From: Scott, Michelle
To: Scott, Michelle
Subject: FW: RHI - DETI arguments funding
Date: 23 February 2017 21:08:03

From: Brennan, Mike
Sent: 08 December 2015 13:16
To: Scott, Michelle; Morelli, Emer
Cc: Millar, Angela (DFP)
Subject: RE: RHI - DETI arguments funding

Michelle – this is helpful thanks. Hopefully we don't need to get into this level of detail. Can you also be prepared to push the 5% cap line if necessary

M

From: Scott, Michelle
Sent: 08 December 2015 12:40
To: Morelli, Emer
Cc: Brennan, Mike; Millar, Angela (DFP)
Subject: RHI - DETI arguments funding

Emer/Mike

Given Trevor's cc list I thought I should share this in advance of the meeting.

This is too much detail for this afternoon's meeting – however the points around NI delivering a more than population share contribution to the UK renewable target are well made and I will talk HMT through this at a high level this afternoon. It would our ideal (but perhaps unlikely) outcome that we are funded to recognise our greater contribution.

There is also an argument around lack of consultation – however we need to tread carefully here and place it in the context of the risk sharing arrangement set out by Jon Parker in 2011. However, in this scenario we need to deliver savings to significantly reduce the RHI spend in the future – and really the only route left open to us is to close/suspend the scheme.

Michelle

From: Cooper, Trevor
Sent: 08 December 2015 11:38
To: Scott, Michelle
Cc: McCormick, Andrew (DETI); Stewart, Chris (DETI); Rooney, Eugene; Mills, John (DETI); Wightman, Stuart; Brankin, Bernie
Subject:

Michelle

Attached suggested ltts for your meeting today – happy to discuss.
Trevor

NI Renewable Heat Incentive Scheme

- As part of the 2010 Spending Review, £860m was made available to support the GB Renewable Heat Incentive scheme. £25m was made available to NI over the same period to be used to incentivise the use of renewable heat.

- In response to this allocation, DETI introduced the Non-domestic RHI scheme in November 2012 and the full domestic RHI scheme in December 2014.

- The NI and GB RHI schemes are different schemes targeting different heat markets, however both schemes contribute to the UK renewable energy target.

- The NI heating market is 70% reliant on oil whereas GB is almost 70% reliant on gas. Despite the current drop in oil prices, there should be much more scope in NI to switch households and businesses to renewable heating technologies. Oil is also a dirtier fuel than gas and generates much higher emissions. The NI scheme should therefore deliver higher benefits in terms of CO2 savings and resources should be applied to secure these higher benefits.

- Low levels of uptake with NI Non-domestic RHI scheme initially led to a £15m underspend during the 2011-2015 period. When the full domestic scheme was introduced in 2014, DETI undertook promotion work to increase uptake across both schemes.

- A significantly higher level of uptake during the last 12 months has resulted in the NI Non-domestic scheme outperforming the GB scheme from a heat generation perspective.

- The latest Ofgem figures at 30 September 2015 show that, to date, 167 MW of renewable heating has been incentivised under the NI Non-domestic RHI scheme. This equates to 6.7% - 8.3% of GB capacity[1].

Funding

- The funding arrangements for the RHI were not clearly or consistently communicated throughout the last SR period.

[1] Range given based comparing current NI figures with latest GB figures (higher end) and (estimated up to date GB figures (lower end).

- The most detailed discussion we can locate is an AME profile set out for DETI in an email from the HMT Energy Branch. In his email (15 April 2011), Jon Parker stated the NI scheme would need to follow the AME profile *as much as possible,* and there would be a risk sharing arrangement put in place for expenditure above the AME allocation. This risk sharing arrangement involved changes to the scheme to repay overspends in future years along with a small proportion (suggested to be around 5%) of future savings to be funded from DEL.

- The proposed cap signalled as part of 2015 SR represents a significant change in the arrangement set out above and would result in a considerable funding gap for the RHI going forward. Latest figures demonstrate that *existing* commitments made through the scheme will cost £44m – and these commitment will run for twenty years. It must also be acknowledged that a 2.98% share of DECC funding does not recognise our different energy market or the higher contribution NI is making to the renewable energy target.

- If future NI RHI AME allocations were based on 6.7% of GB allocations this would fund existing commitments going forward. It would still likely mean closing or suspending both schemes during 2016/17 but would enable restricted support for new installations to start being made available again in 2017/18. An 8.3% allocation would provide more options for earlier support for further new installations.

	AME Allocations £m					
	15/16	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**
Estimated reduced DECC AME allocation[2]	430	640	780	900	1010	1150
Proposed HMT NI allocation	?	18.3	22.3	25.7	28.9	?
NI Allocation at 6.7% of DECC	28.8	42.9	52.26	60.3	67.67	77.1

- Had DETI been given advanced warning that this absolute cap would be introduced in 2016-17, the Domestic RHI scheme would not have been introduced at the end of 2014 and no marketing or promotion activity would have been undertaken in 2015.

- Legislative changes were made to the NI Non-domestic RHI on 18 November 2015, which reduced the tariff for Biomass installations (the key driver of demand) as well as introducing a two-tiered approach with a lower tariff payable for heat generated over a set threshold. There was a legal

[2] Reduced DECC budget provided by Ofgem.

requirement to consult in advance of introducing these changes and a considerable increase in applications was experienced immediately prior to the tariff reduction.

- DETI did engage with DECC in the run up to these legislative changes, however DECC officials were unaware of the changes to be introduced as part of SR 2015.

- It is on this basis that we contend that a cap on NI RHI expenditure based on a simple population calculation is inappropriate as it does not recognise the different energy markets, the contribution NI is making to the renewable target or the funding arrangements outlined previously.