

**From:** [Private Office DETI](#)  
**To:** [Hegarty, Damien](#); [McLaughlin, Christine \(DETI\)](#)  
**Cc:** [Stevenson, Valerie \(DETI Private Office\)](#)  
**Subject:** Revised submission RHI introduction of legislation on tiered tariff for biomas  
**Date:** 28 August 2015 10:14:05  
**Attachments:** [Annex A - Final Policy Paper on RHI Proposals \(July 2015\).docx](#)  
[Annex B - Draft SL1 on Non Domestic RHI Changes \(July 2015\).docx](#)  
[ANNEX C - Lines to Take on changes to NI RHI.DOCX](#)  
[Annex D - Lines to Take on Domestic RHI Administrative Delays.docx](#)  
[Draft Submission on RHI cost control and administration\(2\).DOCX](#)

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**From:** Wightman, Stuart  
**Sent:** 28 August 2015 10:08  
**To:** Cairns, Timothy  
**Cc:** Private Office DETI; McCormick, Andrew (DETI); Stewart, Chris (DETI); Kerr, Sean; Hill, Janice; Mills, John (DETI)  
**Subject:** FW: RHI introduction of legislation on tiered tariff for biomas

Timothy

Please see revised Submission and Final Policy Paper with tracked changes.

Thanks

Stuart

**Stuart Wightman**  
Head of Energy Efficiency Branch  
Energy Division  
Department of Enterprise, Trade & Investment  
Room 24A Netherleigh  
Massey Avenue  
Belfast, BT4 2JP  
Tel: 028 9052 9425 (ext: 29425)  
Mob: Personal information redacted by the RHI Inquiry  
TextRelay: 18001 028 9052 9425  
Web: [www.detini.gov.uk](http://www.detini.gov.uk)

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**From:** Cairns, Timothy  
**Sent:** 27 August 2015 18:27  
**To:** Mills, John (DETI)  
**Subject:** RE: RHI introduction of legislation on tiered tariff for biomas

Hi John

Lets rework the sub on that basis.

Tim

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**From:** Mills, John (DETI)

**Sent:** 27 August 2015 16:47

**To:** Cairns, Timothy

**Cc:** Wightman, Stuart; McCormick, Andrew (DETI); McCoy, Laura; Kerr, Sean; Hill, Janice

**Subject:** RHI introduction of legislation on tiered tariff for biomass

Timothy,

Further to conversation with yourself, Andrew and Minister on Monday, we have revised the position to reflect an implementation date of early November (probably not before 3<sup>rd</sup>). Grateful if Minister is content to approve Stuart's submission of 10 July on that basis – that is, the submission will refer to implementation of a tiered tariff from the start of October but that will now be the start of November as you suggested. If approval is given we will work to that revised timeline.

Department of Enterprise,  
Trade and Investment

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# **The Northern Ireland Renewable Heat Incentive**

**Response to consultation on phase 2 proposals and final  
policy on CHP and Cost Control**

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# Contents

## Background

Final policy on phase 2 proposals for  
CHP and Cost Control in the Northern  
Ireland Renewable Heat Incentive

## Background

On 22 July 2013, DETI launched a public consultation on Phase 2 of the Northern Ireland Renewable Heat Incentive (RHI). These proposals included the following main elements:-,

- The introduction of the domestic RHI
- Cost control measures to manage future RHI expenditure
- Biomass sustainability and Emission control requirements
- Expansion of the non domestic RHI to include new tariffs and technologies

The consultation ran for 12 weeks and as part of the process, DETI held stakeholder events in Armagh, Belfast and Coleraine. These were attended by nearly 100 people and were useful in gauging opinions regarding the draft proposals. The consultation closed on 14 October 2013 and 50 responses were received, two of which offered no comment. All responses received are available on the DETI website.

The domestic scheme was introduced on 9 December 2014 and the remainder of the phase 2 proposals are under consideration. Some of these proposals including the introduction of support for new technologies will be taken forward at a later date

This paper seeks to respond to the comments received relating to the non domestic RHI proposals for combined heat and power (CHP) and cost control measures and sets out the Department's final policy position and the next steps in terms of implementation.

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# 1. EXPANSION OF THE NON DOMESTIC NI RHI

## ISSUE: BIOMASS AND BIOLIQUID COMBINED HEAT AND POWER

### *Original Proposal*

- 1.1 Biomass and bioliquid Combined heat & Power (CHP) is currently incentivised under the NIRO, with CHP that is accredited in receipt of an additional 0.5 ROC uplift. DETI had indicated that from October 2015 the 0.5 ROC uplift will be withdrawn – and CHP projects accredited after this date would be eligible for the relevant electricity only ROC level together with the appropriate RHI tariff. This position is largely consistent with GB
- 1.2 In developing an appropriate CHP tariff under the non domestic RHI, DETI has assumed an investment lifetime of 10 years and a plant lifetime of 20 years. DETI is proposing a tariff of 3.5 p/kWh for new biomass and bioliquids CHP systems.
- 1.3 In addition to the tariff for new CHP systems, DETI proposes to introduce a second tariff for existing fossil fuel CHP systems that wish to convert to renewable CHP. For existing fossil fuel CHP sites' converting to renewable fuelled CHP the proposed tariff is 1.7 p/kWh.
- 1.4 DETI expects heat from renewable CHP sites to provide a significant contribution towards the development of the renewable heat market and the achievement of the renewable heat target.

### *Stakeholder Response*

- 1.5 There was general agreement with the proposals. One respondent expressed concern that two separate tariffs (one for conversion) will increase risk of gas CHP converting to renewables – but in fact the opposite is likely to be true because if there was one tariff it would be the 3.4pence and therefore conversion would be more attractive.

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## Final Policy

- 1.6 Two new non domestic RHI CHP tariffs will be introduced, 3.5 pence per kWh for new systems and 1.7 pence per kWh for those converting from fossil fuels. The response to the public consultation and subsequent engagement with the industry has confirmed significant interest in this tariff. Large CHP plants have a significant role to play in meeting RHI targets. The new tariff will be in place to coincide with the removal of the 0.5ROC uplift from October 2015.

### SUMMARY OF KEY POINTS

- A tariff of 3.5 pence per kWh will be introduced for new biomass and bioliquid CHP installations.
- A tariff of 1.7 pence per kWh will be introduced for biomass and bioliquid CHP installations converting from fossil fuels.
- The new tariffs are to coincide with the removal of the 0.5 ROC uplift for heat from CHP from October 2015.

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## 2. COST CONTROL

### ISSUE: COSTS CONTROL

#### *Original Proposal*

2.1 The original DETI proposal was to introduce a number of annual trigger points that would provide forewarning to potential applicants that committed RHI expenditure was approaching the set budget limit. Depending on the level of in-year expenditure /application numbers, DETI would implement administrative measures to manage curtail demand / applications numbers including ultimately closing both schemes to new applications until the following year.

#### *Stakeholder Response*

2.2 Several responses were received on this issue. There was a concern expressed that a trigger method of budget management could be viewed as a disincentive and cause further uncertainty in the market. Comment was also made that confirmation was required that any suspension of the scheme would only apply to new applications and not existing accreditations. The need for good clear advance warning with guidance and parameters for any cost control measures was also emphasised.

#### *Final Policy*

2.3 Levels of uptake on the non domestic RHI scheme have increased significantly over the last 12 months with total applications increasing from 130 to over ~~700~~800. Committed monthly expenditure is now over £1.4m. Cost control measures now need to be introduced to ensure future budgetary levels wouldn't be breached and to ensure the scheme continues to be affordable and provide value for money.

2.4 The Department for Energy and Climate Change (DECC) has introduced an annual system of tariff digression in both GB RHI schemes. Work is ongoing to develop suitable systems of digression/reduction for the NI RHI schemes. The detail on these will be published at a later date. However, to control expenditure and ensure continued value for money in the interim, DETI is introducing a tiered RHI tariff structure from ~~5~~1 October 2015 for biomass heating systems. This will apply to non-domestic biomass installations made on or after ~~1-5 October-November~~ 2015. The first 1314 hours ~~(or equivalent kWh)~~ will be paid at the standard tariff with a reduced tariff of 1.5 pence per kWh applied thereafter. It is expected that the

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higher tier will cover the capital cost and the reduced tier the ongoing running costs.

- 2.6 Currently the non domestic medium biomass tariff reduces from 6.4 p to 1.5 p for installations over 99kW. In the GB Non Domestic RHI scheme, the equivalent biomass tariff reduces at 200kw. The majority of applications to date to the NI RHI scheme have been for 99kw biomass installations. Only one ~~No~~ applications ~~has~~ve been received for biomass installations between 99 and 200kw, (129kW). DETI is therefore proposing to extend the existing 6.4p biomass tariff banding (20-99kw) to installations above 99kw in size. The maximum installation size in the revised tariff banding ~~has yet to be finalised~~will be 199kW. In addition a cap of 400,000kWh will be applied as a maximum annual heat payment. Any additional heat over this cap will not be eligible for payments.

### SUMMARY OF KEY POINTS

- Provision will be made in the scheme legislation to introduce a tiered tariff structure for new non domestic biomass installations from October 2015 where the first 1314 peak hours ~~(or equivalent in kWh)~~ will be paid at the standard tariff and hours thereafter reducing to 1.5 pence per kWh.
- Provision will be made in the scheme legislation to extend the existing 6.4p non domestic biomass tariff to installations up to above 199kw in size from October 2015.
- ~~Provision will be made in the legislation to enable DETI to implement a system of tariff digression/reduction for both the Non-domestic and Domestic Schemes where tariffs can be regularly reviewed and reduced to ensure annual budgetary limits are not breached. This will be introduced at a later date~~
- A cap of 400,000 kWh will be applied as a maximum annual heat payment

[Type text]

Mr Jim McManus  
ETI Committee Clerk  
Northern Ireland Assembly  
Parliament Buildings  
Stormont  
BELFAST  
BT4 3SW

August 2015

Dear Jim

## **SL1 – THE RENEWABLE HEAT INCENTIVE SCHEME AMENDMENT REGULATIONS (NORTHERN IRELAND) 2015**

- 1.1 The Department of Enterprise, Trade and Investment (**the Department**) proposes to make a Statutory Rule in exercise of the powers conferred by section 113 of the Energy Act 2011.
- 1.2 The Statutory Rule will be subject to affirmative resolution in the Assembly.

### **Purpose of the Statutory Rule**

- 2.1 The Northern Ireland Renewable Heat Incentive (RHI) was introduced on 1 November 2012, following the passage of the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012. This scheme provides long term incentive payments for new generators of eligible renewable heating in the non domestic sector.
- 2.2 The RHI scheme was extended to the domestic sector in December 2014 following passage of the Domestic Renewable Heat Incentive Scheme (Northern Ireland) 2014. This replaced the Renewable Heat Premium Payment Scheme which was introduced in May 2012 to provide interim financial support to domestic renewable heat customers.
- 2.3 The proposed Statutory Rule will provide the legislative basis for:
  - Extending the non-domestic RHI scheme to provide support for heat generated from combined heat and power (CHP) installations. This needs to coincide with changes in the ROC regime from October 2015 whereby ROC will no longer support heat generated by new CHP installations.
  - Reducing RHI incentives for non-domestic biomass installations to ensure affordability and value for money given the significant increased levels uptake of with this technology.

### **Consultation**

- 3.1 The Department consulted on Phase 2 proposals for the RHI from 22 July 2013 to 14 October 2013. Consultation seminars were held in Armagh, Belfast and

Coleraine. A total of 50 responses were received and the vast majority of respondents were supportive of the Phase 2 proposals which included:

- Introducing a Domestic RHI Scheme in place of the interim RHPP scheme;
- Introducing cost control measures to manage RHI expenditure and ensure future scheme affordability and value for money;
- Introducing biomass sustainability and emissions requirements; and
- Expanding the non-domestic scheme to include a number of new tariffs and technologies (including CHP).

- 3.2 The Domestic RHI scheme was introduced in December 2014. We have taken account of the consultation feedback and prepared a final policy paper on initial cost control measures and the introduction of a new tariff for CHP. Further cost control proposals are still under consideration with the other Phase 2 proposals above and will be take forward separately at a later date. The attached final paper (**Annex A**) will be published on the DETI and NI Direct websites.

### Position in Great Britain

- 4.1 DECC legislated for an incentive scheme in the Energy Act 2008 and laid the Renewable Heat Incentive Scheme Regulations 2011 before Parliament in November 2011. Again in April 2014 following Parliamentary agreement, the scheme was extended to the domestic sector through the Domestic Renewable Heat Incentive Scheme 2014. DECC have already introduced a system of tariff digression for both GB RHI schemes.

### Equality Impact

- 5.1 In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, an equality screening exercise has established that the proposed Regulations do not have any significant equality impact.

### Regulatory Impact

- 6.1 The Regulatory Impact Assessment, (**RIA**), completed and signed off for the Renewable Heat Incentive in April 2012 covers this phase 2 extension of new technologies and tariffs. The Regulations will support the implementation of the Renewable Energy Directive 2009/28/EC (**RED**) which requires the UK to ensure that 15% of its energy consumption comes from renewable sources including electricity, heating and cooling and transport.
- 6.2 The Department's preferred and previously agreed option is a specifically tailored NI RHI scheme. This has been determined as the most appropriate method of providing long term support to the local industry, with tariffs developed specifically for the Northern Ireland hat market which will utilise available funding most efficiently. The Department also anticipates that there will be secondary benefits to the development of the renewable heat market other than increased renewable uptake. These associated benefits include a reduction in CO<sub>2</sub> emissions as fossil fuels are displaced, an increase in fuel security as Northern Ireland's dependence on imported fuel reduces and growth for "green jobs" as companies benefit from the opportunities presented by renewable heat.

- 6.3 As the funding for the RHI scheme will come from direct Government expenditure there will be no impact on Northern Ireland consumers' energy bills.

### **Scheme Performance**

- 7.1 Both RHI schemes are demand led and difficult to predict future uptake / spend. Up until late last year, uptake of the RHPP and RHI schemes had been low and the AME allocations were not spent. The Department's 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 Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes.
- 8.1 Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), uptake of the non domestic scheme has increased significantly over the last 12 months. Total non-domestic RHI applications have increased from 200 to 800 during this period and we're now on course to meet the PfG 4% renewable heat target before the end of the year.

### **Financial Implications**

- 8.2 This recent success however has put pressure on the NI RHI budget and we now need to implement cost control measures to manage future RHI expenditure. The proposed Statutory Rule will reduce incentives for biomass which currently accounts for nearly 99% of non-domestic RHI applications.

### **EU Implications**

- 8.1 The Renewable Energy Directive requires the UK to ensure that 15% of its energy consumption comes from renewable sources. The requirement extends beyond electricity to heating and cooling and transport. Almost half of the final energy consumed in the UK is in the form of heat, producing around half of the UK's CO<sub>2</sub>.
- 8.2 The requirement to meet the very challenging 15% renewable energy target falls at Member State level, not at Devolved Administration level. However, while energy is a devolved matter for Northern Ireland, each devolved administration is expected to contribute as much as possible to the overall UK target.

### **Section 24 of the Northern Ireland Act 1998**

9. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that the proposed Rule does not contravene the Act.

### **Section 75 of the Northern Ireland Act 1998**

10. The Department has considered section 75 of the Northern Ireland Act 1998 and is satisfied that the proposed Regulations will have no negative implications or possible infractions under Section 75.

### **Operational Date**

- 11.1 It is proposed that the Regulations will come into operation in November and apply to all new installations made from 3 November 2015.
- 11.2 I would be grateful if you would bring this matter to the attention of the Enterprise, Trade and Investment Committee.

Yours sincerely

**STUART WIGHTMAN**  
Head of Energy Efficiency Branch  
Energy Division

cc Human Rights Commission  
Legislative Programme Secretariat

### Non-Domestic RHI – Proposed Changes

#### Lines to take

- Both RHI schemes are performing very well and we're on track to achieve the interim Programme for Government target of 4% renewable heat this year.
- However this success now means we need to introduce cost control measures to ensure the scheme remains affordable and to ensure that support can continue to be provided to consumers and businesses wishing to switch to renewable heating technologies in the future.
- I would encourage all households and businesses to consider the advantages of switching to a renewable heating source supported by these incentives.
- I am confident that there will be continue to be a good uptake of the scheme and that businesses will continue to achieve a return on their investment while contributing to the protection of our environment.
- Households and businesses wishing to avail of the RHI should review the information on the Energywise pages of the Executive's nirect website, which provide details about the scheme and how the tariffs are applied."

### Domestic RHI – Application processing times

#### Lines to take

- Due to the high volume of both new applications to the domestic RHI and from RHPP recipients wishing to transfer across processing times are currently taking longer than expected.
- My officials are working to process applications as quickly as possible but it is currently taking between 10-12 weeks to complete the process.
- Applicants will be advised of processing times when an application is received and a notice of likely processing times will be placed on the NI Direct website.
- It is anticipated that normal processing times of 4 to 6 weeks will be resumed in the near future.

**Submission**

**From:** Stuart Wightman  
Energy Division

**Tel No:** Ext 29425

**Date:** 8 July 2015

**cc:** Copy distribution list below

**To:** 1. Timothy Cairns  
2. Jonathan Bell MLA

**RENEWABLE HEAT INCENTIVE (RHI) – INTRODUCTION OF COST CONTROL MEASURES AND ENSURING EFFECTIVE ADMINISTRATION OF DOMESTIC SCHEME**

**Issue:** *Introduction of cost control measures to manage RHI expenditure and ensuring effective administration of domestic scheme*

**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. Lines to Take are included at **Annex C**.*

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

**Financial Implications:** *We are currently seeking extra funding as forecast scheme expenditure is exceeds previous funding allocations.*

**Legislation Implications:** *Subordinate legislation will be required to implement changes.*

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

**Recommendation:** *That you agree:*

- a) *to proceed with legislation to make changes to the non-domestic biomass RHI tariff and introduce a new CHP RHI tariff (like GB) from ~~1-4 October~~ November 2015;*
- b) *that officials continue to develop proposals for future tariff digression/ reduction for both RHI schemes (similar to that in GB) to be introduced at a later date;*
- c) *to issue the attached final policy paper (**Annex A**), SL 1 letter to the ETI Committee (**Annex B**) and make use of the attached Lines to Take (**Annex C**) as necessary;*



- and*
- d) to delay processing of new Domestic RHI applications to assist with current resource pressures and make use of the attached lines (**Annex D**) as necessary.*

## BACKGROUND

1. The Strategic Energy Framework (SEF) includes a target to achieve 10% of heat from renewable sources by 2020. The Programme for Government (PfG) includes an interim renewable heat target of 4% by 2015. The Renewable Heat Incentive (RHI) was introduced in pursuit of these targets in November 2012. It provides an ongoing financial incentive for non-domestic generators of renewable heat for 20 years. A similar scheme applies in Great Britain albeit with different tariff levels. The Scheme is administered on DETI's behalf by the Gas and Electricity Markets Authority (Ofgem). Eligible technologies currently include biomass, ground/water source heat pumps and solar thermal (for hot water not electricity).
2. In October 2013, your predecessor consulted on proposals for Phase 2 of the NI RHI. This included extending the RHI scheme to the domestic sector, increasing the list of eligible non-domestic technologies, introducing biomass sustainability and emissions standards and introducing a system of cost control. The full Domestic RHI Scheme was introduced in December 2014 but the other RHI Phase 2 proposals have yet to be finalised and implemented.
3. Prior to the Domestic RHI Scheme, DETI operated the Renewable Heat Premium Payment Scheme (RHPP) for the domestic market which provided upfront incentive payments for accredited renewable heating systems. Unlike the Non-domestic Scheme, the domestic scheme is administered in house by DETI Energy Division.

## SCHEME PERFORMANCE

4. Both RHI schemes are demand led and difficult to predict future uptake / spend. Unlike the NI Renewables Obligation (NIRO), the RHI is funded by direct taxation rather than through electricity customer charges. RHI funding is provided from the Treasury via Annual Managed Expenditure (AME) so does not impact directly on NI Departmental budgets. Up until late last year, uptake of the RHI schemes had been low and the RHI AME allocations from Treasury were not spent. The RHI funding can only be used to incentivise renewable heat, so the NI economy was therefore missing out on a considerable amount of potential investment. Our focus over the past 12 months has therefore been on improving the performance of the NI RHI to achieve our PfG target and ensure the RHI allocations are spent (and invested in NI) and not returned to Treasury. This included introducing the Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes.
5. Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), uptake of the Non-domestic RHI scheme has significantly increased 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 4% renewable heat target before the end of the year.

## NEED TO SECURE ADDITIONAL FUNDING AND DFP APPROVAL

6. This recent success however has put pressure on the NI RHI budget with committed monthly payments (for the next 20 years) rising from £430k to over £1.4m-5m over the past 12 months. Officials are currently working with DFP to try and secure additional funding as forecast scheme expenditure now exceeds previous funding allocations. This increase has been driven by a move in the poultry sector away from LPG heating systems to biomass heating systems in broiler houses. Biomass heating systems account for nearly 99% of non-domestic RHI applications.
7. Officials are also working with DFP to ensure appropriate scheme approvals are in place. Regrettably the necessary DFP approval for additional commitments under the Non-Domestic Scheme beyond 31 March 2015 had not been sought. This concerns committed expenditure for new applications approved from 1 April. Committed expenditure (over 20 years) for applications approved prior to 1 April 2015 is covered by the Business Case approval. Officials are urgently taking forward work to provide supplementary information to DFP in support of the original business case that will seek to regularise the position in relation to the scheme expenditure. This will include an assessment of the scheme's continuous and continuing provision of value for money in achieving the Executive's sustainable energy objectives.

## NEED TO IMPLEMENT PHASE 2 COST CONTROL MEASURES

8. Given these budget pressures, we need to urgently implement cost control measures to manage future RHI expenditure. Changes to the NI RHI scheme(s), however will require legislation. There are a number of potential cost control options with varying degrees of complexity. These are:
  - 1) **Do-Nothing** and assume that the current increase in uptake is temporary and that application numbers / costs will reduce to previous levels. This is not an option as indications from Moy Park are that it will take another 12-18 months to convert all its poultry producers' broiler houses to biomass heating.
  - 2) **Reduce incentives for Biomass Tariff from ~~4 November~~ 1-October 2015.**
    - (i) In the GB RHI scheme, biomass installations (up to 1MW in size) are incentivised by tiered tariffs where higher tariffs are paid for the first 1,314 operating hours and reduced tariffs applied thereafter. There are currently no tariff tiers in the NI RHI scheme. Introducing tariff tiers for biomass on the NI RHI scheme would see the tariff for the most popular size of biomass installation reducing from 6.4 p/kwh to 1.5p/kwh after 1,314 hours (or equivalent kwh) for all new installations (post ~~1-4 Oct~~Nov).
    - (ii) In the GB RHI, the most popular biomass tariff applies to installations up to 199kw in size. However, the equivalent NI biomass tariff (6.4p/kwh) currently only applies to installations up to and including 99 kw in size. A flat tariff of 1.5p/kwh applies to larger installations. This current NI tariff banding has encouraged applications for multiple 99kw boilers rather than for single larger installations. Extending the existing 6.4p biomass tariff (20-99kw) to installations up to and including 199kw in size (like GB) and introducing the tariff tier in (i) above will help reduce future application numbers and payments.

~~The legislation for these changes can be prepared relatively quickly during the summer and introduced to the Assembly in September to enable the changes to be effective from 1 October 2015.~~ Legislation is needed in any case to meet a previous commitment to introduce a new RHI tariff for Combined Heat and Power (CHP) by 1 October 2015 so the Biomass tariff changes can be made at the same time.

### 3) Introduce future tariff reductions and/or a system of automatic tariff digression for both RHI Schemes.

- (i) A number of future tariff reductions could be introduced at planned intervals throughout the scheme life. These reductions would have to be determined now and legislated for.
- (ii) Alternatively, an annual system of automatic tariff digression could be introduced where individual tariffs would be reduced if certain budgetary triggers or thresholds are breached. A similar system has been introduced in the GB RHI schemes. This approach will provide the control necessary to react quickly in-year and change tariffs to help manage expenditure.

Option 3(i) will require a detailed economic assessment along with legislation and could take 6 months or more to complete. Similarly, the complexity of the legislative changes for option 3(ii) together with the additional resource implications of running such a system means that it is also unlikely that such a system could be introduced within the next 6 months.

9. It is recommended that you proceed with Option 2 and make changes to the non-domestic biomass tariffs now. In the longer term, tariff digression/reduction is also needed to avoid the need for legislation each time tariffs need changed. It is therefore recommended that officials also develop tariff digression/reduction proposals to be introduced at a later date, possibly along with biomass sustainability and emissions requirements. To have these changes in place by 4 November, the draft legislation needs to be cleared by DSO and the ETI Committee (SL1) in September and laid before the Assembly in early October. This will enable an Assembly Motion Debate to affirm the draft legislation to be scheduled for 3 November 2015. The legislation will come into force on 4 November 2015.
10. A Final Policy document on these proposals is attached at **Annex A** for your approval. This will be published on the DETI website. A SL1 letter to the ETI Committee (**Annex B**) is also attached for your approval. It is expected that there may be some criticism to the proposed changes so Lines to Take are also included at **Annex C**.

## ADMINISTRATION OF DOMESTIC RHI SCHEME

11. The Business Case for the Domestic RHI showed that inhouse administration of the scheme within DETI was more cost effective than outsourcing to Ofgem or another external organisation. Inhouse administration was predicated on recruiting 3 additional staff. This hasn't been possible in the current economic climate with the need for the Department to reduce resource costs and headcount. This has impacted on our ability to effectively administer the scheme. Our priority to date has been on processing new applications but work to develop the IT system for annual payments and to process over 1000 legacy applications (RHPP) has had to

be suspended. Most importantly, it hasn't been possible to complete the requisite number of site inspections in line with the audit requirements. With another member of staff likely to go under the Voluntary Exit Scheme in the autumn, resource pressures will continue to worsen.

12. To help relieve these pressures and enable the backlog of site inspections to be completed along with work to process legacy applications from the RHPP scheme, it is recommended that you agree to delay the processing of new applications. It is expected that there may be some criticism to the proposed delays so Lines to Take are included at **Annex D**.
13. To manage expectations and try to minimise telephone queries, an acknowledgement letter will be issued on receipt of an application that will explain that applications are currently taking between 10 and 12 weeks due to high volumes of applications. We will also explore the possibility of putting a notification on the NI Direct Website and recorded message on the telephone lines. We plan to introduce this approach as soon as possible to allow for staff leave during the next 6-8 weeks and will continue until such time as the backlog of work has been completed.

## RECOMMENDATION

14. I recommend that you agree:

- to proceed with legislation to make changes to the non-domestic biomass RHI tariff and introduce a new CHP RHI tariff from ~~1-4 October~~ November 2015;
- that officials continue to develop proposals for future tariff digression/reduction (similar to that in GB) for both RHI schemes to be introduced at a later date;
- to issue the attached final policy paper (**Annex A**), SL 1 letter to the ETI Committee (**Annex B**); and make use of the attached Lines to Take (**Annex C**) as necessary; and
- to delay processing of new Domestic RHI applications to assist with current resource pressures and make use of the attached lines (**Annex D**) as necessary.

## Distribution List:

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