

**Millar, Angela (DFP)**

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**From:** Scott, Michelle  
**Sent:** 12 June 2015 14:39  
**To:** Morelli, Emer  
**Cc:** Millar, Angela (DFP)  
**Subject:** DETI Issue

Emer

Angela and I met with Trevor Cooper this morning on the non-domestic renewable heat initiative. £25m of funding (AME) was provided by HM Treasury for this scheme, which was approved by DFP in April 2012.

DETI has raised two issues in respect of the scheme, affordability within the AME allocation and business case approvals.

In relation to affordability, we have asked DETI to clarify the agreement between themselves and DECC on the AME available - both for the upfront capital investment in the renewable technologies, and also for the 20 year support payments to the firms who install the technology. The ball is in DETI's court and we will investigate further once they have clarified the position.

Turning to approvals, it was a condition of the DFP approval that reviewed be undertaken from 2014. The DFP approval as also timebound, with fresh approval being required after 31 April 2015. To date DETI have not sought further approvals and have not engaged with DFP on any review.

The outcome of the meeting was that Trevor will write to DFP outlining the position in respect of the scheme, and the actions the department are currently taking to address the approvals issues. They have sought legal advice on their options. I have asked for this letter as a matter of urgency.

This has been escalated within DETI to PS level, therefore I wanted to keep you informed in case you or Mike are approached.

Michelle

## RENEWABLE HEAT INCENTIVE (RHI)

RHI - to support the government's target of 10% of energy used for heating to come from renewable sources.

Non-Domestic technologies (biomass, ground source heat pumps and solar thermal), approved 27/4/12 – condition of approval “any decision to continue the scheme beyond 2015 would require further/separate DFP approval”.

Domestic approved 15/9/14 (£103m capital £1.4m resource) – need to review this £103m quoted is AME profile which would cover both Non-domestic and Domestic.

2011 email exchange between DETI and HMT:

<p><b>From:</b> Clydesdale, Alison [mailto:Alison.Clydesdale@detini.qsi.gov.uk] <b>Sent:</b> 11 April 2011 13:00 <b>To:</b> Parker, Jon - HMT <b>Cc:</b> Hutchinson, Peter <b>Subject:</b> RHI NI</p>	<p>We spoke briefly the other day about the £25m allocation to NI for an RHI. Can I ask you to clarify for me :- (i) The position with the commitment to 20 year payments within NI. (ii) The process for advising on the spending profile of the £25m AME that we have been allocated. (iii) If the £25m can solely be used for an RHI - or we can use it to incentivise in a different way e.g grant ?</p>	
<p><b>From:</b> Parker, Jon - HMT [mailto:Jon.Parker@hmtreasury.qsi.gov.uk] <b>Sent:</b> 15 April 2011 12:13 <b>To:</b> Clydesdale, Alison <b>Cc:</b> Hutchinson, Peter; Garcia, Nicolas - HMT; Parkinson, Mark - HMT; Mike.brennan@dfpni.qsi.gov.uk <b>Subject:</b> [RESTRICTED] RE: RHI NI</p>	<p>Taking your points in turn: i) With DECC, we have agreed that they can make commitments to spending in future years (up to 20 years) for installations that are installed within the SR period (i.e. the initial payments have to be affordable within the SR profile), and providing that the policy is set up so that payments should be basically flat over the 20 year period in real terms (i.e. no backloading to ease short-term affordability pressures). This same agreement would apply to any NI scheme. ii) DECC's GB RHI profile is £56m/133m/251m/424m. NI's share of this is 2.98%, so £1.7m/4.0m/7.5m/12.6m. The NI scheme would need to follow this profile as much as possible – on which further below. We will need you to feed into us forecasts of NI RHI spending for the Office of Budget Responsibility's bi-annual forecasts – this can be fed through me or Mark Parkinson (in the Devolved Countries Unit</p>	<p>Subsidy would be AME resource is this standard AME resource or does the arrangement referred to at end of email apply?</p> <p>Is the profile AME capital only or AME capital and AME resource – are subsidy payments part of the capped profile or are the subsidies/tariffs standard</p>

	<p><i>within Treasury).</i></p> <p><i>iii) This funding does have to be used for renewable heat, but if NIE decide you would like to use it for a grant scheme or some such then this would be permissible as long as the cost of NIE spending is constrained to the AME consequential.</i></p> <p><i>The other key point it is necessary to let you know about is that the DECC RHI spending is not being treated as standard AME, where the Exchequer takes on all risks of overspend. Instead, there is a risk-sharing arrangement whereby should RHI spending in one year exceed the SR profile, then DECC would need to repay this in future years. They can do this through announcing changes to the SR that will bring cost savings relative to the SR profile in future years. However, a small proportion of any required future savings (still to be determined, but likely to be of the order of 5%) will have to be funded through contributions from DECC's DEL. Again, these rules would be applied in equivalent fashion to NI.</i></p>	<p>AME resource?</p> <p>2015/16 allocation confirmed in DECC Minister to DETI Minister letter 16/12/13 (DF1/14/610342) DECC allocation £430m NI consequential c£12.8m – Is this AME resource or AME resource and AME capital? DETI AME profile for 15/16 should not exceed this.</p>
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The business case affordability section refers (page 23) :

*As previously stated, funding of £25m is available to 2015/16 for this scheme, following that DETI will need to secure additional funding from DECC to continue the scheme to 2020. DECC has 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.*

Does this imply the subsidy payments (AME resource) have a separate profile? What does the state aid application state exactly? What is the DECC profile?

#### Action points

- DETI – to write regarding approval for Non-Domestic from 2015 onwards
- DETI to engage with DECC require clarification does NI consequential cover the installation (capital) only or both installation and subsidies; depending on response DETI to clarify with DECC budget position – can NI exceed NI consequential 15-16 £c12.8m
- DETI to open new record lines splitting the schemes
- Supply to be aware for AME exercise 15-16 profile should not exceed £13m depending on response from DECC – most recent profile AME resource 10.5m AME capital £1.14m.
- Supply to engage with DETI iro Domestic approval - £103m likely to be the AME profile for both schemes