

**From:** [Scott, Michelle](#)  
**To:** [Morelli, Emer](#)  
**Cc:** [Brennan, Mike](#); [Millar, Angela \(DFP\)](#); [McBurney, Joanne](#); [McGuinness, Jeff](#); [Galloway, Pamela](#)  
**Subject:** FW: BUSINESS CASE ADDENDUM FOR THE NORTHERN IRELAND NON-DOMESTIC RENEWABLE HEAT INCENTIVE  
**Date:** 07 December 2015 13:40:17  
**Attachments:** [Letter to Michelle Scott ref RHI.docx](#)

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Emer

Please see attached correspondence from Trevor Cooper on the RHI take-up since April 2015. As you will note, the cost implications of applications since October are considerable and have resulted in a £42m per annum spend of RHI from 2016-17, significantly above the cap indicated by HMT.

In considering how we take this forward with HMT, I do think we need to argue quite strongly that NI has made a more than proportionate contribution to the UK wide renewable targets, and the GB scheme wasn't replicated in NI in recognition of our very different energy market. Therefore, in a demand led scheme, it is difficult to ensure an exact population share of expenditure.

Furthermore, the funding arrangements for this scheme were not clearly communicated by DECC at the outset. The emails we have seen refer to a risk sharing arrangement for expenditure over the profile. The penalties suggested in this email were that the DECC would have to repay any overspend through cost savings announced in future SRs – it also stated that a small proportion of overspend would be funded by DEL (this amount had not been finalised but was likely to be in the order of 5% of overspend). We can argue that the changes to recoup the overspend are the reduction in tariff - and possibly the suspension of the scheme (should that policy decision be taken). Our penalty should then be 5% of the overspend.

If the scheme were suspended now, then in twenty years time our tariff payments would stop, while still continuing in GB at a rate of c £1bn per annum. We would not require the £29m population consequential which would, over a number of years, significantly erode the overspend.

There are clearly policy decisions which need to be taken in terms of controlling further spend – the recent tariff reductions have reduced the attractiveness of the scheme to new applicants, however if the scheme remains open there can still be new applicants with associated spend.

I will consider the funding issue further – however I do think that given the potential DEL funding implications it is worth rehearsing some of these arguments.

Perhaps we could discuss further this afternoon

Michelle

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**From:** McCoy, Laura **On Behalf Of** Cooper, Trevor  
**Sent:** 07 December 2015 13:05  
**To:** Scott, Michelle

**Cc:** Rooney, Eugene; Stewart, Chris (DETI); Mills, John (DETI); Brankin, Bernie; McFarlane, Iain; Wightman, Stuart

**Subject:** BUSINESS CASE ADDENDUM FOR THE NORTHERN IRELAND NON-DOMESTIC RENEWABLE HEAT INCENTIVE

Michelle

Please see attached letter from Trevor Cooper for your attention.

Thanks.

## **Laura McCoy**

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Michelle Scott  
DFP  
Supply Division  
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7 December 2015

Dear Michelle

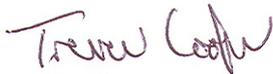
## **BUSINESS CASE ADDENDUM FOR THE NORTHERN IRELAND NON-DOMESTIC RENEWABLE HEAT INCENTIVE**

1. I am writing in follow up to my letter of 27 October 2015 and the subsequent letter from Emer on 29 October 2015 setting out prospective RHI approval to 31 March 2015.
2. The legislative changes to the Non Domestic RHI scheme were approved by the Assembly on 17 November and came into operation on 18 November 2015. An increase in application activity was predicted in the run up to the scheme changes but the actual response far exceeded the expectation. The table below demonstrates how application numbers have increased from August 2015 up to the legislative changes on the 18 November 2015.

<b>Period</b>	<b>Application Numbers</b>	<b>Annual Cost</b>	<b>20 Year Cost</b>
<b>Nov 2012 – March 2015 (Previous Commitments)</b>	<b>522</b>	<b>£12.3m</b>	<b>£246m</b>
April 2015	85	£1.1m	£22m
May 2015	66	£1.4m	£28m
June 2015	49	£1.3m	£26m
July 2015	42	£0.9m	£18m
August 2015	55	£1.1m	£22m
September 2015	90	£2.14m	£42.8m
October 2015 (up to 28/10/15)	441	£9.8m	£196m
<b>Total for Retrospective Period (1/4/15 – 28/10/15)</b>	<b>828</b>	<b>£17.74m</b>	<b>£355m</b>
November 2015 (29/10/15 – 29/11/15)	452	£9.95m	£199m
December 2015 – March 2016 (forecast)	80	£1.92m	£38.4m
<b>Total for Prospective Period (29/10/15 – 31/3/16)</b>	<b>532</b>	<b>£11.9m</b>	<b>£238m</b>
<b>Total Forecast Commitments to 31 March 2016</b>	<b>1882</b>	<b>£41.94m</b>	<b>£839m</b>

3. Some 983 applications were received during the 2½ months leading up to the tariff changes on 18 November 2015. Processing and accreditation of these applications is likely to take many months given the numbers. There is nothing to suggest that all these applications won't be accredited. Ofgem's initial checks suggest the applications are in order. Accordingly the figures have been included for forecasting purposes.
4. The current 2015/16 AME budget is £22.8m which was based on monthly non domestic application numbers up to August 2015 and a forecast of increased application numbers in September and October. However, with almost 1,000 applications received during the 2½ months leading up to the changes, we are now forecasting Non Domestic RHI expenditure to be £30m in 2015/16. Even if there were no new offers of support beyond 2015/16, Non Domestic RHI scheme expenditure is forecast to be £42m in 2016/17 (as shown above) and for the subsequent years going forward. Any further offers in 2016/17 would increase this further.
5. If there were no new offers of support under the Domestic RHI beyond 2015/16, annual expenditure under this scheme is forecast to be £2.2m from 2016/17 onwards pushing total RHI expenditure to £44.2m.
6. Application numbers have dropped dramatically as expected after the introduction of the scheme changes with only 1 application received since the 18 November 2015. It is expected that numbers will remain low going forward. However, it is likely that any decision to close or restrict either of the RHI schemes from April 2016 could trigger another spike in demand and committed expenditure.

Yours sincerely



**TREVOR COOPER**  
**Head of Finance Division**

cc Eugene Rooney  
Chris Stewart  
John Mills  
Bernie Brankin  
Iain McFarlane  
Stuart Wightman