

Non-Domestic Northern Ireland DfE Renewable Heat Incentive (NIRHI)

Report on Operation of Voluntary Buy- Out Arrangements in 2019/20

Laid before the Northern Ireland Assembly pursuant to Paragraph 4 of
Section 5 of the Northern Ireland (Regional Rates and Energy) Act 2019

On 22nd June 2020



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Introduction

1. The Department for the Economy (“the Department”) established a Renewable Heat Incentive Scheme for non-domestic users under the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012 (“the Principal Regulations”). The Scheme was intended to promote the use of renewable heat within Northern Ireland by providing for periodic payments (based on heat usage) to be made to participants with accredited installations over a period of 20 years.
2. The Scheme was introduced in November 2012. There were 2,128 applications prior to its suspension in February 2016.
3. The Principal Regulations, which were made under section 113 of the Energy Act 2011, have been amended on several occasions to address concerns about the operation of the Scheme, namely that the original 2012 tariffs delivered rates of return significantly in excess of a typical 12% internal rate of return over a 20 year period on the net capital investment in an installation, as was intended at the outset of the Scheme and approved by the European Commission.
4. The Northern Ireland (Regional Rates and Energy) Act 2019 (“the 2019 Act”) amended the Principal Regulations in order to provide for a long-term tariff structure for small and medium biomass boilers set at a level to provide a 12% prospective internal rate of return.
5. While it was expected that the revised tariffs would provide a prospective internal rate of return of 12% for the typical installation over the 20 year period, the Department acknowledged that there would be a small group of participants who would see a lower return. For this reason, the 2019 Act made provision for the Department to prepare and publish voluntary buy-out (VBO) arrangements in respect of the financial year beginning with 1st April 2019 and each of the two financial years immediately following.

6. These arrangements would allow participants to apply for a one-off buy-out payment, equivalent to the internal rate of return of 12% over a 20 year period on the net capital investment associated with an installation, taking account of periodic payments received in respect of heat used to date. Following acceptance of a voluntary buy-out payment, the installation would cease to be accredited to the Scheme and no further periodic payments would be made.
7. The VBO arrangements were completely voluntary and no onus was put on any participant to apply for, or accept, a buy-out offer.
8. Section 5 of the 2019 Act places a duty upon the Department to report on the operation of the buy-out arrangements at the end of each financial year for which buy-out arrangements are published. This must in particular set out (a) the number of participants who have received a buy-out payment in that year, and (b) the total amount of the buy-out payments made by the Department in that year. Following the formation of a Northern Ireland Executive on 11 January 2020, paragraph 4 of section 5 requires that the report be laid in the Northern Ireland Assembly.

2019/20 Voluntary Buy-Out Arrangements

9. In accordance with regulation 23B(2) of the Principal Regulations, which was inserted by section 4 of the Northern Ireland (Regional Rates and Energy) Act 2019, the Department published 2019/20 voluntary buy-out arrangements on 14 October 2019. Applications were requested by a closing date of 8 November 2019. The Department published guidance to applicants, including online calculators, a guide to the calculation of payments, frequently asked questions and a privacy notice.
10. The Department received 98 applications, each relating to an individual installation. Upon initial assessment, 96 applications were deemed valid.

11. The applications were divided into two tranches for full assessment and calculation of buy-out offers. The Department began processing applications within Tranche 1 and, in line with published guidance, requested that Ofgem place periodic payments for some on hold to permit calculation of buy-out offers. During this period, applicants were expected to continue to meet all obligations associated with participation on the Scheme, including submission of meter readings and retention of records.

Cessation of 2019/20 Voluntary Buy-Out Arrangements

12. Pursuant to section 5 of the Northern Ireland (Regional Rates and Energy) Act 2019, the powers conferred on the Department in respect of the VBO arrangements were only to be exercised during the period in which there was no Executive in Northern Ireland.
13. Ministers were nominated to the Northern Ireland Executive on 11 January 2020. This followed publication of the “New Decade, New Approach” deal, which stated that *“RHI will be closed down and replaced by a scheme that effectively cuts carbon emissions”*. Given the return of the Executive and the specific commitment within the deal, the Department determined that the 2019/20 VBO arrangements should be halted. Applicants were advised on 23 March 2020, and the Department instructed Ofgem to restart quarterly support payments for those applicants whose payments had been placed on hold.
14. The termination of the 2019/20 VBO arrangements enables equitable treatment of all participants as options for the future of the Non-Domestic Scheme are developed.
15. No buy-out offers were made under the 2019/20 VBO arrangements. No participants received a buy-out payment. The total amount of buy-out payments made was £nil.