

**From:** [McFarlane, Iain](#)  
**To:** [Linton, Rachel](#)  
**Subject:** FW: RHI Paper for Audit Committee  
**Date:** 01 February 2016 12:44:30  
**Attachments:** [Agenda Item 9 - Synopsis Non Domestic Renewable Heat Incentive \(2\).docx](#)

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**From:** Wightman, Stuart  
**Sent:** 30 November 2015 18:00  
**To:** McFarlane, Iain; Cooper, Trevor  
**Cc:** Coyne, Terence; Hughes, Seamus; Willis, Adele; Mills, John (DETI)  
**Subject:** RHI Paper for Audit Committee

Trevor

Please find attached updated note below and attached bulleted synopsis.

I'm out of the office most of tomorrow but hope to be back late afternoon if you need to discuss.

Thanks, Stuart

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**From:** Cooper, Trevor  
**Sent:** 27 November 2015 16:27  
**To:** Wightman, Stuart  
**Cc:** Mills, John (DETI); McFarlane, Iain; Rooney, Eugene  
**Subject:** FW:

Stuart

As discussed, the Departmental Audit Committee for its meeting on 2 December is seeking a written update from Energy on the Non – Domestic Renewable Heat Incentive. To assist you in meeting timelines we have included the draft following from input provided during the recent interactions with DFP. Can you review/amend as appropriate and in particular fill in the blanks.

I AM ON LEAVE Monday – you can discuss with Iain McFarlane in my absence.

Trevor

## **ENERGY DIVISION UPDATE TO DEPARTMENTAL AUDIT COMMITTEE - NON-DOMESTIC RENEWABLE HEAT INCENTIVE**

### **Background**

1. 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 Renewable Heat Incentive (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 proposed tariffs for both RHI schemes were developed on behalf of DETI through an external consultancy exercise carried out by Ricardo-AEA. The tariffs as adjusted for inflation are payable for twenty years, and the total amount payable to an applicant in any year is based on their usage in that year.

2. The Business Case for the Non Domestic RHI Scheme was approved by DFP in April 2012 covering the period 1 July 2012 to 31 March 2015. Any *decision to continue the scheme beyond 2015 was subject to separate DFP approval. Additionally DFP approval was conditional that, in line with 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.*
3. A Phase 2 Review of the RHI was completed in 2013. This included proposals for a new Domestic scheme, extension of the Non Domestic scheme and Cost Control measures. With low levels of uptake in previous years and large under spends against allocation, implementation of a Domestic scheme and scheme promotion were given precedence over other proposals which it was planned would then follow on.
4. £860 million was made available from central Government funding to support the introduction of a Renewable Heat Incentive (RHI) in GB over the period 2011-2015. £25 million of funding was made available by HMT for a NI RHI over the same period. However, due to the poor levels of uptake with the NI RHI schemes, only £2m of this funding was spent during the first 3 years. The priority was therefore to try and improve uptake.
5. Demand for the non-domestic scheme picked up in 2014-15. A sustained increase in application numbers was not achieved until March and April 2015.
6. The Renewable Heat Team which in the run up to April 2015 had different personnel in place than those who secured approval for the scheme, assumed that further approvals were not needed. Whilst Energy Division keeps a Divisional register of approvals unfortunately this did not include ongoing schemes. This has since been altered and all existing DFP approvals in place with Energy Division have been checked and are still in force.
7. Further control measures are being implemented to ensure that there will be no reoccurrence of an omission to recognise the time limited nature of an approval. This is on the basis of changes that we are introducing to our assurance statement process whereby divisions will explicitly confirm that they have reviewed all of their expenditure and that none falls outside of any DFP approval that was given on a time limited basis and that if there are such approvals in place and it is intended to continue expenditure beyond the approval date that work is underway within timelines that will ensure that appropriate approval is in place prior to further spend.
8. In response to the increase in demand for the Non-Domestic Scheme, the Department then acted through policy development in May/June and having provided the required notice period of 2-3 months for making changes to the

scheme (accepting reasonable legal risk), and received DFP approval, introduced legislation in November to amend the Scheme. The required legislation was approved by the Assembly on 17 November 2015 and came into operation on 18 November 2015

9. The changes involved tariff amendments reducing the tariff payable. The first 1314 annual operating hours, (15% of the maximum possible annual hours) for small and medium biomass will be paid at the standard tier 1 rates of 6.7 and 6.4 pence per kWh respectively, thereafter reducing to 1.5 pence per kWh for additional hours. Also, an annual cap of 400,000 kWh will apply after which no heat payment will be made. The medium biomass banding is also being extended upwards to 199kW to encourage the installation of larger more efficient boilers. It is hoped that these changes to the most popular biomass technology will bring expenditure back within budget. The increase in the non domestic RHI uptake over the past 12 -18 months has been substantial, rising from around 200 applications in July 2014 to 1802 at 23 November 2015. In particular there was a surge of activity in the run up to the introduction of the tariff changes which saw some 900 new applications since the beginning of October. It is now expected that applications will tail off with the introduction of the changes.

### Expenditure and Budget Position

10. Expenditure in £000s under the scheme in the years 2012/13 to 2014/15 is set out below:-

	12/13	13/14	14/15
Resource	20	650	6785
Capital	450	1000	1140
Total	470	1650	7925

11. The current 2015-16 AME budget for the Scheme is £22,816k. Current information on applications received means that we are now forecasting 2015-16 expenditure of £32.8m, and the Department will seek to secure additional AME cover in a Monitoring technical exercise that DFP is about to commission and which will incorporate proposed AME adjustments. At this point, with no additional offers beyond March 2016, expenditure is anticipated to rise to at least £48.5m in 2016-17. Any new 2016-17 offers would further increase this amount.
12. The recent Autumn Statement indicated that expenditure on the RHI at national level would increase to £1.150 billion in 2020/21. However, this actually represents a 30% (or £680m) reduction from previous DECC forecasts of £1.8 billion for 2020/21. The Department is currently reviewing the implications of the Autumn Statement but with this reduction, it now looks highly likely that both NI RHI schemes will have to close unless HMT/DECC.

**Current Approvals**

13. DFP approval for expenditure from 1 July 2012 up until the end of March 2015 was received on 27 April 2012. An addendum to the original business case was submitted to DFP on 27 October 2015 seeking retrospective approval for expenditure in the period from April 2015. DFP approval has now also been received for the period 29 October 2015 to 31 March 2016. However, the position on retrospective approval for the period 1 April 2015 to 28 October 2015 is subject to further consideration. The position for the period beyond March 2016 is also subject to further review once the impact of the Chancellor's Autumn Statement is known.
14. The Department will continue to engage with DFP on the regularisation of expenditure in the period 1 April 2015 to 28 October 2015 and will provide a further update to the Committee on this matter and on the implications on the Scheme arising from the Autumn Statement.

**DEPARTMENTAL AUDIT COMMITTEE: 2 DECEMBER 2015****TITLE OF PAPER: NON DOMESTIC RENEWABLE HEAT INCENTIVE**

**Paper presented by: Trevor Cooper**

**KEY ISSUES**

- In its 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's Strategic Energy Framework (SEF).
- The Business Case for the Non Domestic RHI Scheme was approved by DFP in April 2012 covering the period 1 July 2012 to 31 March 2015.
- £25 million of funding was made available by HMT for a NI RHI over the same period. However, due to the poor levels of uptake with the NI RHI schemes, only £2m of this funding was spent during the first 3 years. The priority was therefore to try and improve uptake.
- A Phase 2 Review of the RHI was completed in 2013. With low uptake levels and large under spends against allocation, implementation of a Domestic scheme and scheme promotion were given precedence over other proposals which it was planned would then follow on.
- The Renewable Heat Team which in the run up to April 2015 had different personnel in place than those who secured approval for the scheme assumed that further approvals were not needed.
- Demand for the non-domestic scheme picked up in 2014-15. A sustained increase in application numbers was not achieved until March/April 2015.
- In response to this increase in demand, the Department then acted through policy development in May/June and having provided the required notice period of 2-3 months for making changes to the scheme, the required legislation to amend the scheme was approved by the Assembly on 17 November 2015 and came into operation on 18 November 2015.
- The changes involved tariff amendments reducing the tariff payable through the introduction of a two tier tariff structure for biomass, a change in medium biomass banding, and the introduction of a cap on annual payments.
- The current 2015-16 AME budget for both RHI schemes is £22.8m. Current information on applications received means that we are now forecasting 2015-16 expenditure of £32.8m, and the Department will seek to secure additional AME cover in a Monitoring technical exercise that DFP is about to commission and which will incorporate proposed AME adjustments.
- At this point, with no additional offers beyond March 2016, expenditure is anticipated to rise to at least £48.5m in 2016-17. Any new 2016-17 offers would further increase this amount.
- The recent Autumn Statement indicated that expenditure on the RHI at national level would increase to £1.150 billion in 2020/21. However, this actually represents a 30% (or £690m) reduction from previous DECC

forecasts of £1.8 billion for 2020/21. The Department is currently reviewing the implications of the Autumn Statement but with this reduction, it now looks highly likely that both NI RHI schemes will have to close unless HMT/DECC.

- DFP approval for expenditure from 1 July 2012 up until the end of March 2015 was received on 27 April 2012. DFP approval has now also been received for the period 29 October 2015 to 31 March 2016. The position on retrospective approval for the period 1 April 2015 to 28 October 2015 is subject to further consideration. The position in the period beyond March 2016 is also subject to further review once the impact of the Chancellor's Autumn Statement is known.
- The Department will continue to engage with DFP on the regularisation of expenditure in the period 1 April 2015 to 28 October 2015 and will provide a further update to the Committee on this matter and on the implications on the Scheme arising from the Autumn Statement.

#### **DECISION REQUIRED**

- None.

#### **ACTION REQUIRED**

- The Departmental Audit Committee is asked to note the position.

#### **TIMESCALE**

- Immediate.