

**SUE GRAY
PERMANENT SECRETARY**

2nd Floor West
Clare House
303 Airport Road West
BELFAST, BT3 9ED
Tel No: [REDACTED]
E-mail: [REDACTED]



Department of
Finance
An Roinn
Airgeadais
www.finance-ni.gov.uk

FROM: SUE GRAY
DATE: 8 FEBRUARY 2019
TO: NOEL LAVERY

LONG TERM PAYMENT STRUCTURE FOR NI NON DOMESTIC RHI

1. DfE requested DoF approval of its preferred option for the long term payment structure for NI Non Domestic RHI on 11 January 2019. Our officials have engaged closely on this issue over the past 18 months culminating in our meeting on 1 February 2019.
2. Approval is sought for a reduced tariff regime from 1 April 2019 with a Tier 1 tariff of 1.7p/kWh for the first 1,314 hours of operation each year followed by a zero Tier 2 Tariff. This option would cost £70m when CPI (+2%) inflationary uplift is applied, over the lifetime of the Scheme.
3. It is noted that the voluntary buy out option is available under this option for those installers who would receive insufficient compensation under the tariff regime as a result of lower than average use. The Voluntary buy out option would be available for three years until 2021-22.

Value for Money

4. In seeking DoF approval DfE states that the preferred option of a reduced tariff going forward improves upon the Value for Money of the current tariff regime.
5. I have noted the analysis by Ricardo that shows over 80% of installations on the Scheme would achieve a rate of return greater than 12% when measured over a 20 year basis based only on the RHI payments they will have received by the end of 2018-19. On a strict VFM basis only a limited number of installations should receive any RHI payments from 2019-20.
6. The compulsory buy out model therefore delivers the best VFM at a cost of some £20 million.

Management Arrangements

16. I have noted DfE’s management arrangements going forward. It is for DfE as the department responsible for the RHI Scheme to ensure that sufficient resources are in place to manage and monitor the Scheme. This includes the appointment and management of any third parties engaged by DfE including Ofgem.

Implementation of Preferred Option

17. I have noted your advice that in the absence of any action taken by DfE, payments are not made to most, if not all, small and medium sized biomass boilers from 1 April 2019. [REDACTED]

Conclusion

18. It is difficult for DoF to conclude that the proposed changes will deliver the optimal VFM outcome rather DoF accepts that the preferred option will deliver improved VFM. That said, it is acknowledged that a reversion to the 2012 Regulations is not acceptable from a value for money or budgetary perspective and action must be taken.

19. DoF approval is therefore given to the business case for the Long Term Payment structure for the Non-Domestic RHI Scheme. A list of DoF specific conditions of approval is appended to this letter.

**SUE GRAY
PERMANENT SECRETARY DEPARTMENT OF FINANCE**

Copy distribution

Julie Thompson
Richard Rogers

[REDACTED]
[REDACTED]
Joanne McBurney
Emer Morelli

LONG TERM PAYMENT STRUCTURE FOR THE NORTHERN IRELAND NON DOMESTIC RHI SCHEME - DOF SPECIFIC CONDITIONS OF APPROVAL

1. DoF approval is conditional on the following:

- DfE is satisfied that their legal advice supports the introduction of the preferred option.
- DfE is satisfied that the risks attached to State Aid notification for the RHI scheme in its entirety have been adequately considered and appropriately mitigated.
- The overall objective of the Scheme should be amended to support the generation of at least 500GWh of renewable heat each year from renewable sources, rather than the original 10% of total heat target which is not currently measurable;
- The current size band (20-199kW) for medium sized biomass installations should be split between 20-99kW and 100-199kW to reflect the lower capital cost per kW of larger boilers;
- The Tier 1 threshold should remain at 1,314 hours;
- The Base Case tariff structure from the Ricardo Tariff Review with adjustment to ensure that a 12% rate of return is achieved if the Tier 2 tariff is set at zero (Option A4(ii)) should be applied from 2019-20 onwards;
- Provision should be made for a Voluntary Buy-Out with payments based on Option B2(adjusted) on a first come first served basis and a maximum annual budget of £4 million (which could be reviewed if there is a high level of demand) for the years 2019-20 to 2021-22;
- In light of the uncertainty in respect of the future budget for the Scheme, to be confirmed as part of the 2019 Spending Review, DfE should ensure that it has identified measures to manage any budgetary pressure that could materialise.
- The tariffs for small and medium sized biomass boilers should subsequently be uplifted by the rate of Consumer Price Index (CPI)
- Inflation each year based on the actual rate of CPI inflation in the December preceding the start of each financial year - subject to legal opinion on whether there are any implications for the implementation of the preferred option;
- The Department should monitor the relative price of biomass and fossil fuels on a regular basis;

- If there is a significant and persistent change in relative fuel prices the Department should undertake a formal review of fuel prices and their impact on tariff levels;
- No subsidy should be provided in respect of Combined Heat and Power plants;
- The tariffs for the other technologies on the Scheme should be reviewed, when the long term tariff has bedded in, with changes made where necessary;
- The Department should ensure that the resources devoted to the administration and management of the Scheme equate to no more than 10% of the payments to participants each year (whilst additional resources may be required in the short term in respect of the commitment to inspect all RHI installations the level of resources devoted to this activity should be commensurate with the level of RHI payments);
- The existing programme of inspections should continue with particular focus on those sites with more than one boiler installation. This is to ensure that any opportunity for fraudulent activity in the scheme is minimised.

Compulsory Buy out

- Should the compulsory buy-out clause be required then any payment to boiler owners for meter readings, currently suggested as £400 per annum should be reviewed as part of the PPE requirements and removed as necessary going forward; and
 - A post-project evaluation should be completed by the end of October 2021.
2. In addition to the project specific conditions set out above DoF approval is also subject to the strict adherence to the following conditions:
- that there are no substantial changes to the scope/scale of the project as described in the business case;
 - that the costs or assumptions vary by no more than 10% from the value stated;
 - Requests for revised approval will take account of factors such as:
 - where Supply is approached on the earliest indication that compliance with one or more of the above conditions is under question;
 - adherence to correct appraisal procedure.

3. Should the request for DFP approval be declined, these factors, along with any other mitigating circumstances will be taken into account when determining the extent of the irregular spends.
4. It should be noted that this approval relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure controls.