

**From:** [McCormick, Andrew \(DFE\)](#)  
**To:** [Cairns, Timothy](#)  
**Cc:** [Kerr, Sean](#)  
**Subject:** Fw: DESK IMMEDIATE: NI RENEWABLE HEAT INCENTIVE CLOSURE – VIEWS OF FINANCE MINISTER  
**Date:** 29 January 2016 17:57:39  
**Attachments:** [Submission to Minister - NI Renewable Heat Incentive Closure - Views of ....docx](#)

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I'm happy with this version.

Many thanks.

Sent from my BlackBerry 10 smartphone.

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**From:** Mills, John (DETI)  
**Sent:** Friday, 29 January 2016 17:49  
**To:** McCormick, Andrew (DETI); Cairns, Timothy; Timothy Cairns  
**Cc:** Kerr, Sean; Stewart, Chris (DETI); Rooney, Eugene; Private Office DETI; Wightman, Stuart; McCoy, Laura  
**Subject:** RE: DESK IMMEDIATE: NI RENEWABLE HEAT INCENTIVE CLOSURE – VIEWS OF FINANCE MINISTER

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Revised version

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**From:** McCormick, Andrew (DETI)  
**Sent:** 29 January 2016 17:40  
**To:** Cairns, Timothy; Timothy Cairns  
**Cc:** Kerr, Sean; Stewart, Chris (DETI); Rooney, Eugene; Mills, John (DETI)  
**Subject:** Re: DESK IMMEDIATE: NI RENEWABLE HEAT INCENTIVE CLOSURE – VIEWS OF FINANCE MINISTER  
I have asked Chris to drop paragraph 14 and to revise 13 as we need additional funding even if closure was immediate. He will send revise asap.

Many thanks.

Sent from my BlackBerry 10 smartphone.

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**From:** Mills, John (DETI)  
**Sent:** Friday, 29 January 2016 17:25  
**To:** Private Office DETI  
**Cc:** McCormick, Andrew (DETI); Stewart, Chris (DETI); Rooney, Eugene; Wightman, Stuart; Cooper, Trevor; Vaughan, Helen; Robson, Rod; McCrea, Ian; Kerr, Sean; DG\_DET1 Press Office; DETI Energy Mailbox  
**Subject:** DESK IMMEDIATE: NI RENEWABLE HEAT INCENTIVE CLOSURE – VIEWS OF FINANCE MINISTER  
Private Office  
Please see attached **desk immediate** submission from John Mills.

Regards,

**Laura McCoy**

Personal Secretary

Department of Enterprise, Trade & Investment

Netherleigh

Massey Avenue

Belfast, BT4 2JP

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[NI Year of Food & Drink 2016](#)

**Please consider the environment - do you really need to print this e-mail?**

**From: John Mills**

**Tel No: 29215**

**Date: 29 January 2016**

**To: 1. Timothy Cairns  
2. Jonathan Bell MLA**

**Copy Distribution List below**

**NI RENEWABLE HEAT INCENTIVE CLOSURE – VIEWS OF FINANCE MINISTER**

**Issue:** Seek comments/views from Finance Minister on consultation on RHI closure.

**Timing:** **DESK IMMEDIATE:** Clearance immediately to enable papers to be issued today.

**Executive Committee Referral:** Urgent Procedures are necessary to secure Executive approval for Tuesday 2 February 2016.

**PFG Implications:** The PfG targets for renewable heat are 4% by 2015 and 10% by 2020.

**Presentational Issues:** Internal.

**FOI Implications:** FOIA exempt under sections 35 (formulation or development of government policy)

**Financial Implications:** Potential impact on DEL of £95 over 5 years.

**Legislation Implications:** Legislative changes to the RHI require draft affirmative resolution Regulations.

**Statutory Equality Obligations:** Screened out.

**Recommendation:** That you issue the attached letter to the Finance Minister (**Annex A**)

**Background**

1. My earlier submission of 29 January invited you to agree the way forward on consulting on RHI closure. You have agreed to a 2 week public consultation commencing on 2 February 2016.
2. This timetable is predicated on securing Executive approval under urgent procedure. In accordance with paragraph 2.14 of the Ministerial Code you are required to seek, “the views of any other Ministers with a relevant interest.” Given the financial implications you should seek the views of the Finance Minister. A letter to the Finance Minister covering the draft urgent procedure

letter to OFM/DFM is attached. In substance the OFM/DFM letter is very similar to the draft Executive paper attached to my submission of 19 January – with which you were content.

**Recommendation**

3. That you issue the attached letter to the Finance Minister for comment by 1 February.



**JOHN MILLS**  
**Energy Division**  
**Ext. 29215**

cc: Andrew McCormick  
Chris Stewart  
Eugene Rooney  
Stuart Wightman  
Trevor Cooper  
Helen Vaughan  
Rob Robson (DALO)  
Ian McCrea MLA APS  
Sean Kerr  
Press Office

## ANNEX A

**FROM: JONATHAN BELL MLA**

**DATE: 29 JANUARY 2016**

**TO: MERVYN STOREY MLA**

### **CLOSURE OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI)**

In accordance with paragraph 2.14 of the Ministerial Code I am seeking your views on the attached letter which seeks agreement under urgent procedures to the closures of the RHI.

Given the urgency of the situation, I would appreciate a reply on Monday 1 February 2016.

**JONATHAN BELL MLA**

Minister of Enterprise, Trade and Investment

**ANNEX B**

**FROM: JONATHAN BELL MLA  
MINISTER OF ENTERPRISE, TRADE AND INVESTMENT**

**DATE: JANUARY 2016**

**TO: FIRST MINISTER AND DEPUTY FIRST MINISTER**

**REQUEST FOR A DECISION BY URGENT PROCEDURE – CLOSURE OF THE  
RENEWABLE HEAT INCENTIVE SCHEME (RHI)**

**Introduction**

1. In accordance with paragraph 2.14 of the Ministerial Code I am seeking agreement to take an urgent decision on the closure of the Northern Ireland Renewable Heat Incentive Scheme (RHI). The urgent decision is required to minimise overspending on the scheme.

**Background**

2. The Non Domestic RHI scheme was introduced in November 2012 and the Domestic RHI scheme in December 2014. Both schemes provide payments for people to move from conventional heating (mainly oil) to sustainable heating such as wood pellets (biomass). In light of unprecedented numbers of applications for the Non Domestic Scheme and the outcome of the Government's Spending Review, an urgent decision is now needed on the future of the NI RHI schemes.
3. Successful Domestic RHI applicants receive an upfront payment of up to £3,500 (depending on the technology) along with 7 annual tariff payments based on the heat requirements of the property. Annual payments are

typically around £1,200 but are capped at a maximum of £2,500. Uptake of the Domestic RHI scheme has increased steadily (c.700 applications since the scheme was introduced).

4. The Non Domestic RHI scheme on the other hand involves 20 years of annual tariff payments based on the metered heat usage of the business. Tariffs are dependent on the type and size of technology. To date, average annual payments have been around £24,000. The Non Domestic scheme therefore involves much larger and longer financial commitments than the domestic scheme.
5. After a slow start during the first two years, non domestic scheme uptake increased steadily during 2015. During the Autumn of 2015 there was an unprecedented surge in applications. This increase relates to one particular technology – biomass and has been attributed to one particular industry’s wholesale uptake of the scheme. This is the poultry industry’s use of RHI for broiler houses.
6. A sustained increase in applications during March and April 2015 was the catalyst for the legislative changes I brought through the Assembly in November to, inter-alia, introduce a tiered tariff (reducing after 1,314 hours) and an annual cap (at 400,000 KWh) on RHI payments for biomass. However, in the run up to these legislative changes, the number of installations on the scheme doubled with over 900 applications received in 6 weeks. An increase in applications had been forecast as businesses tried to beat the deadline for tariff changes, but not at the unprecedented numbers received.
7. The increase in applications means that over 6% of NI’s total heating needs are estimated to be provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded and we would be well on track to reach the 10% target set for 2020. However, this success comes at a price. Total expenditure for both RHI schemes in 2015/16 is now forecast to exceed £30m. Even if no new applications are received in 2016/17 (i.e. both

schemes are closed by 31/3/16), forecast RHI expenditure in 2016/17 is expected to be around £45m.

### **Scheme Approvals**

8. When the business case for the non-domestic scheme was approved by DFP in 2012, one of the conditions was for re-approval in March 2015. Unfortunately the need for this approval was overlooked. DETI had no choice but to keep making the payments because the RHI scheme is set out in statutory Regulations and there are no grounds for DETI to cease making payments to properly made applications. Prospective approval has now been received from DFP for non domestic scheme expenditure from 29 October 2015 through to 31 March 2016. Retrospective approval from 1 April 2015 to 30 September 2015 has however been declined. Approval for the Domestic RHI Scheme is in place up to 31 March 2020.

### **Affordability**

9. The affordability of the NI RHI schemes going forward obviously depends on the budget available. The RHI schemes (non-domestic and domestic) are paid out of Annual Managed Expenditure, (AME) which normally would not have an impact on the NI Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as standard, AME, where the Exchequer takes on all risks. Instead, a risk-sharing arrangement was introduced whereby, should RHI spending in one year exceed the allocated budget, NI would need to repay this in future years. This could be achieved through scheme changes. However, the rules provided that a small proportion of any required future savings (likely to be of the order of 5%) would have to be funded directed by NI through DEL.
10. Also, unlike traditional, AME, the initial 4 year (2011/12-2014/15) NI allocation of £25m was based on a Barnett formula of c.3% of the DECC budget (£838m). HMT confirmed that any 20 year commitments entered into during this period would be honored. This arrangement was rolled forward in 2015/6



though the AME 2015/16 budget has since been raised to £30m in light of increased demand.

### **Change in HMT policy**

11. If RHI funding was “pure” AME there would be no impact on NI DEL. If the Barnett formula + 5% penalties approach was carried forward the effect on NI DEL would be relatively small – generally less than £1m p.a. over the 2016/17–20/21 period (this assumes scheme closure in March 2016). However, the effect of the Chancellor’s Autumn Statement was to reduce the NI RHI budget. DFP officials have also advised that HMT’s likely position will be that NI will have to cover the full costs (not 5%) of any overspends.
12. This creates significant budgetary pressures for the next 5 years with forecast additional average annual costs of around £19m even if there are no new applications after the end of this financial year. Forecast costs in 2016/17 would be higher but would diminish over time i.e. if the scheme is closed to new applications the forecast costs would remain static but the HMT budget would rise therefore reducing the scheme overspend from around £27m in 2016/17 to around £11m by 2020/21.
13. I must proceed on the basis that the major overspend that has now arisen will not be covered by HMT. DETI does not have the funding to meet this overspend. In the circumstances I have no choice but to propose immediate closure of the scheme to prevent the overspend from increasing further.

### **Consultation**

14. I have consulted the Finance Minister on these issues and his advice is ....

15. I plan to launch a short public consultation on the decision to close both schemes and will update you on the outcome of this.

**Timing**

16. Given the urgency of the situation I propose to close both the RHI schemes as soon as possible, subject to public consultation and Assembly approval of the legislation.

**Recommendation**

17. I therefore request your agreement, in accordance with paragraph 2.14 of the Ministerial Code, to take an urgent decision to agree to the closure of the Northern Ireland Renewable Heat Incentive Scheme (RHI), subject to the outcome of the public consultation and Assembly approval.

18. This letter is copied to all Executive Ministers, the Attorney General, the Departmental Solicitor, Office of Legislative Counsel and Executive Secretariat.

**JONATHAN BELL MLA**