



Department for the

Economy

An Roinn

Geilleagair

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Our ref: CQ DfE 277/25

Your Ref: EC2025:499

Date: 21 10 2025

Dear Peter

Non-Domestic RHI Closure

Further to your letter dated 10 October 2025, regarding the Non-Domestic Renewable Heat Incentive (RHI) Scheme Closure Bill and associated regulations. Please see response below which has been cleared by Minister Archibald. This submission may be exempt from disclosure under Exception 12(4)(e) of the Environmental Information Regulations 2004.

The Department welcomes the Committee's engagement and appreciates the opportunity to provide further information and clarification as requested.

Winter Tariff Uplift

The Department intends to lay the winter tariff uplift regulations before the Assembly as soon as possible. These regulations will apply to heat generated from the day following an affirmative vote in the assembly and will cover the period up until the closure regulations are in place. The uplifted tariffs will also be used for the calculation of closure payments.

Consultation Feedback and Closure Regulations

The consultation on closure proposals closes on 24 November. The Department will provide a summary of feedback received from the consultation and share draft closure regulations with the Committee in January 2026.

Retrospectivity of Closure Regulations

Subject to Assembly affirmation, closure regulations will allow for calculation of the first closure payment to be dated from the last quarterly payment made by Ofgem. The draft Bill includes clause 10, which allows for provisions concerning things done, or facts or circumstances existing, before the regulations come into operation.

Fraud and Loss of Accreditation

While the Department does not hold records of sanctions imposed by year, a 100% Inspections and Compliance programme concluded in October 2021. Accreditation was revoked for approximately 6% of installations, with a further 2% having a sanction short of revocation applied. The Department would not define all breaches as “fraud”; sanctions are applied for “material or repeated failure to comply with an ongoing obligation.”

Scheme Statistics

There are currently 1,865 live and approved installations on the scheme out of an accredited total of 2,128. Approximately 25% of these installations are currently inactive.

Tariff/Closure Calculation Models

Professor David Rooney has provided a paper and an Excel file documenting his tariff calculation methodology, referenced as Appendix A (i) (ii). We have also documented the Department’s methodology (Appendix B). The Department modelled costs to determine a tariff which would yield a 12% internal rate of return (over 20 years) for a ‘typical’ installation. Independently Professor David Rooney developed a different model to assess the appropriate level of payments to also yield a 12% return. Significantly both models reached a similar conclusion on the appropriate level of tariffs / payment which would allow the rate of return on investment for which the scheme was designed to provide.

Profile of Closure DEL Spending

The breakdown of the £17m forecast costs for DfE administration of the scheme is as follows:

System Development	£1.11m
OFGEM Handover	£2.63m
DfE Administration	£10.51m
Inspections	£1.79m
Scheme Annual Maintenance	£0.56m
Legal Costs	£0.51m
Post Project Evaluation	£0.25m
Total	£17.36m

Should the Committee require any further information or clarification, please do not hesitate to contact the Department.

Yours sincerely

GARY FINLAY

Departmental Assembly Liaison Officer



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NON-DOMESTIC RENEWABLE HEAT INCENTIVE SCHEME – 2025 TARIFF REVIEW

INTRODUCTION

1. A tariff uplift, based on the Department's 2023 Review, was debated by the Northern Ireland Assembly ("the Assembly") in October 2024 but was not passed. Following engagement with key stakeholders the Department revisited its earlier review, concluding a further uplift to the small and medium biomass tariffs was appropriate due to further movements in fuel prices since those assumed in its 2023 Review.
2. This paper sets out the assumptions and methodologies used by the Department to determine proposed tariff uplifts for small and medium biomass installations. Tariffs relating to large biomass and other technologies have not been the subject of review during the Scheme lifetime.

METHODOLOGY

Development of proposed tariffs

3. The proposed tariffs have been derived broadly in line with the methodology applied in deriving the previous tariffs with some differences.
4. Earlier tariffs, developed by consultants CEPA, Ricardo and Cornwall were all based on the same underlying cost categories:
 - capital costs
 - upfront and ongoing barrier costs
 - service and maintenance costs and
 - the differential in fuel costs between biomass and kerosene.
5. In setting the assumptions for capital costs, barrier costs and service and maintenance costs, used to construct the 2025 tariffs, the Department has had regard to the different assumptions proposed in the different consultants' reports. The Department's assumption on boiler efficiency and Net Calorific Values is also based on earlier Consultant's advice. Our cost assumptions are given in Table 2 below. The predominant assumption which we have reassessed to produce the proposed 2025 tariff relates to fuel costs.

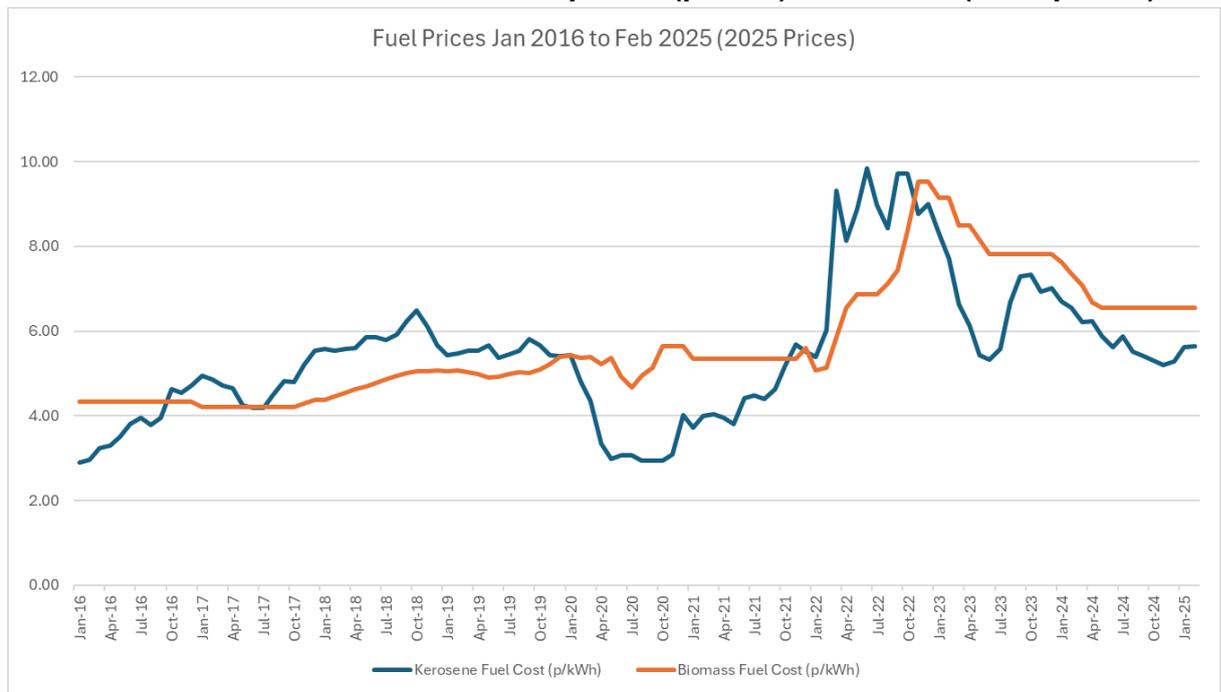
Fuel costs

6. Fuel costs represent the most challenging aspect of setting a long-term tariff. In setting the proposed tariffs for 2025-26 the Department undertook extensive fuel price data analysis relevant for medium biomass from January 2016 through to February 2025.

Biomass

7. Whilst acknowledging that the available cost data for biomass over the period was not as readily available as kerosene, from January 2016 to early 2022 it was determined that the cost of biomass was relatively static with a relatively consistent upward trend (even after adjusting for inflation). However, following Russia’s invasion of Ukraine the price of biomass increased due to market forces. From November 2022 to February 2023 there was a levelling in the cost of biomass and from March 2023 biomass costs started to decline in a stepped pattern until mid-April 2024 when prices stabilised. Chart 1 below shoes the movement in biomass and kerosene prices over the observed period.

Chart 1: Biomass and kerosene fuel prices (p/kWh) 2016-2025 (2025 prices)



8. Whilst it is difficult to predict the future cost of biomass given the impact of market forces previously observed and the conflict in Ukraine continuing, a review of biomass fuel prices shows that prices appear to have stabilised, remaining at the same cost per tonne from mid-April 2024 until the end of February 2025, the point of review.
9. Given the apparent return to stabilised costs for biomass, it was considered appropriate to set the tariffs based on a spot price as at the point of review, i.e. February 2025. It was determined a spot price was more likely to be indicative of future costs compared to an average price and hence more appropriate in setting a future tariff.

Kerosene

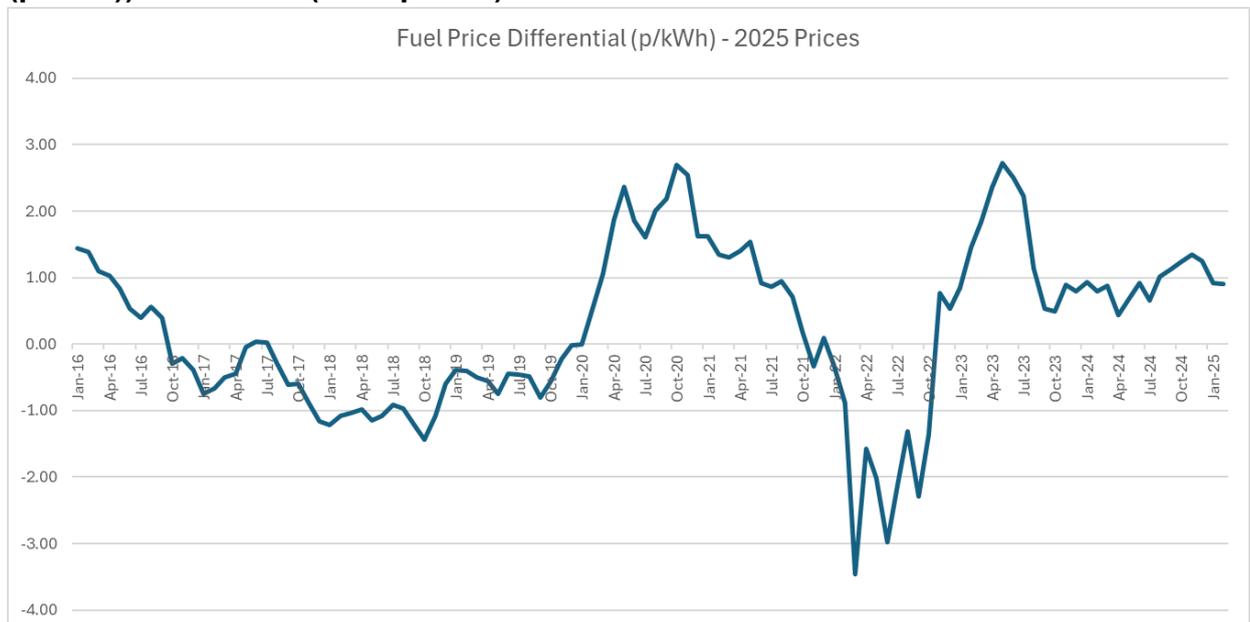
10. Kerosene prices have been much more susceptible to fluctuation over time compared to biomass. Analysis of kerosene price movements since January 2016 was undertaken and showed that in the nine years from January 2016 kerosene prices have been as low as 20.11p/l (Jan 2016 with similar low prices observed again in summer 2020) and as high as £1.14/l (Mar 2022), with prices from March 2022 and into early 2023 higher than at any time since January 2016. By the time of the review in 2025, kerosene prices appeared to have stabilised and were broadly in line with average kerosene prices over the period of review. In light of the variability in kerosene prices over time combined with the exceptional highs and lows in kerosene prices observed in 2020 (COVID-19 impact) and 2022 (Ukraine conflict) it was considered appropriate to set the kerosene fuel price assumptions based on the average price over the period January 2016 to February 2025.

11. A spot price is not considered an appropriate assumption on the basis that kerosene prices fluctuate greatly over time, influenced by outside forces that cannot be predicted with any accuracy; therefore, a longer-term average is considered a more appropriate measure to predict future fuel prices over the remaining life of the Scheme.

Forecast return 2025-26

12. In setting a long-term tariff based on a fuel price differential that is constantly shifting the rate of return received in any period is susceptible to fuel price movements during that period. Chart 2 below shows the movement in the fuel price differential over the review period.

Chart 2: Fuel price differential (i.e. cost of biomass less cost of kerosene (p/kWh)) 2016-2025 (2025 prices)



13. The tariff methodology is designed to deliver the ‘typical’ installation with an intended rate of return¹ over a 20-year period. However, in establishing a tariff a number of assumptions must be made in regard to the costs associated with the ‘typical’ installation. Where actual costs of any participant do not align to the ‘typical’ installation, a differing rate of return will be achieved. Setting fuel cost assumptions for the ‘typical’ installation is particularly challenging in light of the fluctuations noted earlier. It is not possible to set a single technology / capacity tariff that will deliver the same rate of return to all participants. The technology / capacity tariffs set are intended to provide the appropriate rate of return when measured at a scheme population level.
14. The tariffs proposed in this report have been calculated to provide a “prospective IRR” assuming a 20-year fresh start approach, i.e. the rate of return does not take into account periodic support payments previously received to date.
15. The methodology applied in setting the proposed tariffs assumes the tariff rate is applied to actual heat output generated by each installation. Where the tariff rate is applied to an assumed heat output, achievement of the intended rate of return will be affected. Where an installation’s actual heat output is less than any assumed heat output, the ‘typical’ installation will achieve an IRR higher than the intended rate. Conversely, where an installation’s actual heat output is more than any assumed heat output, the ‘typical’ installation will achieve an IRR lower than the intended rate.
16. As a cost control measure the Department proposes to reintroduce the 400,000kWh annual usage cap for lower and upper medium biomass installations.

¹ 12% for most technologies / capacities

PROPOSED TARIFFS

17. Departmental officials have calculated the tariffs necessary to deliver a prospective 12% IRR based on assumptions and methodology deemed to be appropriate and having taken the previous work of both Ricardo and Cornwall into consideration. Revised 2025-26 tariffs proposed are those set out in Table 1 below.

Table 1: Proposed 2025-26 tariffs (p/kWh) (2025 Prices)

	Current Tier 1 ²	Current Tier 2	Proposed Tier 1	Proposed Tier 2
Small Biomass	9.2	2.3	13.8	4.8
Lower Medium Biomass	2.2	0.0	6.1	1.7
Upper Medium Biomass	1.5	0.0	4.2	1.5

18. Table 2 below sets out the assumptions applied in calculating the appropriate tariffs for ‘typical’ installations in each tariff band, i.e. small biomass, lower medium biomass and upper medium biomass respectively.

Table 2: Assumptions (2025 Prices)

	<20kW	20-99kW	100-199kW
Reference capacity	17	99	199
Tier 1 heat generation	22,353	130,175	261,665
Capital cost – biomass	£16,215	£50,076	£67,004
Capital cost – counterfactual	£5,103	£15,754	£22,224
Biomass fuel cost (£/t) ³	£379	£301	£301
Biomass fuel cost (adjusted for efficiency) (p/kWh) ⁴	8.96	7.11	7.19
Counterfactual fuel cost (p/l)	53.83	53.83	53.83
Counterfactual fuel cost (adjusted for efficiency) (p/kWh) ⁵	5.92	5.92	5.92
Annual servicing & maintenance costs - biomass	£530	£987	£900
Annual servicing & maintenance costs – counterfactual	£174	£165	£165
Upfront hassle cost – biomass only	£656	£1,378	£1,378
Fixed ongoing hassle costs – biomass only	£139	£209	£209
Variable ongoing hassle costs – biomass only (£/year)	£395	£703	£703
Variable ongoing hassle costs – biomass only (p/kWh)	1.77	0.54	0.27

² Quarterly adjustment of 0.96 has historically been applied in determining a corresponding tariff paid at quarterly intervals. Where tariff paid annually no adjustment necessary. No adjustment included in the proposed tariffs listed.

³ Small biomass calculated by applying a 26% uplift to the observed price relevant for lower and upper medium biomass.

⁴ NCV of 4,600 kWh/t and assumed efficiency of 92% small and lower medium biomass / 91% upper medium biomass.

⁵ NCV of 9.88 kWh/l and assumed efficiency of 92% for all capacities.

ANNEX A - DERIVATION OF TARIFFS

Small Biomass

	Capex (£/kW)	Opex (p/kWh)	Efficiency (%)	T1 Load Factor	Size (kW)	Lifetime (years)	Fuel Cost (p/kWh)	Upfront Barrier Costs (£)	Fixed Ongoing Barrier Costs (£/year)	Variable Ongoing Barrier Costs (£/year)
Biomass	954	2.37	92%	15%	17	20	8.24	656	139	395
Oil	300	0.78	92%	15%	17	20	5.45	0	0	0

	Annualised Capital Cost at 12%	Annual Operating Costs	Annual Fuel Costs	Annuitised Upfront barrier Costs	Fixed Ongoing Barrier Costs	Variable Ongoing Barrier Costs	Total
Biomass	2,171	529	2,001	33	139	395	
Oil	683	174	1,323	0	0	0	
Difference	1,488	355	677	33	139	395	3,087

Subsidy calculation:

Annualised capital costs	6.66
Annualised upfront barrier costs	0.15
Fixed ongoing barrier costs	0.62
Operating costs	1.59
Fuel costs	3.03
Variable ongoing barrier costs	1.77
Total T1 Tariff (Rounded)	13.8
Total T2 Tariff (Rounded)	4.8

Lower Medium Biomass

	Capex (£/kW)	Opex (p/kWh)	Efficiency (%)	T1 Load Factor	Size (kW)	Lifetime (years)	Fuel Cost (p/kWh)	Upfront Barrier Costs (£)	Fixed Ongoing Barrier Costs (£/year)	Variable Ongoing Barrier Costs (£/year)
Biomass	506	0.76	92%	15%	99	20	6.54	1,378	209	703
Oil	159	0.13	92%	15%	99	20	5.45	0	0	0

	Annualised Capital Cost at 12%	Annual Operating Costs	Annual Fuel Costs	Annuitised Upfront barrier Costs	Fixed Ongoing Barrier Costs	Variable Ongoing Barrier Costs	Total
Biomass	6,704	989	9,247	69	209	703	
Oil	2,109	169	7,706	0	0	0	
Difference	4,595	820	1,541	69	209	703	7,937

Subsidy calculation:

Annualised capital costs	3.53
Annualised upfront barrier costs	0.05
Fixed ongoing barrier costs	0.16
Operating costs	0.63
Fuel costs	1.18
Variable ongoing barrier costs	0.54
Total T1 Tariff (Rounded)	6.1
Total T2 Tariff (Rounded)	1.7

Upper Medium Biomass

	Capex (£/kW)	Opex (p/kWh)	Efficiency (%)	T1 Load Factor	Size (kW)	Lifetime (years)	Fuel Cost (p/kWh)	Upfront Barrier Costs (£)	Fixed Ongoing Barrier Costs (£/year)	Variable Ongoing Barrier Costs (£/year)
Biomass	337	0.34	91%	15%	199	20	6.54	1,378	209	703
Oil	112	0.06	92%	15%	199	20	5.45	0	0	0

	Annualised Capital Cost at 12%	Annual Operating Costs	Annual Fuel Costs	Annuitised Upfront barrier Costs	Fixed Ongoing Barrier Costs	Variable Ongoing Barrier Costs	Total
Biomass	8,970	889	18,793	69	209	703	
Oil	2,975	157	15,490	0	0	0	
Difference	5,995	732	3,302	69	209	703	11,010

Subsidy calculation:

Annualised capital costs	2.29
Annualised upfront barrier costs	0.03
Fixed ongoing barrier costs	0.08
Operating costs	0.28
Fuel costs	1.26
Variable ongoing barrier costs	0.27
Total T1 Tariff (Rounded)	4.2
Total T2 Tariff (Rounded)	1.5



Northern Ireland
Assembly

Committee for the Economy

Departmental Assembly Liaison Officer
Department for the Economy
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Our Ref: **EC2025: 499**

10 October 2025

Dear DALO,

Non-Domestic RHI Closure

Please accept the Committee's thanks for the oral and written evidence provided by officials at its meeting of 8 October 2025 in respect of the RHI (Closure of the Non-Domestic Scheme) Bill and the related closure regulations consultation.

Members recorded concerns in respect of the length of time it has taken to devise the closure legislation and the reasoning underpinning the modelling of relevant costs.

The Committee also agreed that it would likely seek an extension to the anticipated Committee Stage in order to ensure that the Committee has sight of the feedback to the closure regulations consultation and the draft regulations themselves prior to the end of the Committee Stage.

The Committee agreed to write to the Department seeking:

- clarification on the timing of the RHI winter tariff uplift regulations in respect of their laying in the Assembly and the period to which they will apply;
- confirmation that feedback to the consultation on the closure regulations will indeed be provided to the Committee, along with the draft closure regulations in January 2026 at the very latest and prior to the end of an extended Committee Stage;
- confirmation that the closure regulations may be applied retrospectively from 1 April 2026 in the event that the closure regulations are affirmed by the Assembly some time after this date;
- information on the actual level of fraud and loss of accreditation that has been recorded by year by the Department in respect of the Non-Domestic RHI Scheme;
- an update on the Non-Domestic RHI statistics including the number of installations, the number of inactive installations and the number receiving payments;



- sight of, and comparison between, the 2 tariff/closure calculation models produced by the Department and Professor Rooney; and
- information on the profile of the closure DEL spending.

A written response at your earliest convenience and prior to the scheduled 2nd stage of the Bill would be greatly appreciated. It is anticipated that the Committee will also likely appreciate the expeditious provision of the relevant Delegated Powers Memorandum and the Keeling Schedule for the Bill in the event of the Bill passing 2nd Stage

The Committee would also greatly appreciate any related background policy information that the Department can provide.

If you require further information or clarification in respect of the above, please do not hesitate to contact me.

Yours sincerely,

Peter McCallion

Peter McCallion
Clerk to the Committee for the Economy