



Department for Energy Security & Net Zero

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**Department for Energy Security
& Net Zero**

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Rt Hon Sir Robert Buckland KC MP
House of Commons
London
SW1A 0AA

10 January 2024

Dear Robert,

Thank you for your letter dated 7 December to Rt Hon Graham Stuart MP, regarding the Northern Ireland Renewable Heat Incentive (NI RHI) scheme. I am responding as this matter falls within my ministerial portfolio.

The GB Renewable Heat Incentive opened in 2011 for non-domestic participants and 2014 for domestic participants. Both schemes are closed to new applications but will continue paying domestic participants till 2029 and non-domestic participants till 2041.

Officials from the Department for Energy Security and Net Zero (DESNZ), Department for Economy (DfE) and Ofgem (the scheme administrator for both the GB and NI scheme) meet regularly to discuss operational issues, to share knowledge and learn lessons from each other's schemes.

Firstly, it should be recognised that while both the GB and NI RHI schemes appear in headline terms to share similar characteristics there are fundamental differences in their design and administration. There are for example, notable differences in how the respective schemes calculate tariff rates for payments to participants and the types of technology deemed eligible for the scheme in the first place. However, we have set out some of the key principles for managing payments on the GB schemes below.

The GB tariff was set on the basis of 12% rate of return across tariff bands (except for solar thermal which was 6%). This was based on data collected through extensive analysis and consultation with stakeholders.

The GB RHI had a number of cost controls in place whilst applications were being accepted onto the scheme to prevent overspend, e.g., 'degression.' Degression is a mechanism that triggers an automatic reduction in the tariff of a technology (e.g., biomass) if certain deployment thresholds are exceeded, reducing the attractiveness, and therefore the demand for that technology. In 2018 a 'budget cap' was also introduced, which would close the scheme to new applications if the budget was exceeded.

The GB RHI scheme continues to use tiering. This means that the amount paid for each unit of heat reduces after a set number of kilowatt hours. This reduces the

incentive to run systems purely for payments. Tiering was introduced for new applicants to the NI scheme in October 2015 and for all participants in January 2017.

The NI Non-Domestic RHI had a high take up by the poultry farming sector and those using heat in drying processes, which can be vulnerable to gaming. In 2018, the Government removed wood fuel drying and waste drying or processing as eligible uses of heat on the GB scheme and tightened regulations to improve the value for money of GB RHI support for Combined Heat and Power, where uptake from poultry farms was high.

The 2018 reforms of the GB scheme also gave Ofgem (scheme administrators) greater enforcement powers, including putting greater onus on RHI participants to evidence that they are in compliance with regulations and enabled Ofgem to ban applicants who had misled them from the scheme.

Extensive modelling of tariffs was carried out in 2010/2011 as the scheme was being designed. Some of the published documents in relation to this modelling can be found at:

webarchive.nationalarchives.gov.uk/ukgwa/20100402152853/http://decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx, and at:
<https://www.gov.uk/government/publications/renewable-heat-incentive>.

In 2018, as part of the scheme reforms, several tariffs were adjusted. Further detail of these adjustments and the rationale behind them can be found here;

www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme.

As mentioned above, the GB scheme introduced a degression process for each renewable technology as a cost control measure. Degression automatically reduced a technologies tariff as the scheme grew, so preventing “surges” in applications if installation costs reduced. More detail on degression can be found here: assets.publishing.service.gov.uk/media/5fb542a5d3bf7f63d8c04dea/ndrhi-factsheet-degression-mechanism.pdf.

While both the GB and NI RHI schemes were designed to bridge the gap between the cost of conventional and renewable and low-carbon technologies, the way this was calculated differed. We understand that the NI tariff is based on the cost of oil as the designated comparator against which the tariff rate is set. The GB scheme tariff considers the cost of a mix of both gas and oil. The difference in counterfactual fuels used to calculate the payments between the schemes and the divergence in eligible technology are notable differences in scheme design. Our initial assessment is that applying one system of payment to another is therefore likely to be highly problematic, if indeed it is at all technically feasible, as it would require a different set of administrative requirements.

My Department has not separately measured the effectiveness of the RHI scheme in Scotland and Wales, as the GB NDRHI Scheme is managed as one Great Britain Scheme. In 2023, we conducted an independent evaluation of the GB Scheme which published its recommendations. It is available at: [Reforms to the Non-Domestic Renewable Heat Incentive: evaluation](#).

The Boiler Upgrade Scheme provides upfront capital grants for low carbon heat, in England and Wales, delivered through an installer-led voucher mechanism which is administered by Ofgem. Flat-rate grants are offered for Air Source Heat Pumps (ASHP), Ground Source Heat Pumps (GSHPs) and biomass boilers (in limited circumstances), with no differentiation in grant value based on the system output.

The scheme is designed to provide a simple offer which makes it easy to navigate both for property owners and installers, and easy for Ofgem to administer. Installers have provided positive feedback on the design and delivery of the scheme to date.

We assess that a scheme with a similar mechanism to the Boiler Upgrade Scheme could be an appropriate route to providing capital funding for the deployment of low carbon heat in Northern Ireland.

We do not foresee any operational challenges to a scheme similar to the Boiler Upgrade Scheme being introduced in Northern Ireland. However, the BUS scheme is unpinned by the Boiler Upgrade Scheme Regulations (2022) laid utilising S.100 of the Energy Act 2008 which does not apply to Northern Ireland and thus the territorial extent of the existing scheme cannot be expanded.

We discussed the approach taken under the Boiler Upgrade Scheme with your officials on 19 December and have agreed to maintain a regular dialogue to share lessons learned and support policy development of future capital programmes.

Thank you for writing to highlight your concerns. I trust this information will be helpful.



Lord Callanan