DFE-152896

From: Wightman, Stuart
To: Cooper, Trevor
Cc: McCormick, Andrew (DETI); Stewart, Chris (DETI); Mills, John (DETI); Brankin, Bernie; Rooney, Eugene
Subject: RE: RHI
Date: 09 December 2015 14:44:34
Attachments: rhi lines to take (091215).docx

Trevor

I've added additional LTT on the spike in demand which DFP might want to use for their letter to HMT. The key message is that we effectively experience the 'perfect storm' in terms of:

(1) **Scheme Promotion** – DETI had been actively promoting the scheme following 2-3 years of very poor uptake

(2) **Supply** – there was numerous GB suppliers / installers tripping over themselves to get work in NI with RHI tariffs being degressed and demand dropping in GB.

(3) **Demand** – with the agricultural industry (poultry in particular), there was an immediate demand in one large sector.

Happy to discuss.

Thanks

Stuart

From: Cooper, Trevor
Sent: 09 December 2015 09:43
To: Rooney, Eugene
Cc: McCormick, Andrew (DETI); Stewart, Chris (DETI); Mills, John (DETI); Wightman, Stuart; Brankin, Bernie
Subject: RHI

Eugene

Settlement letter apparently not yet finalised.

HMT officials not sighted on previous treasury communication on rhi – 5% penalty until come back into line.

DFP presented the argument that accepting VFM as necessary, contribution to national targets warranting proportionate budget and that illogical to have scheme triggers based solely on a percentage of a national budget where structure of market is different.

Treasury interested in spike – i confirmed this am that this was an issue we were picking up in the work that we were asking IAS to bring forward.

Michelle to write to HMT to further set out background/position (i offered to input).

HMT stated that they would speak to DECC before reverting/confirming final position.

Separately Michelle indicated that intention is to write to us by the end of the week on the retrospective approval (will speak to you later on this).

Trevor

(1) NI NON DOMESTIC RHI SCHEME IS OUTPERFORMING GB SCHEME ON HEAT GENERATION AND A SIMPLE BARNETT TYPE COSEQUENTIAL SHOULD NOT APPLY

- Low levels of uptake with NI Non Domestic RHI scheme initially led to £15m of under spend during the four year 2011-2015 period.

- During 2014, DETI introduced the full Domestic RHI scheme in December 2014 and actively promoted both schemes to try and increase uptake.

- A high level of uptake during the last 12 months now sees the NI Non Domestic scheme outperform the GB scheme from a heat generation perspective.

- The latest Ofgem figures at 30 September 2015 show that to date, 167 MW of renewable heating has been incentivised under the NI Non Domestic RHI scheme. This equates to 6.7% - 8.3% of GB capacity[1], yet the proposed NI allocations are still being based on 2.98% of DECC's allocations.

- So the operation of the Scheme confirms that a Barnett approach is inappropriate for this demand led scheme, and even more so when the issue we are seeking to address is renewables where the structure of heat generation is so very different and proportionate allocation should not apply from the perspective of best delivering our National policy aims.

- NI and GB RHI schemes are different schemes targeting different heat markets, although both schemes are collectively contributing to UK renewable energy target of 15% renewable energy by 2020.

- NI heating market is 70% reliant on oil whereas GB is almost 70% reliant on gas. Despite the current drop in oil prices, there should be much more scope in NI to switch households and businesses to renewable heating technologies. Oil is also a dirtier fuel than gas and generates much higher emissions. NI scheme should

[1] Range given based comparing current NI figures with latest GB figures (higher end) and (estimated up to date GB figures (lower end).

therefore deliver higher benefits in terms of CO_2 savings and resources should be applied to secure these higher benefits.

- To date 167MW of renewable heating has been incentivised under the NI Non Domestic RHI scheme. This equates to 8.3% of GB non domestic capacity yet the proposed AME allocations are still based on 2.98% of DECC's allocations. Even allowing for a 25% increase in installed capacity on the GB scheme over the last 2 months, installed capacity on the NI is still 6.7% of GB.

- If future NI RHI AME allocations were based on 6.7% of GB allocations, this would funding existing commitments going forward. It would still likely mean closing or suspending both schemes during 2016/17 but would enable restricted support for new installations to start being made available again in 2017/18. An 8.3% allocation would provide more options for earlier support for further new installations.

	Proposed AME Allocations in £Ms					
	15/16	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**
Estimated reduced DECC AME allocation[2]	430	640	780	900	1010	1150
Proposed HMT NI allocation	?	18.3	22.3	25.7	28.9	?
NI Allocation at 6.7% of DECC	28.8	42.9	52.26	60.3	67.67	77.1

- Secretary of State for DECC has previously said that GB renewable heat scheme is under-performing. From a National perspective resources should be at least targeted in line with delivery.

[2] Reduced DECC budget provided by Ofgem.

(2) LACK OF COMMUNICATION OR CONSULTATION ON PROPOSED AME CAP / CUTS

- At no time were either DFP or DETI made aware of planned caps / cuts on future NI RHI AME allocations [and nothing in Conservative Manifesto to indicate this].

- If we had known, the Domestic RHI scheme would not have been introduced and no scheme marketing and promotion would have been carried out.

- Commitments entered into prior to SR Announcement on 25 November 2015 should therefore be honoured in NI AME allocations.

(3) Existing Annual Commitments Must Be Met

- Increase in uptake has seen Non Domestic installations increase from 522 to 1,802 from April to November 2015. Committed annual Non Domestic RHI commitments have increased from £12.3m to £40m over the same period.

- All these new commitments have occurred before the SR announcement and DETI/DFP being made aware of HMT's proposed AME caps/cuts.

- With committed Domestic RHI payments (£2.2m/year) and forecast new Non Domestic RHI applications until 31/3/16 (£2m/year), committed annual expenditure is expected to be £44m from 2016/17 onwards. 2015/16 expenditure is forecast to be £30m.

- New commitments from April 2016 onwards will increase annual commitments further. Therefore with the funding proposed, the only likely option available to DETI is to try and close both RHI schemes by 31 March 2016 to avoid the additional costs of further new commitments.

- Closing the schemes however will not impact on the existing £44m of annual commitments which DETI is legally bound to pay for the next 20 years. Closing the schemes is likely to trigger a spike in demand and increase annual future annual expenditure further.

- Retrospectively changing existing annual payments for accredited installations would entail very significant legal risks so DETI has no way of reducing the costs of existing commitments.

- We therefore request that future NI AME allocations are provided to at least meet the existing annual commitments of £30m in 2015/16 and £44m from 2016/17 onwards.

- If no additional AME funding can be allocated for new RHI commitments from 2016/17 onwards, it is at least in the DETI Minister's control to close or suspend both RHI schemes (though it would be a shame to close the domestic).

(4) WHY WAS THERE SUCH A SPIKE IN DEMAND DURING THE AUTUMN

- In August 2015, the Department published its proposals to change tariffs for most popular biomass tariffs.

- Leading up to the legislative changes that were made on 18 November 2015, it was anticipated that monthly application numbers would double or triple. However, some 983 applications were received during the 2½ months leading up to the tariff changes on 18 November 2015 – this doubled the total number of RHI claimants.

- It should however be emphasised that historic levels of uptake for the NI Non Domestic RHI Scheme have been low, with only 522 applications in the previous 3 financial years. Any spike in demand would therefore appear significant.

- Due to low levels of uptake during previous years, rather than increasing tariffs, the Domestic RHI Scheme was introduced alongside the Non Domestic scheme and both schemes were promoted.

- Evidence from the market would suggest that the established GB suppliers and installers moved into the NI market once DECC started reducing the GB RHI tariffs which had been significantly higher than NI. The large number of potential suppliers and installers has enabled the industry to react quickly and install new installations to beat the deadline – effectively operating at GB activity levels.

- With around 70% of NI reliant on oil, there is potentially much more scope for NI businesses to switch to renewable heating technologies. The rural nature of NI also makes it more suitable for renewable technologies such as biomass and Combined Heat and Power (CHP).

- In the last 6 – 12 months, one of NI's largest industries, poultry, has converted its Broiler houses from LPG to renewable heating (biomass) systems. Poultry production is a particularly heat intensive industry with heating systems typically having to operate over 12 hours a day. It should also be noted the NI Poultry industry is the largest in the UK with 800 broiler houses and a further 200 houses planned as part of a Moy Park expansion.

- With only one application received in the 3 weeks since the tariff changes were made, the recent tariff changes have had a significant impact. However, further cost control measures are also planned in 2016 including introducing an additional programme of annual audits for the NI Non Domestic RHI over and above what Ofgem delivers for the GB and NI schemes.

Period	Application Numbers	Annual Cost	20 Year Cost
Nov 2012 – March 2015 (Previous Commitments)	**522**	**£12.3m**	**£246m**
April 2015	85	£1.1m	£22m
May 2015	66	£1.4m	£28m
June 2015	49	£1.3m	£26m
July 2015	42	£0.9m	£18m
August 2015	55	£1.1m	£22m
September 2015	90	£2.14m	£42.8m
October 2015 (up to 28/10/15)	441	£9.8m	£196m
Total for Retrospective Period (1/4/15 – 28/10/15)	**828**	**£17.74m**	**£355m**
November 2015 (29/10/15 – 29/11/15)	452	£9.95m	£199m
December 2015 – March 2016 (forecast)	80	£1.92m	£38.4m
Total for Prospective Period (29/10/15 – 31/3/16)	**532**	**£11.9m**	**£238m**
Total Forecast Commitments to 31 March 2016	**1882**	**£41.94m**	**£839m**