

From: [McAfee, Rachel](#)
To: [McAteer, Ronnie](#)
Cc: [Sands, Sylvia](#); [McNally, Noel](#)
Subject: Economist Comments - DETI - Renewable Heat Incentive NI
Date: 26 April 2012 13:50:00

Ronnie

Comments as requested.

Proposal

DETI propose to implement a Renewable Heat Incentive (RHI) scheme in Northern Ireland for non-domestic customers; and provide a short term capital support, by way of a Renewable Heat Premium Payment (RHPP), for domestic customers in advance of the NI RHI scheme being extended to this sector. Whilst the scheme is envisaged to be open to new installations until 2020, DETI appear only to be seeking approval for the period 01 July 2012 to 31 March 2015, representing the period for which HMT funding has been secured. Presumably any decision to continue the scheme beyond 2015 would require further/separate approval.

Strategic Overview

There appear to be two key policy drivers to the proposed programme at a European level. Firstly, the need to reduce greenhouse gas emissions; and secondly, the binding targets for renewable energy imposed on each European Member State, under which DETI has committed to achieving 10% renewable heating by 2020. This target is included in the Programme for Government (PfG) and the Strategic Energy Framework. The PfG also includes an interim target to achieve 4% renewable heat by 2015. Other drivers relate to security and diversity of energy supply. Moreover, GB has already implemented a Renewable Heat Incentive Scheme.

RHI Tariffs

The proposed approach is largely consistent with the GB scheme. The method of calculating the tariff rates is the primary difference between the NI and GB schemes. Moreover, the economic analysis used to design support levels under the NI scheme is based upon a financial model developed by CEPA (section 7.44). It will be important that DETI provides confirmation it is satisfied that the assumptions underpinning this model are robust.

Delivery

It is proposed that Ofgem are given responsibility for the administration of the NI RHI via Direct Award Contract. This is based upon their experience in effectively and efficiently developing and administering other Government environmental schemes including the GB RHI and NIRO (section 13.6). Delivery by Ofgem appears to offer the most cost-effective delivery solution. Section 13.29 states, "*Central Procurement Directorate have been kept informed throughout the process and are content with this course of action.*" Importantly, clarification is needed as to whether approval has been obtained from the DETI Accounting Officer and DETI Minister for the appointment of Ofgem via Direct Award Contract (section 13.30).

Affordability

HM Treasury funding of £25million is available to 2015/16 for for the proposed scheme (section 2.60). Any spending commitments made via the initial NI RHI (i.e. £25m) will be met by ongoing RHI payments from HMT (section 14.19). Section 13.1 states, "*DECC whas indicated that the GB scheme will be open to new entrants to 2020 and in the GB State Aid application noted that the expected subsidies paid in 2020 in the GB RHI to be in the order of £2.3bn, a 3% pro-rata share of these subsidies is £70m. It is assumed that DETI will receive additional funding poset 2016 as a pro-rata share of DECC budget for the RHI.*" Section 13.4 confirms that DETI is content that the NI RHI scheme is affordable under the current funding profile and the expected available budget post 2015/16.

Review

Section 7.53 outlines arrangements in place for scheduled reviews that will be built in to the NI RHI

to allow the progress of the scheme to be monitored, assessed and if necessary, changes implemented. The first review is scheduled to start in 2014. The reviews will be carried out by DETI.

Conclusion

Overall, a reasonable case appears to have been presented in support of the proposed scheme, subject to DETI providing assurance on the points outlined above.

Happy to discuss.

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From: McAteer, Ronnie
Sent: 26 April 2012 14:17
To: Hawthorne, Jill
Cc: Stevenson, Stuart; Sands, Sylvia
Subject: Renewable Heat Incentive NI

Jill,

As discussed, grateful for confirmation/clarification on the following points.

RHI Tariffs

The proposed approach is largely consistent with the GB scheme. The method of calculating the tariff rates is the primary difference between the NI and GB schemes. Moreover, the economic analysis used to design support levels under the NI scheme is based upon a financial model developed by CEPA (section 7.44). Please confirm that DETI is satisfied that the assumptions underpinning this model are robust.

Delivery

It is proposed that Ofgem are given responsibility for the administration of the NI RHI via Direct Award Contract. This is based upon their experience in effectively and efficiently developing and administering other Government environmental schemes including the GB RHI and NIRO (section 13.6). Delivery by Ofgem appears to offer the most cost-effective delivery solution. Section 13.29 states, "*Central Procurement Directorate have been kept informed throughout the process and are content with this course of action.*" **Importantly, please provide clarification as to whether approval has been obtained from the DETI Accounting Officer and DETI Minister for the appointment of Ofgem via Direct Award Contract (section 13.30 of the appraisal refers).**

Regards

Ronnie