House of Commons

Northern Ireland Affairs Committee

Changes to the Northern Ireland Renewable Heat Incentive scheme payments: Government Response to the Committee's Eighth Report of Session 2017–19

Ninth Special Report of Session 2017–19

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Northern Ireland Affairs Committee

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Committee staff

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Ninth Special Report

The Northern Ireland Affairs Committee published its Eighth Report of Session 2017–19, Changes to the Northern Ireland Renewable Heat Incentive scheme payments (HC 2070), on 30 June 2019. The Government's response was received on 21 August 2019 and is appended below.

The Secretary of State for Northern Ireland has also written to the Committee on our report and you can read that letter on our website.[1]

Appendix: Government Response

Northern Ireland Affairs Committee Report – Changes to the Northern Ireland Renewable Heat Incentive scheme payments

Thank you for your letter of 1 July 2019 regarding the Committee's report into the changes to NI Non-Domestic RHI tariffs. I would also like to thank you, the former Chair Dr Murrison and the other Committee members for your consideration of the Department for the Economy's (DfE) oral and written evidence provided throughout the inquiry.

DfE provided a substantial amount of material as part of the inquiry and I know that extensive evidence and communications were also submitted by other stakeholders meaning the Committee had a range of, sometimes conflicting, views. Rather than seeking to repeat any of that evidence which the Committee has already considered, this letter responds only to the specific recommendations for DfE.

Recommendation: "the Department revisit the tariffs to determine if they should include: Parity with the Great Britain scheme or the Republic of Ireland scheme where costs are comparable; Parity with the Great Britain scheme or the Republic of Ireland scheme on any additional costs that are included; Counterfactuals in different circumstances are considered, rather than just kerosene; That investment decisions made by participants be considered."

While I remain confident in the work carried out by Ricardo and the tariffs which were derived from this, DfE has always recognised that there are costs involved in the operation of renewable heat installations which will change over time, most notably the price of biomass and the counterfactual fuel. These variable elements should and will be kept under review and to this end DfE is committed to carrying out a further independent review of the NI Non-Domestic RHI tariffs in the current financial year.

As well as a review of the variables that underpin the tariff, the Terms of Reference for this work will include consideration of the assumptions within the GB and RoI schemes and how they relate to the NIRHI tariffs. DfE is in the process of procuring and commissioning this work and will inform the Committee when an independent contractor has been appointed, and when the final report is produced.

Tariffs are limited to bridging the gap between the cost of generation of heat from renewable sources and fossil fuel alternatives, while delivering the approved internal rate

1 Letter from the Secretary of State for Northern Ireland, 4 September 2019

of return. The types of costs allowable under NIRHI are similar to those allowable on the GB scheme and are clearly set out in the scheme's published guidance. The guidance was developed to ensure the scheme complies with the European Commission rules in relation to environmental schemes where State aid is present.[2] Wider investment decisions made by participants outside of the specified costs are therefore beyond the bounds of the tariffs.

Recommendation: "The Department for the Economy, and ultimately the UK Government must look at the tariff structure and underlying calculations for the Republic of Ireland scheme. If there is cause for complaint, then there may be a very short window in which the initial decision must be challenged by the UK Government. If there is unfairness, then harm could be prevented. It may be, however, that the costs involved in the Irish scheme are correct, which would suggest that there are costs within the Northern Ireland scheme that need revisiting. In any event, this must be investigated as a matter of urgency."

The Department for the Economy has examined the details available in relation to the Support Scheme for Renewable Heat (SSRH) which has recently received State aid approval and commenced operation in the Republic of Ireland. Additionally, DfE officials have met and discussed the nascent scheme with the responsible officials from the Irish Government.

There are many differences between the SSRH and NIRHI. At scheme level the SSRH runs for 15 years and it targets an internal rate of return of 8% as opposed to 20 years and 12% internal rate of return for NIRHI. Additionally, the SSRH as a new scheme is based on cost assumptions rather than the evidenced, actual costs which have informed the long-term tariff structure for NIRHI. As touched upon in DfE's evidence to the Committee, it appears that the SSRH has allowed for a higher capital cost in their assumptions, compared to NIRHI. It is unclear why that is the case. It may prove to be accurate as the market for biomass boilers in the Republic of Ireland in 2019 differs from the Northern Ireland market in 2015. It may also be that these assumptions need to be revisited resulting in the SSRH tariffs being revised downward. However, given the SSRH has just recently commenced operation, this question cannot be answered now.

It is important to note that the SSRH has different operational controls to the NIRHI, including:

- SSRH tariffs for new participants are to be reviewed and revised at least annually;
- Tariffs received by those already participating in the scheme can be revised downwards if it transpires they are being overcompensated; and
- When a business is accredited to the SSRH, a "cap" is set on the level of returns it can receive over the lifetime of its involvement in the scheme.

In the event that SSRH tariffs were found to be too high, we would expect to see these controls take effect to bring returns back into line with the approved rate. Officials from the RHI Task Force have shared information relating to the costs experienced in Northern Ireland with the relevant Irish Government officials.

2 initially, the '*Community Guidelines on State aid for Environmental Protection (2008/C 82/01)*' and then the '*Guidelines on State aid for environmental protection and energy 2014–2020 (2014/C 200/01)*'

DfE RHI and State aid officials have discussed this matter with colleagues in the UK Government and have concluded that there is not the evidence to warrant a complaint to the European Commission with regards to the SSRH. DfE will continue to monitor the situation.

Recommendation: "We recommend that the buyout scheme be made available as soon as possible. In calculating any offer, the Department should look at: the costs in each individual case so as to make the correct comparisons for that participant. There must not be a one-size-fits-all calculation in terms of costs; the wider costs to participants, including indirect costs. A distinction should be drawn between indirect costs, and any overcompensation on the rate of return for the narrow scheme costs; participants should have the option to challenge the Department's calculation and submit their own cost analysis before accepting or rejecting an offer. The Independent panel in charge of the Hardship Unit should review all evidence where there is a dispute; and the buy-out scheme must be adequately funded to cover payments to participants that includes indirect costs."

The first voluntary buy-out scheme will open for applications in September 2019 with further opportunities planned for schemes in 2020/21 and 2021/22 as provided for in the NI (Regional Rates and Energy) Act 2019.

I can confirm that the scheme will operate on the principle that the individual costs faced by each participant will apply in the calculation of a buy-out offer. This will include provision for indirect costs to be considered, in line with the allowable costs set out in the NIRHI guidance. While the detailed processes of the scheme are still being finalised ahead of launch, I can confirm that participants will have the right to challenge the Department's calculations throughout the process. Ultimately if they are dissatisfied, the participant can bring a challenge in front of the independent Statutory Review Panel which has the power, set down in legislation, to review and revise prior decisions made by the Department, including in these cases, decisions which relate to the calculation of a buy-out offer.

Our assessment is that these changes do not require further legislative change. With regards to the budget available for the voluntary buy-out, DfE currently has approval for £4m in the current financial year to fund buy-out payments with a further £4m in each of the next two financial years. Should demand for the buy-out exceed the available budget, DfE will engage with the Department of Finance to seek additional resource.

Recommendation: "We consider that the financial needs of participants can best be met by revisiting the tariffs and subsequently adjusting, as set out in paragraph 49, and by improving the buy-out option, as set out in paragraph 63. The Hardship Unit should be progressed with the following principles: Assessing financial hardship must include looking at a participants' costs in the round. The Department must take into account the fact that people have made investment decisions; The Unit must inform the calculation of buyout payments and any decisions must be challengeable; Hardship should not be defined on narrow grounds. Criteria should be developed with input from participants. We recommend the Department share the draft criteria with the Northern Ireland Affairs Committee.

We further recommend that in response to this report, the Department set out, specifically, additional ways in which the Hardship Unit will assist those assessed as suffering hardship."

The Department remains committed to appointing an independent chair to consider the circumstances of those participants who feel they face hardship as a result of their participation in NIRHI. The Chair will be entirely independent of the NIRHI, meaning they will not be a member of the Northern Ireland Civil Service, nor will be a participant or have direct links to participants in the NIRHI.

DfE has recently completed a Call for Evidence on the issue of hardship which ran from 17 June – 10 July 2019 in order to allow participants and other stakeholders to inform the design of the work to consider hardship. The Call for Evidence paper is attached to this letter for reference. The Department received 78 responses to the Call for Evidence, primarily from participants. The Department continues to assess and analyse the information put forward by respondents and, when complete, will publish a formal report. A preliminary review has shown that participants are not in favour of the establishment of the unit as outlined and we are carefully considering how these concerns can be addressed as we move to fulfil our commitment to appoint an independent chair.

It will be for the chair, rather than the Department to recommend an appropriate definition of hardship in relation to NIRHI and, after considering the circumstances of those that come forward, the chair will recommend what action the Department should take to assist vulnerable businesses found to be in hardship as a consequence of their participation in NIRHI. This may take the form of recommending the voluntary buy-out as a suitable option, recommending existing government support or the chair could recommend other alternatives although it is recognised that further action may require ministerial direction, further legislation or a combination of the two.

The Department will move to appoint the independent chair as soon as possible and continue to update the Committee on progress being made.

Recommendation: "We recommend that the tariff calculation be amended to allow a more realistic cost for servicing and repairs of biomass boilers. This could help prevent participants reverting to fossil fuels if their boiler breaks down and they are faced with upfront costs they cannot afford. We further recommend that the Department track rates of reversion to fossil fuels amongst participants and report any trends to this Committee."

The Department has kept servicing costs under review, using data collected through the inspections process. This has demonstrated that the cost for service and repair allowed for in the tariff remains valid. However, as part of the further review of the tariff described above, the independent contractors will again examine the costs servicing and maintenance (versus the fossil fuel alternative).

With regards to the reversion of RHI participants to fossil fuel heating, DfE and the scheme administrators, Ofgem, will monitor withdrawals from the scheme and DfE will report to the Committee should any significant trends be observed. For the first quarter of 2019/20 (i.e. the period covering April – June 2019), figures provided by Ofgem show that no installations withdrew from the scheme, during that time."

I trust that this letter provides you and the other Committee members with sufficient information in respect of the Department for the Economy's response to your report and recommendations. Should you require further information, please do let me know.

Noel Lavery
Permanent Secretary