



**From:** Trevor Cooper

**Date:** 23 July 2014

**To:** Michelle Scott

**Cc** Andrew McCormick  
Eugene Rooney  
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## **DETI HQ – RENEWABLE HEAT INCENTIVE (DOMESTIC RHI)**

1. I attach the following papers relating to the business case for policy proposals for the second phase of the Northern Ireland Renewable Heat Incentive (RHI), primarily relating to the domestic market:

- DFP Cover Note
- DFP Proforma
- Business case
- NI RHI phase final report
- RHI Risk Register

### **Background and Funding**

2. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption are required for the UK to meet its requirements under the EU Renewable Energy Directive. Subsequently, the Strategic Energy Framework (SEF) was agreed by the Northern Ireland Executive in September 2010 and a target of 10% renewable heat by 2020 was included; this is a challenging target given that the baseline level at that time was 1.7%.

3. Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives, given the higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies. In order to help develop this market and meet the targets, economic analysis has shown that financial incentives are required.
4. £860million has been made available from central Government funding to support the introduction of a RHI in GB over the period 2011-2015; HMT notified the Northern Ireland Executive that £25million of funding was available for a NI RHI over the same period.
5. DECC introduced a GB Renewable Heat Incentive for the non-domestic market in November 2011. Northern Ireland was not included within that scheme because of the marked difference in the two heat markets i.e. in GB the natural gas market accounts for 68.8% of heating demand with oil only accounting for 10% whereas in Northern Ireland oil accounts for around 77%. It was therefore considered appropriate to separately assess how the NI renewable heat market could be developed. Following an economic appraisal and public consultation, proposals for Phase 1 of the NI RHI (for non domestic installations) and for the RHPP (for domestic installations) were approved by DETI Casework, DFP and the Minister. It was made clear at that time that the Department intended to develop a second phase of the RHI which would extend it to include domestic installations.

### **Affordability**

6. Funding of £25m is available to 2015/16 for this scheme. HMT have already indicated that any spending commitments made via the initial NI RHI (i.e. through the £25m) will be met by ongoing RHI payments from HMT.
7. DECC has secured £430m for the GB RHI for 2015/16. The DECC Minister has indicated to Minister Foster that the Barnett consequential of this funding should be forthcoming to Northern Ireland.
8. DETI Finance Branch has advised that DFP has indicated that AME budgets are formulated using the information provided in AME forecasting exercises,

and there is no separate bidding process. Therefore, for RHI the current profile is £6.35m 2014/15, £9.5m 2015/16, £13.5m 2016/17, £18.5m 2017/18, £24.5m 2018/19 and £31.0m 2019/20.

**Process**

9. The RHI project was approved by the DETI casework committee.

**Value for Money Conclusion**

10. DETI is content to recommend this case formally to DFP for its consideration.

11. I am happy to discuss.

**TREVOR COOPER**