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Subject: RHI references within SR - AME
Date: 26 November 2015 09:47:25

Pamela

We have been discussing DETI's Renewable Heat Incentive, and the AME implications. Yesterday's SR included reference to the future of the scheme, with increased funding for the scheme to 2020-21. The reference and figures below are from the SR policy costings paper and, as this document sets out the costings for tax and AME policy decisions, I think it is reasonable to conclude the RHI spending will remain in AME.

I just want to clarify the next steps from a budgetary perspective. Clearly I will look to DETI to engage with colleagues in DECC to understand the policy implications for the design of the scheme, however as this is an AME cost within the SR, can we assume our NI expenditure is now treated as normal AME, or will further clarification follow from HMT on our RHI AME expenditure?

As we have discussed, there has been increased uptake of this fund after a period of relatively low spend therefore it will be important from a budgetary perspective that we have a common understanding of the funding arrangements.

Many thanks

Michelle

Renewable Heat Incentive: capping costs and improving value for money

Measure description

This measure will reform the Renewable Heat Incentive (RHI) from 2016-17 to 2020-21, improving value for money and including additional budget management controls (budget caps). Funding of the scheme will continue to rise to £1.15bn in 2020-21.

In each year, the budget cap will provide a backstop on expenditure. Should the forecast expenditure on existing applications and accreditations reach the agreed budget for that year or any future year, the Secretary of State will be able to take action to suspend the scheme to new applications.

The cost base

Current RHI deployment data and expected deployment in the remainder of the year has been used to calculate expected spend in 2015-16. The Department of Energy & Climate Change (DECC) publishes its latest deployment data on a monthly basis. DECC expects current deployment levels to increase in future years in line with the level of the agreed budget.

Costing

The costing is derived by assuming that spend reaches the agreed budget level in each year from

2016-17 to 2020-21, which will be supported by improved cost control as set out above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+30	+100	+245	+460	+690

Areas of uncertainty

The main uncertainty in the costing relates to the demand-led nature of the scheme, which means that deployment is uncertain. There is also uncertainty around the amount of heat that will be generated by installations participating in the scheme, for example due to variability in weather. Similarly the production of biomethane can vary due to factors such as the availability of feedstock.

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