

**From:** [Woods, Michael \(DETI\)](#)  
**To:** [Bagdonaitė, Dovilė](#); [Cardwell, Mark](#)  
**Subject:** FW: COR-0047-2016 : Update on Proposed Reform of the Renewable Heat Incentive (RHI) Schemes  
**Date:** 29 February 2016 09:00:11  
**Attachments:** [Draft response COR 047 2016 Amber Rudd - proposed changes to GB RHI.tr5](#)  
[Draft response COR 047 2016 Amber Rudd - proposed changes to GB RHI\(3\).DOCX](#)  
[COR 047 AMBER RUDD TO JONATHAN BELL 4 FEBRUARY 2016.pdf](#)  
[RHI Consultation 2016.docx](#)

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For info

Michael

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**From:** Rooney, Eugene  
**Sent:** 29 February 2016 08:54  
**To:** Woods, Michael (DETI)  
**Subject:** FW: COR-0047-2016 : Update on Proposed Reform of the Renewable Heat Incentive (RHI) Schemes

Michael

For info

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**From:** McCoy, Laura **On Behalf Of** Mills, John (DETI)  
**Sent:** 26 February 2016 15:03  
**To:** Private Office DETI  
**Cc:** McCormick, Andrew (DETI); Stewart, Chris (DETI); Rooney, Eugene; Wightman, Stuart; Cooper, Trevor; Robson, Rod; McCrea, Ian; Kerr, Sean; DG\_DETI Press Office; DETI Energy Mailbox  
**Subject:** FW: COR-0047-2016 : Update on Proposed Reform of the Renewable Heat Incentive (RHI) Schemes

Private Office

Please see attached advice and draft reply from John Mills.

Regards,

## Laura McCoy

Personal Secretary  
Department of Enterprise, Trade & Investment  
Netherleigh  
Massey Avenue  
Belfast, BT4 2JP  
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[NI Year of Food & Drink 2016](#)

**Please consider the environment - do you really need to print this e-mail?**

Original Message

From: [private.office@detini.gov.uk](mailto:private.office@detini.gov.uk)

Sent: Thursday, 4 February 2016 17:43

To: Mills, John (DETI)

Cc: McLaughlin, Christine (DETI); Hegarty, Damien; Stevenson, Valerie (DETI Private Office); Dolaghan, Paul; McCormick, Andrew (DETI); Kerr, Sean; Rooney, Eugene; Stewart, Chris (DETI); DG\_DETI Press Office; DETI Energy Mailbox

Subject: COR-0047-2016 : Update on Proposed Reform of the Renewable Heat Incentive (RHI) Schemes

Raised By: The Rt Hon Amber Rudd

Reference: COR-0047-2016

Subject: COR-0047-2016 : Update on Proposed Reform of the Renewable Heat Incentive (RHI) Schemes

Referred To: JOHN MILLS

Date referred: 04/02/2016

**ACTION REQUIRED**

Please see attached correspondence from Amber Rudd MP. We are unable to open the RHI Impact Assessment word document within the email from DECC but have put a call in with Irrelevant information redacted by the RHI Inquiry to see if we can get a different version but Jack has gone for the day. DETI Private office will forward this on once we get a copy.

Please provide advice and a draft reply for signature by the Minister

To be with [private.office@detini.gov.uk](mailto:private.office@detini.gov.uk) not later than 11/02/2016

For further information etc. contact:

Damien Hegarty

Private Office

29209

Copied To For Information:

McLaughlin, Christine (DETI); Hegarty, Damien; PO CC Energy Division



Department  
of Energy &  
Climate Change

Jonathan Bell MLA  
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The Rt Hon Amber Rudd MP  
Secretary of State

Department of Energy & Climate Change  
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4 February 2016

Dear Jonathan,

**UPDATE ON PROPOSED REFORM OF THE RENEWABLE HEAT INCENTIVE (RHI) SCHEMES**

**I am writing to you to update you on my department's proposals for the reform of the RHI schemes, the laying of regulations to implement the first stage of these reforms and the publication of a Consultation to seek public views on the second stage of reforms.**

**Context**

Heat accounts for almost half of UK energy use and a third of UK carbon emissions. It is vital homes and businesses have access to affordable and reliable sources of heat. But we won't meet climate change commitments without a stronger long-term plan to move to low carbon heating.

The RHI was introduced to support households, businesses, public bodies and charities in transitioning from conventional forms of heating to renewable sources of heat. The Non-Domestic RHI scheme was launched in November 2011, followed by the Domestic RHI scheme in April 2014.

The RHI is central to our plans to help develop the low carbon heat market in order to contribute to decarbonisation targets. The RHI also aims to contribute to renewable energy generation in order to help the UK meet its 2020 target for sourcing 15% of energy demand from renewables.

**Spending Review outcome**

As you know, in November we renewed our commitment to the transition to a low carbon economy by confirming a continued budget for the RHI. The overall budget for the RHI is to rise from £430m in 2015/16 to £1.15bn in 2020/21.

OFFICIAL

**Aims of reform**

The Government now proposes that the scheme is reformed to ensure it meets its objectives in a manner which:

- Is affordable: Ensuring that the RHI is affordable by firmly controlling costs.
- Offers value for money: Maximising the benefits of the scheme including carbon abatement and renewable heat generation to achieve value for money for the taxpayer.
- Promotes deployment of those technologies which are likely to be strategically important in the longer-term: Providing support to technologies which are likely to be strategically important and making use of the right technologies for the right uses.
- Contributes to development of sustainable markets: Drive cost reductions and innovation in technologies to help build markets that are sustainable in future.
- Promotes widespread access: Support families that are less able to pay in accessing the scheme
- Incorporates robust scheme design: Avoid the creation of, or respond to existing, perverse incentives and minimise overcompensation as far as possible.

**Timeline for reform**

I am proposing to make reforms to the schemes in two stages. The first stage of reforms would be announced through the attached Consultation Document, but not explicitly consulted upon, and would take effect from spring 2016.

The second stage of reforms would be the subject of the Consultation and constitute the major part of the planned reforms. I propose to publish a response to the Consultation Document in summer 2016 and to implement reforms in spring 2017, subject to cabinet clearances and the necessary State Aid approvals.

**Overview of reforms**First stage

The first stage of reforms would introduce a mechanism to control costs more effectively, by introducing annual spend caps that ensure the schemes do not exceed their agreed annual budgets. This would allow the Government to suspend the scheme to new accreditations in England and Wales (and, with the consent of Scottish Ministers, in Scotland) once a spending cap is hit. Further detail regarding the policy is included in the attached Consultation Document.

There are a number of minor reforms that we plan to introduce to the scheme this spring. These amendments are to provide clarity, remove certain barriers, such as the requirement for applicants to the Domestic scheme to obtain Green Deal Assessment. These reforms also set degression triggers for 2016/17. These amendments do not require consultation. Further detail is provided on each amendment in the Consultation Document. The introduction of the spending cap mechanism will not require regulatory change at this point. Instead regulations would be laid at the time it was deemed necessary to implement the cap.

**Second stage**

The second, more substantial, stage of reforms would introduce further changes, including to:

- Support those technologies likely to be most crucial for the 2030s and beyond, by limiting further deployment of domestic and smaller scale non-domestic biomass systems and driving more widespread deployment of heat pumps and larger non-domestic biomass and biomethane projects.
- Control costs by limiting returns to owners of larger domestic properties applying to the domestic RHI scheme and tackle some potential gaming issues in the schemes.
- Improve the value for money of the scheme, by altering some eligibility requirements and levels of financial support (tariffs), and removing support for solar thermal systems.

Again, further detail is included in the attached Consultation Document.

**Devolved Administrations**

I will also be writing to Ministers in the Scottish and Welsh Governments.

**Next steps**

Subject to the approval of the Economic Affairs Committee and the views of Scottish Ministers the Consultation Document will be published on the gov.uk website. I will also be laying regulations to implement the first stage of reforms.

My officials will share the Government Response to this Consultation with your officials ahead of publication which is planned for the summer.



**AMBER RUDD**

OFFICIAL

**From:** John Mills

**Tel No:** 29215

**Date:** 26 February 2016

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

**Copy Distribution List below**

**UPDATE ON PROPOSED CHANGES TO GB RENEWABLE HEAT INCENTIVE (RHI)**

**Issue:** Amber Rudd, MP has written to you to advise of proposed changes to the GB RHI schemes.

**Timing:** Routine.

**Executive Committee Referral:** N/A

**PFG Implications:** The PfG targets for renewable heat are 4% by 2015 and 10% by 2020.

**Presentational Issues:** None

**FOI Implications:** Not discloseable on grounds of policy development.

**Financial Implications:** N/A.

**Legislation Implications:** N/A.

**Statutory Equality Obligations:** N/A.

**Recommendation:** That you note the background to the issue and respond to Amber Rudd MP using the draft provided at **Annex A**

**BACKGROUND**

1. Amber Rudd MP has written to you about the proposed reform of the GB Renewable Heat Incentive, (RHI) Schemes, (**Annex B**). Two stages of reform are proposed in Spring 2016 and 2017 respectively. Only the second stage will be the subject of a consultation. A copy of the draft consultation paper has been provided, (**Annex C**). The main aims of the reform are indicated as:-

- Ensuring the RHI is affordable by firmly controlling costs
- Offers value for money
- Promotes deployment of those technologies which are likely to be strategically important in the longer term

- Contributes to the development of sustainable markets
- Promotes widespread access
- Incorporates robust scheme design

## **OVERVIEW OF PROPOSED GB CHANGES**

### *First Stage*

2. The first stage reforms would introduce further cost controls by introducing annual spend caps to ensure the schemes do not exceed agreed annual budgets. This would allow for suspension of the schemes once a spending cap is hit, similar to the suspension powers you've just introduced for NI RHI schemes. There are a number of other proposed minor reforms and the planned reforms also set the digression triggers for 2016/17.

### *Second Stage*

3. The second stage of the reforms introduces more significant changes. Support would be provided for technologies most crucial for the 2030's and beyond by limiting further deployment of domestic and smaller scale non domestic biomass with a focus on heat pumps, larger non domestic biomass and biomethane projects. More cost control would be achieved by limiting support to larger domestic properties and also tackling some potential gaming issues in the schemes. The value for money would be improved by altering some eligibility requirements and tariff levels, and removing support for solar thermal systems.

## **NI RHI POSITION**

4. Amber Rudd highlights the importance of the RHI in achieving the UK target for 15% renewable energy by 2020. The recent take up of the NI RHI demonstrates the contribution that NI can make towards the UK target. However, the recent increase in demand on NI non domestic scheme together with caps on future NI RHI allocations from Treasury has resulted in the available budget for new applications being exhausted. This has forced you into having to close both RHI schemes to new applications from 29 February 2016.
5. We estimate that over 6% renewable heat is now in place. In fact, with over 170MW of installed capacity through the Non Domestic Scheme – the NI RHI is responsible for over 6% of total installed non domestic capacity under both GB and NI schemes (according to the latest DECC statistics). NI funding is restricted to less than 3% of DECC's budget.

## **POTENTIAL FOR UK WIDE RHI SCHEMES**

6. In the short term at least there would seem little prospect of additional funding being secured for the Northern Ireland RHI, particularly given the ongoing impact of overspend on the NI block. However, although there are differences between the Northern Ireland and GB RHI schemes and the fuel displacement model is different the schemes are broadly similar. There may therefore be potential in the medium term to work with DECC and the other devolved administrations to develop a UK wide scheme that would have a better fit looking forward towards the 2030's.

**Recommendation**

7. That you note the background to the issue and respond to Amber Rudd MP using the draft provided at **Annex A**



**JOHN MILLS**  
**Energy Division**  
**Ext. 29215**

cc: Andrew McCormick  
Chris Stewart  
Eugene Rooney  
Stuart Wightman  
Trevor Cooper  
Rob Robson  
Ian McCrea MLA APS  
Sean Kerr  
Press Office



**Annex A**

The Rt Hon Amber Rudd MP  
Secretary of State  
Department of Energy & Climate Change  
3 Whitehall Place  
London  
SW1A 2AW

Xx February 2016

Dear

**UPDATE ON PROPOSED REFORM OF THE RENEWABLE HEAT INCENTIVE (RHI) SCHEMES**

Thank you for your letter of 4 February and draft consultation paper setting out your proposals for reform of the RHI. You had previously referred to these measures in your letter of 26 November 2015.

The RHI schemes operating in Northern Ireland have been very successful with over 3,500 installations in place since the schemes were introduced.

In fact we received over 900 applications in the 6 weeks leading up to tariff changes I introduced to the Non Domestic in November 2015. This doubled the number of installations on our Non Domestic Scheme. The current estimate is that NI is providing over 6% of total installed non domestic capacity under both GB and NI schemes (according to the latest DECC statistics).

However, the increased demand on the NI schemes together with confirmation of AME caps for NI (of 3% of DECC budget) and reductions in planned DECC RHI funding through the SR (£1.15b in 2020/21 versus previous forecast of £1.8m) means the NI RHI budget for the next 5 years has been exhausted.

The NI AME funding allocation for RHI for 2016/17 is £18.3m against existing commitments of £45m. I will have to find the additional funding from within the NI Block. There will continue to be an annual deficit for the next 5 years.

Unfortunately because of this budget situation I have, reluctantly had to move to close both RHI schemes to new applications and have brought forward legislation to do so. Following approval of the legislation by the Northern Ireland Assembly on 15 November 2016, I have issued a Notice to close both Northern Ireland RHI schemes to new applications from 29 February 2016.

Closure of the NI RHI schemes will not only have a detrimental impact for the local NI economy in terms of green jobs but also prevents NI continuing to contribute to the UK target to achieve 15% renewable energy by 2020.

My immediate priority has been to address the financial pressure now facing the Executive. Once this is achieved I want to look at the future of renewable heat in NI to see if there is a viable and affordable way forward. Analysis shows that even if we left the scheme open (which we cannot afford due to the restrictions that have been imposed) the scheme would have a positive economic impact.

Identifying a positive way forward is very difficult given the budgetary position. There would have to be numerous changes – some along the lines you intend in GB – before a further scheme could be considered. One option may be for much closer alignment with GB.

Although there are differences between the GB and Northern Ireland RHI schemes and the fuel displacement model is different the schemes are broadly similar. I wonder if there could be merit in exploring the potential in the medium term to work with DECC and the other devolved administrations to develop UK wide domestic and commercial RHI schemes that would have a better fit looking towards the 2030's. I would welcome your thoughts on this issue.

**Jonathan Bell, MLA**

Minister of Enterprise Trade and Investment