. Given the financial implications of the non-domestic RHI's success it is proposed to consult on cost control proposals to manage the available budget both now and in the future. These proposals include introducing a tiered tariff from 1 October 2015 for all new applications for the most popular biomass technology. The proposal will see the first 1314 peak hours paid at the tier 1 rate and then reduce to tier 2 for the remaining hours. There are also proposals for a further reduction in biomass tariffs from 1 April 2016 and 1 April 2017 respectively. A draft consultation paper is attached at **Annex A** for your approval.

LEGISLATIVE IMPLICATIONS

9. In addition to the cost control measures, a new tariff for Combined Heat and Power (CHP) will also be introduced. This needs to be in place to coincide with changes to Renewable Obligations Certificates (ROCs) from October 2015 which will see the heat element of CHP ROC payments removed and replaced by the new RHI tariff.
10. The cost control and CHP proposals require subordinate legislation which is subject to approval by the Assembly. Officials are currently drafting the required legislation which will be sent to the Departmental Solicitor's Office for consideration/clearance. The consultation on the cost control proposals will take place over 8 weeks during the summer. Following consideration of responses, the final policy will be agreed and the amendment regulations will be progressed through the ETI Committee and Assembly. It is proposed to have the regulations laid and the Assembly debate scheduled during September to enable the changes to be in place for new applications from 1 October 2015. A draft letter to the ETI Committee is attached at **Annex B** for your approval.

PHASE 2 POLICY PROPOSALS

11. DETI consulted on phase 2 of the RHI in 2013. This covered the extension of the scheme to the domestic sector and also the introduction of new technologies and tariffs to the non-domestic scheme. The domestic scheme came into operation in December 2014. The non-domestic RHI phase 2 proposals provide for the introduction of a number of new technologies/tariffs to broaden the appeal and increase the uptake of RHI. However, given the success of the RHI and the current

uncertainty with funding, the remainder of the phase 2 proposals will now be deferred until 2016 pending clarity on RHI budgets going forward and an assessment of the effectiveness of the cost control measures being put in place.

RECOMMENDATION

12. I recommend that you:

Agree the deferral of RHI phase 2

Approve the consultation paper on cost control, (see Annex A)

Approve and issue the letter to ETI Committee, (see Annex B)

Approve and issue letter to Amber Rudd MP (see Annex C)

Distribution List:

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Xx June 2015

BUDGET ALLOCATION – NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)

Thank you for meeting me on XXX to discuss the issues around implementing Electricity Market Reform (EMR) and Contracts for Difference in Northern Ireland (NI).^[SW1]

I wanted to secure some clarity around funding for another one of our renewable areas, the Renewable Heat Incentive (RHI). The NI Executive's target is to achieve 10% of heat from renewable sources by 2020 with an interim target of 4% by 2015. The Renewable Heat Incentive (RHI) was launched in November 2012 in pursuit of these targets. A similar scheme applies in Great Britain albeit with different tariff levels. Current estimates suggest that around 3.5% renewable heat is now in place.

As you are aware, the RHI is demand led with installers of eligible renewable heating technologies accredited onto either the domestic or non-domestic scheme. It is therefore difficult to forecast future uptake or spend. For this reason the RHI is funded through Annual Managed Expenditure (AME) with £25m of funding initially allocated to the NI RHI for the 4 year 2011-15 period. This initial allocation was based on the Barnett's principle with NI receiving 2.98% of DECC's allocation for the GB RHI scheme(s). However the NI RHI has underperformed during this period generating an under spend of around £14m over the first 4 years. In January 2014, Gregory Barker MP in correspondence with my predecessor, Arlene Foster MLA confirmed that RHI funding for Northern Ireland in 2015/16 would be paid on the basis of the Barnett formula and would be applied to the DECC RHI figure of £430m but not paid from that amount. Applying the Barnett calculation would give Northern Ireland a figure in the region of £12.8m for 2015/16.

My Department's focus over the past 12 months has been on improving the performance of the RHI to achieve our renewable heat target and address these under spends. This included introducing the full Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes. Despite the drop in oil prices over the winter months, uptake of the Non-domestic RHI scheme has increased significantly over the last 12 months with total applications increasing from 200 to 700 during this period. Current levels of uptake would suggest that the 4% renewable heat target will be achieved before the end of the year.

This recent success however has put pressure on our RHI budget with committed monthly RHI payments (for the next 20 years) rising from £430k to over £1.3m over the past 11 months. I will shortly be consulting on proposals to reduce RHI tariffs in October 2015 to manage scheme funding but even allowing for this reduction, forecast expenditure in 2015/16 is £23m, almost twice the proposed NI allocation under Barnett's. Currently the Northern

Ireland RHI is performing at some 5% of the GB total in terms of application numbers. This highlights the need to move away from the Barnett formula and determine NI's future RHI budget based on up to date expenditure forecasts. The table below sets the most recent NI RHI AME forecast submitted in June to inform the Chancellor's July budget. .

[INSERT AME FORECAST]_[SW2]

With over 70% of Northern Ireland consumers reliant on oil, (as opposed to 15% in GB), there is much more potential for households and businesses here to switch to renewable heating systems than in GB where gas is the predominant fuel. The total estimated heat generated through installations on the GB scheme, (April 2015), is 3,225 GW. The total estimated heat generation through the NI RHI scheme is 300GWh. This is over 9% of the GB figure and highlights the contribution that the NI RHI can make towards the GB 2020 renewable heat target of 12%. It also justifies the need for future NI RHI funding to be determined by need and not restricted by the Barnett's consequential of DECC's budget.

I am therefore writing to seek your assurance that:

- (i) the additional AME funding (resource and capital) required for the NI RHI in 2015/16 and future years (as set out in the table above) will be made available and will not be restricted by the Barnett's formula (i.e. 2.98% of DECC's budget); and
- (ii) this funding (AME capital/ resource) will have no consequences on the NI Block Grant.

Jonathan Bell MLA
Minister for Enterprise Trade and Investment