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**Subject:** Supply - DfE - Scheme Parameters (3)  
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Mike

As discussed with Minister yesterday, Supply has set out some high level parameters for DfE's use in considering the Renewable Heat Initiative going forward.

Happy to discuss before onward submission to Minister.

Many thanks

Emer

## Parameters of Renewable Heat Incentive Scheme

- 1. The scheme must meet the requirements of regularity, propriety and value for money as set out in Managing Public Money NI.**
- 2. The scheme must contribute to the renewable heat target – the primary objective of the original NI RHI scheme (2012) was to increase the update of the renewable heat to 10% by 2010 (baseline 1.7% 2010)**

Clarity is required from DfE on what contribution to this target NI is currently making. Is there is defined contribution required from NI to the overall UK target?

Is there a risk of infraction proceedings from EU if NI does not contribute its share?

As part of the RIA submitted by DfE in February 2016, DfE estimated at the Executive's 2015 target of 4% renewable heat had been met and exceeded. Given more recent information regarding the design of the scheme, can all the renewable heat generated under this scheme count towards this target?

- 3. The proposed level of support must be the minimum necessary to deliver the scheme objectives**

There should be an agreed, enforced ceiling on the rate of return achievable on the scheme. There must be no opportunity for excess profits to be made from the scheme.

The original 2012 business case was based on a 12% rate of return. The October 2015 addendum reported that the reality was a rate of return of 33%. That addendum reported that the tiered tariff, cap and revised banding introduced in November 2015 would reduce the rate of return to between 11.6% and 12.8%.

The rate of return achievable can be affected by a number of variables – the most volatile being fuel prices. There will need to be consideration given to measures which could ensure the rate of return does not increase above the agreed limit.

Advice would be required from DfE on rate of return dependencies and volatiles across the scheme life. Legal advice would also be required on whether additional 'degression' style controls could be added to ensure tariffs could be reduced in line with changing market conditions and budget availability.

**4. The scheme must be State Aid compliant, and have all necessary approvals including DoF and HMT**

The original scheme was notified to the EU Commission, and noted that the UK authorities concluded that the necessary rate of return to incentivise the scheme was between 8% and 22%.

Information subsequently provided by DfE demonstrates the rate of return has significantly exceeded this range.

Any future operation of this scheme will require the revised approval of the EU, HMT and DoF which would be based on a value for money assessment undertaken by DfE.

**5. The scheme must be underpinned by robust, clearly defined and enforceable regulations which ensure the scheme continues to operate within the original policy intent**

A criticism of the scheme operation to date has been that much of the activity which is out with the policy intent, is actually permissible under the scheme regulations.

Should a decision be taken to continue with any form of incentivised scheme, it would be essential that the regulations were reviewed and amended to ensure any practices which are inconsistent with the overall scheme intent can be quickly addressed, and the non-compliant installations can be immediately removed from the scheme.

**6. The scheme must have sufficiently robust administration arrangements**

The original 2012 Business Case set out a range of measures which would be put in place to manage the risk of fraud. Any future operation of this scheme would require the robust oversight of both the Department and the administrator.

There must be assurance that both department and administrator are appropriately resourced and skilled to robustly enforce anti-fraud measures and interrogate usage data to quickly identify and address any gaming of the scheme.

There must be clarity that only heat produced with an economic use, which would otherwise be produced using fossil fuels is incentivised.

**7. Regular reviews must be built into the scheme**

In addition to real time monitoring by the administrator and the department, there should be regular interim evaluations undertaken of both the scheme and its administrations.