

1. MINISTER'S FOREWORD

In January 2020 the New Decade, New Approach (NDNA) document, published by the UK and Irish Governments, provided the basis for restoration of devolution in Northern Ireland. NDNA included a commitment for reform to take account of the findings of the Independent Public Inquiry into the Non-Domestic Renewable Heat Incentive (RHI) Scheme and, in relation to the Executive's potential Programme for Government strategic priority of addressing climate change, a specific commitment to closure of RHI itself and replacement with a scheme which effectively cuts carbon emissions. This consultation seeks views on options for the future of the Non-Domestic RHI Scheme.

While public attention on the Non-Domestic Scheme has focused on small and medium sized biomass installations, which account for 98% of accredited installations on the Scheme, the consultation considers the future for all of the renewable technologies that operate on the Non-Domestic Scheme.

RHI comprises two Schemes – the 20 year Non-Domestic RHI Scheme, which was the focus of the Public Inquiry led by Sir Patrick Coghlin and the seven year Domestic RHI Scheme. The two are separate and the Domestic Scheme, which supports private individuals heating their homes with renewables, was outside the scope of the Public Inquiry. The Domestic Scheme is closed to new applications and will continue to provide support to participants until its natural conclusion in 2023.

The Non-Domestic RHI Scheme was established in 2012 to encourage use of renewable heat by businesses. As has been widely reported, the tariff support introduced at the outset was set higher than the actual cost of producing the heat, meaning that the Scheme became financially unsustainable. This led to significant funding of £33.8m from the NI block grant being diverted from other essential public services to sustain RHI tariff payments.

The subsequent legislative changes – suspension of the Scheme to new applicants, introduction of tiering and usage caps for small and medium biomass installations and adjustments to the small and medium biomass tariffs – were critical to bring costs under control and realign the Scheme with its original intentions and approvals, including State aid.

While essential, the impact of these changes on legitimate participants has also been significant. Independent research into hardship, undertaken by Andrew Buglass and published by my Department in April 2020, confirmed that some have found the revised tariffs and reduced cash flow challenging, with significant negative impacts on their businesses. Furthermore, the public attention and scrutiny of the Scheme, with negative perceptions of those participating, has for some brought its own challenges.

It is important to also recognise that the Scheme has failed to effectively reduce carbon emissions by incentivising the efficient use of renewable heat whilst providing value for money to the taxpayer. It is not possible to measure its outcomes in respect of mitigation of climate change.

The status quo is not sustainable and this is reflected in the NDNA commitment. The changes to the Scheme's tariffs are subject to ongoing legal action and with the Scheme at present scheduled to operate until 2036 such action could be protracted. My Department will robustly defend such cases, but the legal uncertainty has its own impact on participants and on the public finances.

The final decision on the future of the Non-Domestic RHI Scheme will be taken by the Executive collectively and the outcome of this consultation will assist the Executive in making its determination. I have been clear since my appointment as Minister for the Economy that in considering the future of RHI I intended to be fair both to those participants who joined the Scheme legitimately and acted in good faith and to the taxpayers who fund it. I have a duty to ensure that the next steps represent value for money and are affordable.

The proposal for a compensated closure of Non-Domestic RHI seeks to meet these objectives and enable the introduction of effective and new renewable support in due course. It has been endorsed by the Executive and is in line with the New Decade, New Approach commitment.

I understand that some hold the view that no further money should be spent on RHI. However, for many businesses, who made significant investments to participate, the Scheme has as many as 15 years remaining. Therefore, I firmly believe that if it is to be closed, compensation for that early closure should be paid to its legitimate participants, who invested in the Scheme in good faith.

The Executive's preferred option for Scheme closure seeks to deliver appropriate and reasonable compensation, in a fair and equitable manner. It acknowledges the challenges experienced by some participants as a result of previous tariff changes, incorporates the principle of fair and equal treatment for those who have participated legitimately as recommended within the Buglass report on hardship and it takes account of the views expressed in responses to the public consultation on Cornwall Insight's recommended medium biomass tariffs.

My Department has acknowledged the mistakes made in establishing the Non-Domestic RHI Scheme. The Scheme's closure would make way for replacement support to be brought forward, which would more effectively reduce carbon emissions in generation of heat. Steps have already been taken to reduce the opportunity for such errors to occur again, but when mistakes have had the impacts on citizens and businesses we have seen as a consequence of RHI, I believe steps must be taken to seek an appropriate remedy.

I would welcome your views and evidence by the consultation closing date of Friday 9 April 2021.

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Minister for the Economy