

From: [Cooper, Trevor](#)
To: [Mills, John \(DETI\)](#); [Wightman, Stuart](#)
Cc: [Rooney, Eugene](#); [Murphy, Shane](#); [McFarlane, Iain](#); [Hutchinson, Lee-Anne](#)
Subject: FW: NON-DOMESTIC RENEWABLE HEAT INCENTIVE: ADDENDUM
Date: 29 October 2015 11:20:42
Attachments: [Supply - DETI - Non-Domestic RHI Approval - Oct 15-Dec16.DOCX](#)

John, Stuart

DFP approval attached - which gives prospective approval until March 2016, to be revisited following Spending Review announcement.

Can you review in detail and confirm that the DFP conditions of approval do not conflict with your proposed legislation (legislation when we got original approval in 2012 did not seem to align with terms of the dfp approval at that time).

Trevor

From: Dynes, Fiona
Sent: 29 October 2015 09:42
To: Cooper, Trevor
Cc: Brennan, Mike; Rooney, Eugene; Scott, Michelle; McNally, Noel; Millar, Angela (DFP); Finlay, Christine
Subject: NON-DOMESTIC RENEWABLE HEAT INCENTIVE: ADDENDUM

Please see attached from Emer Morelli.

Thank you.

Fiona Dynes
PS/Emer Morelli
Head of Supply
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Trevor Cooper
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29 October 2015

Dear Trevor

NON-DOMESTIC RENEWABLE HEAT INCENTIVE- ADDENDUM

Thank you for your letter of 27 October in which you requested urgent consideration of NI Non-Domestic Renewable Heat Incentive (RHI) business case addendum.

At the outset, I must record that the timing of this approach is far from ideal. I understand the need for this addendum was first discussed with DFP at a meeting on 12 June 2015 and, given the financial governance concerns raised, I would have expected this work to be prioritised and sufficient time allowed for scrutiny and approval.

Given the very short timescales afforded to DFP to consider this complex issue we have prioritised the prospective element of the addendum and will return to the retrospective request in due course.

Revised Tariff Structure

DFP approval of the non-domestic RHI was granted on 27 April 2012. The total intervention cost at that time was estimated at £405m. A marked increase in demand, considerably above that envisaged within the original business case, has prompted DETI to review the appropriateness of the tariffs in the current market. The detailed analysis attached to the addendum estimated the total cost to 2036, assuming the scheme closes to new installations in 2016 and tariffs are reduced, could be in the region of £556m.

The revisions proposed will significantly reduce the tariffs available for biomass installations. An output cap will also be introduced which reflects the maximum annual heat requirement of a typical poultry house. It is noted that this new tariff

structure is an interim arrangement to allow a more comprehensive review of the non-domestic RHI scheme to be taken forward.

Administration

DETI is also seeking approvals associated with the administration of the scheme. At the 21 October casework committee you provided an assurance that there are no procurement issues associated with the continued utilisation of Ofgem, given its public sector classification. On that basis, DFP is content that this arrangement does not require fresh approval.

DETI should ensure the contract can be adjusted in response potential changes in the scheme post SR and should ensure the procurement advice contained at para 2.50 of the original advice is adhered to as appropriate.

Affordability

The break point in the original DFP approval recognised the time limit on the funding available. While you have requested approval to December 2016, you are aware that no budget has been confirmed beyond 2015-16 and there will only be certainty on future funding availability following the November Spending Review.

Conclusion and Way Forward

As outlined above, DFP has been afforded a very limited window to review the proposed changes and, while it is accepted that a tariff reduction is required, it is difficult for DFP to conclude within the short timeframe available that the proposed changes will deliver the optimal outcome. That said, it is acknowledged that these are interim measures while the department undertakes a review of the scheme and further delay could result in more installations coming on line at the higher tariff.

Therefore on balance I am content to grant DFP approval to the interim arrangements. At this stage, DFP approval can only be granted for new installations until **31 March 2016** due to the uncertainty around future funding of the scheme. DFP approval is therefore granted for the payments arising from new installations between 29 October 2015 and 31 March 2016. This will be revisited following the SR announcement.

DFP approval is also granted on the following project specific conditions

The tariff changes are introduced as soon as practically possible following this approval.

DETI provides regular updates of forecast spend to DFP, in addition to the usual AME forecasts

Assuming a decision is taken to continue with the RHI beyond 31 March 2016: DETI Senior Management Team ensures the department has sufficient resources and expertise to deliver the review and secure the appropriate approvals within the timescales set out within this addendum.

The review should include a comprehensive, evidence based assessment of all aspects of the RHI intervention, including tariff levels, banding and the duration of the tariff payments.

It should be noted that DFP Supply approval is granted subject to the strict adherence to the following conditions:

- that there are no substantial changes to the scope/scale of the project as described in the business case;
- that the costs or assumptions vary by no more than 10% from the value stated;

Requests for revised approval will take account of factors such as:

- Where Supply is approached on the earliest indication that compliance with one or more of the above conditions is under question.
- Adherence to correct appraisal procedure;

Should the request for DFP Supply approval be declined, these factors, along with any other mitigating circumstances will be taken into account when determining the extent of the irregular spends.

It should be noted that this approval relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure controls.

Yours sincerely

A photograph of a handwritten signature in blue ink on a light-colored background. The signature is written in a cursive style and appears to read 'Emer Morelli'.

EMER MORELLI

cc Mike Brennan
Eugene Rooney
Michelle Scott
Noel McNally
Angela Millar
Christine Finlay