

From: [Scott, Michelle](#)
To: [Morelli, Emer](#)
Subject: FW: Non-Domestic Renewable Heat Incentive (RHI) - Approvals
Date: 21 July 2015 10:10:38
Attachments: [Memo from Trevor Cooper to Michelle Scott DFP - Non-Domestic Renewable Heat Incentive - approvals.DOCX](#)

Emer

As also discussed

Michelle

From: McCoy, Laura **On Behalf Of** Cooper, Trevor
Sent: 01 July 2015 17:40
To: Scott, Michelle
Cc: Millar, Angela (DFP)
Subject: Non-Domestic Renewable Heat Incentive (RHI) - Approvals

Michelle

Please see attached from Trevor Cooper for your attention.

Thanks.

Laura McCoy

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From: Trevor Cooper

Date: 1 July 2015

To: Michelle Scott
DFP

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NON-DOMESTIC RENEWABLE HEAT INCENTIVE (RHI) - APPROVALS

1. Following on from our stocktake meeting on 3 June and our meeting on 12 June, which provided DETI an opportunity to specifically update you on the Non-Domestic RHI, this letter highlights three challenges where we would value your assistance.

Background

2. The RHI is the Government's key mechanism for driving uptake of renewable heat to deliver the UK's contribution to the EU renewables target with the aspiration of generating 15% of energy from renewable sources by 2020. The Executive has decided that NI's contribution should be to achieve 4% renewable heat by 2015, as set out in the PfG, and 10% by 2020 as set out in the Strategic Energy Framework. This target contributes to the Executive's carbon reduction target of 35% reduction in GHG by 2025.

The non-domestic RHI scheme was introduced in NI in November 2012. A domestic RHI scheme was introduced in December 2014.

Ofgem is responsible for the administration of the Non-domestic RHI scheme on behalf of DETI, providing information to those thinking of applying for the RHI, renewing applications, receiving and examining meter data and making payments to participants.

The scheme provides a 20 year payment to successful applicants to incentivise the move away from fossil fuels such as gas and, predominantly in NI, oil to renewables technologies such as solar, ground source heat pumps and biomass. Without subsidisation there would be no move away from fossil fuels as the sustainable technologies are more expensive. In NI the overwhelming majority of renewable heating installations supported under both the Non-Domestic and Domestic RHI have been for biomass.

Approvals

3. The current basis for DFP approval for the non-domestic scheme was a business case which was agreed in April 2012. This included a commitment that any decision to continue the scheme beyond 2015 would require further/separate DFP approval. There was also a requirement to review the scheme starting in 2014.

4. Regrettably the necessary DFP approval for additional commitments under the Non-Domestic Scheme beyond 31 March 2015 has not been sought. The Department undertook work on a review of the Non-Domestic RHI with proposals being subject to public consultation in October 2013. Following this consultation, the Department focussed on implementation of the Domestic RHI Scheme, and proposed actions on the Non-Domestic RHI were delayed to accommodate this.
5. Given the position on approvals, we have been urgently assessing options to prevent ongoing, irregular funding. 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. Unfortunately any room for manoeuvre is limited. The basis for the scheme is statutory and it is not possible to cease, suspend or otherwise delay applications. This has been confirmed (verbally) by DSO (we await written confirmation). Effecting legislative change requires affirmative resolution of the NI Assembly so will take at least 3 months to complete, and we are urgently taking work forward in this regard.
6. The Department is also, urgently taking forward work to provide supplementary information in support of the original business case that will seek to regularise the position in relation to the Scheme expenditure (both RHI payments and administration costs) both prospectively and retrospectively. 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.

Budgets

7. From late 2014 uptake for the non-domestic scheme has taken off and forecast expenditure on the Non-Domestic and Domestic elements together in 2015/16 is estimated to be £23m – roughly double the previous forecast made in November 2014. In light of the increase in scheme uptake, the previous 15/16 forecast of £11.64m (November 2014) is no longer appropriate and further funding is needed to meet unavoidable commitments – an increased AME in line forecast for this total was recently submitted to inform the Chancellor's July Budget. This rapid increase is due to the NI poultry industry adopting biomass heating technologies for its chicken houses. This increased uptake assists delivery of Executive targets, supporting the agrifood sector and providing environmental benefits. Nonetheless additional controls are being considered (see below) to ensure that the scheme delivers the best value for money option and appropriate budgetary control on an ongoing basis.

As we agreed at our meeting, we are in the process of writing formally to DECC as a means of getting further clarity on the exact nature of the funding agreement for expenditure on both the Non-Domestic and Domestic RHI. I will revert to you as soon as possible on this and this should give us greater clarity on the Resource/Capital split as well as the individual and overall funding mechanisms for each of the Domestic and Non-Domestic elements.

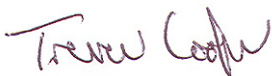
Future Controls

8. The speed with which uptake of one particular technology (Biomass) has taken off has led us to consider measures to control future expenditure and maximise value for money. These measures include:
- The introduction of a tiered tariff for new biomass installations where the tariff significantly reduces after 1,314 hours of usage;
 - Consideration of introducing a digression mechanism for tariffs for new renewable heating installations such that if scheme uptake exceeds triggers based on factors such as application numbers or budgetary estimates, there will be an automatic reduction in the tariff available; and
 - Consideration of a straight tariff reduction for the most popular biomass tariff.

Together, these measures will ensure more sensitive budgetary control in the short and long term; mitigate over-reliance on one technology; strengthen value for money assessment and continue to incentivise the growth in renewable heat to attain the Executive's 10% target.

Conclusion

9. This note sets out the actions we are taking to regularise the position on the non-domestic RHI. I will follow on as soon as possible with feedback from DECC on the budget position with a formal submission that will seek to regularise expenditure incurred prior to any legislation changes and that would be incurred up to the point at which we can legislate further change, and then a business case that will cover the changes that we propose be introduced in legislation.
10. As discussed in our stocktake meeting, I will write separately to you regarding assurance in respect of approvals for other projects and Programmes within Energy Division.



TREVOR COOPER
Head of Finance Division

cc: Andrew McCormick
Chris Stewart
Eugene Rooney
John Mills
Bernie Brankin
Stuart Wightman
Angela Millar, DFP