

## 1. Renewable Heat Incentive (RHI)

### Overview

- The RHI is an incentive mechanism aimed at promoting the uptake of renewable heat installations in the commercial sector. No upfront support is awarded but payments are provided for the lifetime of the technology (up to 20 years) and are calculated based on the size, type and heat use of the installed technology. Payments are based on metered heat output x appropriate tariff (tariffs differ for different technologies and are in the form of pence per Kwh). This scheme is similar in nature to the NI Renewables Obligation (NIRO) which incentivises renewable electricity.
- The scheme was designed following public consultation (July 2011) and independent economic analysis by Cambridge Economic Policy Associates (June 2011 and January 2012).
- The NI RHI was launched on 1 November 2012 (the GB scheme was launched in November 2011). The schemes are similar in many aspects however the tariffs for NI have been designed specifically for the local heat market. The NI tariffs tend to be lower than GB tariffs – this is because the cost differential between conventional heating and renewable heating is less in NI than GB.
- For the scheme to be launched approvals were required from a DETI Casework Committee, DFP, the DETI Minister and EU (re State Aid).
- The scheme is underpinned by secondary regulations.
- The scheme administered on a day to day basis by Ofgem. The relationship with Ofgem is via an Administrative Services Agreement. Money is transferred on a monthly basis to cover payments – this is looked after by Sandra Thompson (Energy co-ordination Branch).
- To date (12.5.14) there have been 153 applications under the RHI, all bar one for biomass, and 105 accreditations.

### Useful reading / documents

- April 2009 Submission beginning the work on renewable heat - DT1/09/0033582 and DT1/09/0144352
- Executive Summary of a 2010 Study into the NI renewable heat market - DT1/10/0089593
- CEPA Analysis Work - DT1/11/0071551 (first report) and DT1/12/0034035 (follow up research)
- State Aid application and addendum - DT1/12/0000602 and DT1/12/0021740
- Casework Synopsis - DT1/12/0026878
- RHI Business Case - DT1/12/0035322
- Guidance notes for the RHI scheme - [www.nidirect.gov.uk/rhi](http://www.nidirect.gov.uk/rhi)
- Legislation - [Link to legislation.gov](http://link.to.legislation.gov)
- Documents underpinning relationship with Ofgem - DT1/13/0063865, DT1/13/0063864, DT1/13/0063866
- FAQs - DT1/13/0038171
- Weekly Ofgem reports - DETI Container DT15/160/245/45/ Energy DETI - Sustainables - Renewable Heat - RHI Accreditations and Reports

- Spreadsheet analysis on uptake - DT1/14/0088879

## Key contacts

- Ofgem

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- DECC (Organisation chart at DT1/14/0025193)

Irrelevant information redacted by the RHI Inquiry

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## Current / emerging issues

- **Data Protection** – DETI and Ofgem have had many discussions regarding data sharing under the RHI. Ofgem receive applications and provide DETI with a weekly update on these, however the information provided does not include location, post code, type of sector and other information that might aid statistical records, briefing material or policy development. Ofgem are again considering how such information could be shared.
- **Carbon Trust Loan** – An issue arose in summer / autumn 2013 where Ofgem refused an application on the basis they had received a Carbon Trust 0% interest loan – this was despite the fact that Ofgem advised applicants and DETI that they consider the two schemes were compatible. Following consideration, DETI revoked Ofgem’s decision and allowed applicants to avail of both schemes. This, however, has State Aid implications in that applicants mustn’t breach EU thresholds on de minimis aid. Ofgem had previously advised this situation had been sorted however it now appears this isn’t the case and are awaiting DETI instructions on how to proceed. In GB, Ofgem accredit installations and simply notify DECC that both sources of funding have been received – it is unclear whether this satisfies State Aid rules. Stephen Moore (EU) has been very helpful on this issue. Papers at DETI Container DT15/160/245/54/Energy DETI - Sustainables - Renewable Heat - Carbon Trust Loans and RHI 2013/14.
- **Tariffs** – It is becoming apparent that the payments made to installations are higher than would have been expected under the CEPA modelling. Ofgem (Edmund Ward) has advised (on 13.5.14)

that the experience in GB and NI has shown that many installations have had a higher demand (time of operation) than had been assumed in the tariff calculations; this is especially true of certain sectors. As the demand is higher than what has been assumed the tariffs can become over-generous. This issue would need to be considered as a matter of urgency. The email from Janette O'Hagan (DT1/14/0088268) is also relevant to this point, where applicants could over-use technologies for financial gain. Again CEPA had advised in their 2011 analysis that this wouldn't be the case. The solution would be to "tier" tariffs, where a certain tariff is provided for the first 15/20% of use and then another lower tariff is provided for the rest of the heat use. This is used in GB tariffs. Certainly this should be considered for biomass under 100kW as a matter of urgency. This has been discussed briefly with Edmund Ward and he advised that Ofgem would be able to implement without too many changes to existing systems.

- **Budget** – the initial budget was for £25m until March 2015, this came with correspondence with HMT that payments made under the initial funding would be covered in future years (DT1/11/0044780). DECC have received a budget of £430 for 2015/16, a DETI share of this would be the order of £10-12m however no confirmation has been forthcoming. Correspondence from DECC has suggested the money will be provided to NI from HMT (DT1/14/0061088). Finance are aware. In future years a more joined up approach with DECC may be sensible regarding budgeting i.e. a single UK budget covering both schemes? In terms of admin budget, the expected costs of Ofgem is expected to be £260k – a bid has been submitted as part of June Monitoring. These costs are based on 3% of GB costs. Ofgem are scheduled to submit a "change control" to current protocols to confirm these costs.