

design of the tariff should have had tiering in it. Again, I note Mark Cockburn's comments last week that he regrets that he had not recommended that tiering be introduced.

**Mr Kearney:** He also denied that it was a big deal. Do you share that view?

**Mr Sterling:** No, I would not deny that it was a big deal. I think that it is very significant, and I have to say that, if you are looking for two critical factors that have given rise to the budgetary loss, one is the initial tariff design and two is the failure to do reviews. When I was talking earlier about my responsibility, as I said, I was trying to describe how I felt at the time about the control system that had been put in place. What I did not properly explain is that it is now clear that the control system may have looked good but the application of the control system was deficient. Otherwise, how would you explain what has happened? I take responsibility for that.

**Mr Kearney:** How do you believe it was defective?

**Mr Sterling:** In two regards. First, the initial tariff design would have, I think, mitigated some of the problems that we faced had it had tiering introduced at the start, but, significantly, the review did not take place. The other significant factor is that warning signs that were flagged up by Ofgem and by the whistle-blower were not taken account of. Those things together, I think, in large part are what has contributed to the problem that we face today. As I said, it will be for others to determine the extent of my personal responsibility, but, today, I want to give the facts as I understand them now and as I recalled them at the time.

**Mr Kearney:** I have one more question on the casework committee. You said that a strong governance committee was in place, involving the Department, Ofgem and CEPA, all of that constituting a strong governance framework. Do you stand over that?

**Mr Sterling:** As I said, at the time, I felt that that was a sound set of governance arrangements. I accept now, on the basis of what we know now, that it clearly was not sufficient and that the application of the controls — the way in which they operated — was not sufficient.

**Mr Kearney:** Do you know that there were no minuted meetings up until November 2015?

**Mr Sterling:** Between?

**Mr Kearney:** From the beginning of the scheme until November 2015.

**The Chairperson (Mr Swann):** Between Ofgem and the Department.

**Mr Sterling:** Sorry, yes, I knew that from Ofgem's evidence.

**Mr Kearney:** Did you know that at the time?

**Mr Sterling:** No.

**Mr Kearney:** Is that normal? Would you have encouraged or sponsored that practice in the Department?

**Mr Sterling:** No, it is good practice to minute meetings.

**Mr Kearney:** I would have thought so, too. The data-sharing protocol was proposed by Ofgem not by the Department. Were you aware that it had to be proposed by Ofgem in order to give some type of structure to communications —

**Mr Sterling:** No, I was not aware of that.

**Mr Easton:** I put this scenario to you. You were leaving in July 2014, and the review was meant to be in January 2014. It was delayed by five months. Is there a possibility that, as a result of the fact that you were moving on, you took your eye off the ball, left it to your predecessor and that it drifted along because of the two months' difference?



## PRIVATE OFFICE GUIDANCE

CONTENTS	PAGE NUMBER
Ministerial Correspondence .....	2
Responses.....	2
Transfers .....	2
Deadlines.....	2
Form of response.....	3
Treat Official Replies.....	3
Ministerial Submissions.....	4
Sample Submission.....	5
Ministerial Boxes .....	6
Ministerial Meetings .....	6
Briefing .....	7
During the meeting .....	8
Notes of Ministerial meetings.....	8
Ministerial Visits and Engagements .....	9
Briefing .....	10
Speeches.....	10
Press Office contacts.....	11
Special Adviser .....	12
Tours and Functions in Parliament Buildings.....	12
Ministerial Car .....	12
Private Office Contacts .....	13

### Ministerial Submissions

13. Submissions to the Minister should be brief and to the point. They should be submitted to the Private Office in enough time to allow the Special Adviser and the Minister, should they wish to, to request further advice and hold a meeting before taking a decision. Even in the case of urgent submissions this should be at least 48 hours before the deadline for decision. This is particularly relevant to Invest NI casework submissions which need the Minister's careful consideration.
14. Submissions should normally only be copied to those who need to see them rather than those who might just be interested.

*\*(All submissions to FM/dFM should go through the Special Adviser and the Minister, except in cases of great urgency or by agreement with the Private Office, and should be copied to the Permanent Secretary and to the Special Adviser)*

15. The Permanent Secretary must have been consulted on policy proposals which have major resource implications, raise Accounting Officer issues, or have Machinery of Government implications before a submission is sent to the Minister.
16. The Press Office should be copied in on all submissions and if a press release is required it should be approved by Press Office before it is included in the submission (allow two days, prior to submission deadline, for clearance by Press Office). The Assembly Section should also be copied in if the submission is likely to result in action in the Assembly.
17. If a change in the law or a significant decision is being proposed, or where there are legal problems of any kind, the submission should have the appropriate legal advice/clearance.
18. Submissions should follow a standard format, which aids the Minister's speedy consideration of the issues involved. They should be Arial font, point 12 and single spacing. The text of the submission should follow the subheadings detailed below:

## During the meeting

34. The Minister will normally take the lead in the meeting, but may well invite the visitors to explain their views first. The visitors will want to hear the Minister's views, but officials should also contribute if appropriate.
35. If the Minister is the visitor it is customary for them to listen to their hosts and respond accordingly.
36. The physical arrangements for a meeting are the responsibility of the Private Office, except for some statutory or regular meetings where responsibility lies with a particular policy division.

## Notes of Ministerial meetings

37. Meeting notes are intended to record accurately any decisions taken or undertakings made by the Minister. They may also, if necessary, summarise the main facts and arguments used during the meeting. They will not however record, blow by blow, each turn of a discussion.
38. **The Permanent Secretary has directed that for all internal and external meetings involving officials it will be the responsibility of the agency, branch, division etc to record a relevant note of the discussion, decisions taken and action agreed. The author should ensure that he/she has issued the minutes to any relevant official – including PS/Minister.** This will allow the Private Secretary to concentrate on following up on the Ministers action points. At the same time the minutes will properly record the discussions on complex issues as officials will have the advantage of a closer knowledge of topics. Please provide details of note taker in briefing, as requested.
39. Officials are normally responsible for any follow-up action detailed in the meeting notes.

**Department of Enterprise, Trade and Investment: Six Monthly Assurance Statement on the System of Internal Control - Period Ended 31 March 2014**

**Scope of Responsibility**

1. As the Senior Civil Servant responsible for Policy Group, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Enterprise, Trade and Investment's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am responsible.

**The Purpose of the System of Internal Control**

2. The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of my Group's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the six months ended 31 March 2014 in the Group for which I am responsible and accords with Department of Finance and Personnel guidance.

**Capacity to Handle Risk**

4. My Group is carrying out appropriate procedures to ensure that it identifies its objectives and risks and a control strategy has been devised for each of the significant risks. As a result, risk ownership has been allocated to appropriate staff.

**The Risk and Control Framework**

5. The Departmental Board, of which I am a member, has ensured that procedures are in place for verifying that risk management and internal control are regularly reviewed and reported on. As well as regular reports to the Departmental Board, risk management and internal control are regularly reviewed by the Departmental Audit Committee. Risk management is continually being incorporated into the corporate planning and decision-making processes of my Group.
6. The Departmental Board and Departmental Audit Committee receive periodic reports concerning internal control. The appropriate steps are being taken to manage risks in significant areas of responsibility and monitor progress on key projects.

18. The final issue to report in relation to **Telecoms, Tourism & GSNI Division**, is the action that continues to be taken on the Telecommunications Project which was in receipt of Intereg IIIA funding. The Northern Ireland Audit Office is now producing a report on the project and the Department is assisting NIAO in its enquiries.
  
19. **Energy Division** continues to pursue clawback of £198,747 from Craigavon Borough Council as a result of a suspected fraud connected with the tendering process for the installation of renewable energy boilers. A Protective Writ was served on the Council in November 2011 and the Department continues to receive monthly updates. The Council is pursuing the matter through its insurers but, as yet, no repayment has been made.

A handwritten signature in black ink, appearing to read 'D. Thompson'. The signature is written in a cursive style with a large initial 'D'.

**Head of Group**

**Date: 16 May 2014**

**From:** Coyne, Terence  
**To:** [Sewell, Julie](#)  
**Subject:** FW: Policy Group - Six Monthly Assurance Statement to 31 March 2014  
**Date:** 14 November 2016 10:54:00  
**Attachments:** [Draft Policy Group Composite Statement 31 March 2014.DOC](#)  
[Policy Group Checklist 31 March 2014.DOC](#)  
[image001.png](#)  
[image002.gif](#)  
**Importance:** High

---

Julie

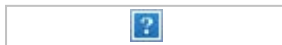
Here is the assurance statement to 31 March 2014. Nothing raised re renewable heat.

Regards

Terry

**Terence Coyne**

Governance Accountability and Casework  
Department for the Economy  
Netherleigh  
Massey Avenue  
Belfast, BT4 2JP  
Tel: 02890529406 (ext: 29406)  
Mob: Personal information redacted by the RHI Inquiry  
TextRelay: 18001 02890529406  
Web: [www.economy-ni.gov.uk](http://www.economy-ni.gov.uk)



[NI Year of Food & Drink 2016](#)

**Please consider the environment - do you really need to print this e-mail?**

---

**From:** Johnston, Iris **On Behalf Of** Thomson, David  
**Sent:** 16 May 2014 16:28  
**To:** Sterling, David; Mateer, Kim  
**Cc:** Coyne, Terence; Morrison, Rosemary; Johnston, Iris  
**Subject:** FW: Policy Group - Six Monthly Assurance Statement to 31 March 2014  
**Importance:** High

David/Kim

Please see attached Six Monthly Assurance Statement from David Thomson.

Many thanks

## INTERNAL CONTROL CHECKLIST

## 1 – Business Planning

1.1	Yes	No	Partly
<p>Divisions/Units and Branches within the Group have plans which contain measurable targets against which performance and progress can be measured.</p>	✓		
<p><b>Comments:</b></p> <p><b><u>Energy Division :</u></b>  <b>Energy Co-Ordination Branch</b> -: Divisional Business Plan agreed and progress against targets reported to HoD on a quarterly basis.  <b>Markets Branches - Electricity Markets</b> – Extensive engagement with DCENR and RAs on Target Model High Level Design and associated governance arrangements completed. Engagement continuing to ensure arrangements being applied.  <b>Electricity and Gas Markets</b> - Divisional Business Plans agreed for 2013/14, on which progress is formally reported. Fortnightly meetings with Head of Division to report on progress. Regular engagement with NIAUR on gas extension and security of supply issues.  <b>Renewable Electricity Policy &amp; Legislation Branch/Renewable Heat Branch/Sustainable Energy Branch:</b> No comment</p> <p><b><u>TT &amp; GSNI :</u></b>  <b>Telecoms</b> Branch has an Action plan (2011 - 2015) that feeds into the Department's Corporate (4 targets) and Operational Plans (10 targets) and reports quarterly on progress. Individual projects are managed under PRINCE2 methodology with clearly defined milestones and deliverables.  <b>GSNI</b> has a detailed work plan with SMART objectives that are reviewed quarterly  <b>Tourism</b> - Tourism Policy Branch Plan in place</p> <p><b><u>ASU</u></b>  The ASU Business Plan for 2013/14, which incorporates work requests from DETI Business Areas, has been agreed and finalised and contain targets against which performance and progress can be measured.</p> <p><b><u>EPD</u></b>  A full Divisional Plan for 2013/14 is in place that all Branches contributed to. This includes all relevant PfG, Corporate and Operating Plan commitments. All targets are measurable and performance against these is formally monitored, quarterly progress measured and any corrective action taken. In addition each Branch in the Division has a more detailed Operating Plan which each HOB monitors. Business Development Unit has developed a branch operating plan which sets out details of measurable targets for the branch and which is updated on a quarterly basis.</p>			



1.2	Yes	No	Partly
Timely, relevant and reliable reports on progress against targets are produced and reviewed at the appropriate level to ensure that corrective action is taken as required.	✓		
<p><b>Comments:</b></p> <p><b><u>Energy Division:</u></b></p> <p><b>Energy Co-Ordination Branch</b> - Progress against 2013/14 Operating Plan and Divisional Plan targets to year-end currently being compiled.</p> <p><b>Markets Branches</b> - Joint Steering Group monitors progress on All-island Energy Market targets and priorities. ISLES2 Project Board now established following DETI Casework approval for project on 25 March 2013. Project is now in delivery phase following recruitment of Project Manager who reports to the three project partners, Scottish government, DETI and DCENR.</p> <p>Progress against targets monitored through: Branch progress meetings with Grade 5 and HOBs and through Divisional business Plan and SEF Implementation Plan reporting. DETI worked with NIAUR, DECC and EC to Directives and notify the Commission by the planned date of April 2013. The Commission subsequently confirmed in Autumn 2013 that it was closing the infraction cases relating to IME3.</p> <p><b>Renewable Electricity Policy &amp; Legislation Branch/Renewable Heat Branch/Sustainable Energy Branch</b> - No comment</p> <p><b><u>TT &amp; GSNI</u></b></p> <p><b>Telecoms</b> Branch regularly monitors progress on project targets and where necessary takes remedial action through risk and issues registers. For example the targets in relation to 3G/4G mobile coverage have been met through market action and the proposed DETI mobile project has therefore been re-evaluated and adjusted to meet the aims and criteria of the UK. Superfast Broadband Extension Programme and address the needs of the Final 10% unable to access superfast broadband services. All telecoms projects are managed under PRINCE2 with project board governance.</p> <p><b>GSNI's</b> targets are reviewed at quarterly management meetings.</p> <p><b>Tourism</b> - These include Management liaison/performance monitoring meetings, including financial / corporate governance issues.</p> <p><b><u>ASU</u></b></p> <p>Key ASU objectives are reflected in the DETI Corporate Plan 2012-15, current year's Operating Plan and ASU Risk Register. These are regularly reviewed as part of the performance monitoring and risk management processes.</p> <p><b><u>EPD:</u></b> As noted above, the Divisional Plan is formally updated and monitored quarterly by HOD (and HOBs), including Corporate and Operating Plan targets. This requires progress to be documented alongside any remedial action that has either been taken or is planned in order to keep targets on schedule. Branch Plans are also formally monitored by HOBs at the same time. In addition HOBs monitor progress on an ongoing basis, and HOD undertakes formal 2-weekly work progress meetings with HOBs (and DPs) – any necessary remedial action is discussed and agreed prior to implementation.</p>			

## 6 – Staff

6.1	Yes	No	Partly
(a) Authority, responsibility and accountability within the Group are clearly defined so that decisions are made and actions taken by appropriate people.	✓		
(b) Staff within the Group are made fully aware of their job responsibilities.	✓		
<p><b>Comments:</b></p> <p><b><u>Energy Division:</u></b>  <b>Energy Co-Ordination Branch</b> - No comment  <b>Markets Branch</b> - All financial approvals completed under delegated limits procedures.  <b>Renewable Electricity Policy &amp; Legislation Branch/Renewable Heat Branch/Sustainable Energy Branch</b> - No comment</p> <p><b><u>TT &amp; GSNI</u></b>  <b>Telecoms</b> branch ensures that authority, responsibility and accountability are clearly defined and that staff are made aware.  <b>MAPB/GSNI</b> - Branch authorities and responsibilities are defined in the Branch Procedures Manual, last updated (V3) 6 August 2013.  MAPB procedures require to be reviewed/enhanced to take account of the evolving and expanding nature of processes pertaining to Petroleum and Minerals Licensing activities and MAPB information management and dissemination.  Work in these areas is on-going by MAPB.  <b>Tourism</b> - Staff responsibilities, authority, responsibility and accountability, all clearly defined in TPB in ....  (a) Operating Plan/Branch Plan/PPAs  (b) Regular Branch meetings  (c) Regular informal contact  (d) Timely completion of annual reports</p> <p><b><u>ASU</u></b> – PPA's/PDP's are drafted in line with targets in the Branch Operating Plan.</p> <p><b><u>EPD:</u></b> Personal Performance Agreements/PDPs are drafted in line with targets in Branch, Divisional and Operating Plans. Lines of authority are well defined and regular Branch and Divisional monitoring of progress against targets ensures responsibility for delivery is further embedded. The previous EPAU Team, which had no G7 lead, now report to the G7 in EPU</p> <p>Regular branch meetings are undertaken, plus HOBs meet collectively with HoD on a regular basis. HoD also has detailed fortnightly work planning meetings with each Branch.</p>			

**From:** [Hepper, Fiona](#)  
**To:** [Private Office DETI](#)  
**Cc:** [Sterling, David](#); [Thomson, David](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#); [Connolly, Samuel](#); [Aiken, Glynis](#); [Neth Energy](#); [Press Office](#); [Ross, Alastair](#)  
**Subject:** ECONOMIC APPRAISAL ON RENEWABLE HEAT INCENTIVE FOR NORTHERN IRELAND  
**Date:** 08 June 2011 12:14:01  
**Attachments:** [RHI Initial Briefing on outcome of economic appraisal.DOC](#)  
[ANNEX A - RHI IA for the DECC Energy Bill.DOC](#)  
**Importance:** High

---

[Private Office](#)

See attached - for consideration by Minister and discussion at meeting scheduled for noon Monday 13th June.

[Fiona](#)

**Fiona Hepper**

Senior Management  
Department of Enterprise, Trade & Investment  
Netherleigh  
Massey Avenue  
Belfast, BT4 2JP  
Tel: 028 9052 9215 (ext: 29215)  
Textphone: 028 9052 9304  
Web: [www.detini.gov.uk](http://www.detini.gov.uk)

**Please consider the environment - do you really need to print this e-mail?**

**Copy Distribution List Below**

**From:** Fiona Hepper  
Energy Division

**Date:** 8 June 2011

**To:** 1. Andrew Crawford  
2. Arlene Foster MLA

**ECONOMIC APPRAISAL ON RENEWABLE HEAT INCENTIVE FOR NORTHERN IRELAND**

**Issue:** To inform you of the conclusions of the economic appraisal on a Renewable Heat Incentive (RHI) for Northern Ireland.

**Timing:** Immediate: your view is required in order that the consultation document can be finalised for issue.

**PfG implications:** Not applicable

**Need for referral to the Executive:** Any future renewable heat strategy will require Executive approval in due course.

**Presentational Issues:** Not applicable.

**Freedom of Information:** This submission is exempt under Section 35 of the Freedom of Information Act.

**Financial Implications:** HMT has advised that £25m of AME is available over the spending period should Northern Ireland choose to introduce a RHI.

**Legislation Implications:** Energy Division is currently working with colleagues in the Department of Energy and Climate Change (DECC) in London to extend renewable heating powers to Northern Ireland.

## 3 ACCOUNTING OFFICERS

---

**3.4.2** There is no set form for doing this, though the Accounting Officer should be specific about the nature of his or her objections and where possible set these out in writing. Before doing so it is good practice for an Accounting Officer to discuss the matter with DFP if time permits. It may also be necessary to discuss the issue with officials from the Office of First Minister and Deputy First Minister to determine if the matter needs to be brought to the Executive Committee under the terms of the Ministerial Code.

**3.4.3** If, despite the Accounting Officer's advice, the Minister decides to continue with a course the Accounting Officer has advised against, the Accounting Officer should ask for a formal Ministerial Direction to proceed. This can be oral but, if so, should be confirmed in writing as soon as possible. Directions of this kind are rare but the acid test is whether the Accounting Officer could justify the proposed activity if asked to defend it.

**3.4.4** Such a direction is likely to mean that the associated expenditure is novel or contentious and therefore outside of the departmental delegated expenditure. Having received a Direction from the Departmental Minister, in these circumstances, the Accounting Officer should seek DFP approval.

**3.4.5** A Minister may decide, in these circumstances, that the issue should be discussed by the Executive. If this happens and a decision reached at the Executive is to agree to the course of action proposed by the Departmental Minister it will be recorded in the minutes which can be treated as formal approval. The DFP Minister, as part of the Executive, is bound by this decision and in these circumstances it is not envisaged that it will be necessary for the Accounting Officer to seek a formal written approval from DFP. If the Executive decides not to proceed the Accounting Officer should abide by the Executive's decision and not undertake any course of action which could be seen as contrary to the decision.

**3.4.6** When a Ministerial Direction is confirmed by the DFP Minister or Executive Committee as appropriate, the Accounting Officer should:

- write to the C&AG with the relevant details of the issue. This correspondence should be copied to DFP. The C&AG will normally draw the matter to the attention of the PAC, who will attach no blame to the Accounting Officer;
- follow the direction without further ado; and
- if asked, explain the Ministers/Executive's course of action. This respects Ministers' rights to frank advice, while protecting the quality of internal debate.

### **box 3.2: examples when Accounting Officers should seek a direction reflecting previous cases**

- **Irregularity:** if a proposal is outside the legal powers, Assembly consents, or DFP delegations.
- **Impropriety:** if a proposal would breach Assembly control procedures.
- **Poor value for money:** if an alternative proposal, or doing nothing, would deliver better value, e.g. a cheaper or higher quality outcome.

5. The economic appraisal has considered various options for incentivising the local renewable heat market, and has advised on appropriate tariff levels. It has also considered the costs/benefits and the impact of each of the options.

### Options considered

6. CEPA and AEA initially considered a long list of high-level options which were developed in conjunction with Energy Division. These options included specific targeted support for the heavy industrial sector, the roll-out of capital grants, adopting the GB RHI scheme, the introduction of a Renewable Heat Obligation, the introduction of a NI RHI scheme, as well as others. From this long list of options five options were taken forward for further consideration;
  - a. Do Nothing
  - b. A renewable heat challenge fund
  - c. 50% capital grant
  - d. Joining in with the GB RHI scheme
  - e. A specifically tailored NI RHI scheme
7. Under each of these scenarios various funding options were considered, within the £25m funding envelop. These were:
  - i) No funding post 2015;
  - ii) Funding of £12m per annum (total) post 2015 until 2020; and
  - iii) Funding of an additional £5m (i.e. £17m in 2016, £22m in 2017, £27m in 2018 etc) post 2015 until 2020 (this is the level of funding is based on the GB impact assessment for the RHI on expected funding levels for the GB scheme post 2015).
8. The funding options detailed in ii) and iii) would allow any NI RHI scheme to remain open to new installations until 2020, as is the case in the GB scheme. If no additional funding was to be available post 2015 it is questionable whether a RHI scheme would be feasible as it would need to close to new applications in March 2015. If a RHI is the preferred option, during the consultation period we will need further engagement with DFP, DECC and HMT to copper fasten the funding position – even though **HMT has already indicated that adequate budget cover would be available to ensure existing financial commitments would be honoured and that those within the NI scheme by 2015 would receive the full 20 year tariffs.**
9. It should be noted that preliminary modelling, within the economic appraisal, would suggest that none of the options above, in themselves, will deliver the target of 10% renewable heat by 2020. (This is also true of the GB RHI, which DECC expect will deliver 10% as against a 12% target). There will therefore be a need for supporting policies that will assist in increasing the uptake of incentive measures and ensuring that levels of renewable heat are maximised. These include;
  - i) Maximising indigenous biomass supply;
  - ii) Communications and education;
  - iii) Increased energy efficiency;
  - iv) Building standards for new builds;
  - v) Renewable heat within public estate;
  - vi) Increasing skills; and
  - vii) Planning issues.

10. There may be merit in establishing a cross-departmental group to consider some of these issues.

11. The options considered in the economic appraisal were;

**a. Do Nothing**

12. As in all economic appraisals the 'do nothing' option was assessed. It was determined that under this option there would be limited deployment of renewable heat, the amount of which would largely be dependent on fossil fuel prices and the understanding of renewable alternatives. It was estimated that by 2020 renewable heat would account for around 4.8% of heating demand if no financial support was available. This is well short of the 10% target set.

13. 'Do nothing' option is not deemed as a viable option for a number of reasons. Firstly, the target set in the Strategic Energy Framework (SEF) for renewable heat would not be met and the funding provided by HMT would not be used. Secondly, the Northern Ireland renewable heat market would be distinctly disadvantaged in comparison to Great Britain and there would be a potential loss of skills and expertise to the Great Britain market. Finally, there would be widespread criticism of the Department if no action was taken, especially given previous commitments on the issue.

**b. Renewable Heat Challenge Fund**

14. A 'Renewable Heat Challenge Fund' would be a capital grant with the grants being awarded on a competitive basis, rather than 'first come first served'. In this scenario interested parties would be invited to apply for funding and would provide information on the intended installation, expected heat output and required funding (there would be a maximum allowed grant based on % of total cost). Applications would then be ranked based on the cost-effective renewable heat output and grants awarded according to rank. This process would be repeated on either a bi-annual or annual basis.

15. If no funding is guaranteed post 2015, a capital grant system would be preferable to a RHI scheme. A challenge fund grant scheme would ensure that the most cost-effective installations were supported and that the £25m was utilised to good effect. Under this option around 5.6% renewable heat could be delivered by 2015 when the existing funding is due to end. The challenge fund could continue post 2015 if funding was available and could possibly achieve over 7.5-8.75% renewable heat by 2020 depending on funding levels.

16. There are several issues to consider under the challenge fund option. The scheme would need to be administered either by the Department or a contracted third party organisation and therefore could result in additional resource pressures or governance issues. It could also be potentially complicated and would require applicants to have an understanding of their heat demands and most appropriate technology requirements. There would also be a danger that only certain technologies, which ranked highly on the scoring matrix, would be incentivised, namely air source heat pumps or biomass boilers; this could be controlled by the Department in designing the

scheme. However, this would not support the development of a more diverse market and could have a negative impact on technologies that require more support, eg solar thermal.

17. The final issue with a 'challenge fund' is that it is in essence a capital grant system and does not provide long term stable support. Previous experience shows that grant schemes tend to lead to the market ramping up but then failing once the funding ends. It is also not certain that such a fund would be in the spirit of the terms under which HMT is providing the funding. The experience of the NIRO for renewable electricity, which provides long term stable support, is a more favourable approach.

### **c. Capital grant funding**

18. CEPA also considered a straight forward administratively awarded capital grant system. In comparison to the competitively awarded challenge fund this would be undertaken on a 'first come first served' basis, similar to the *Reconnect* programme. The option considered by CEPA would be a 50% grant to cover the capital costs of various renewable heat installations. Under this scheme 5.35% renewable heat could be delivered by 2015. No projections were made to 2020 as CEPA advised that if additional funding was available post 2015 it would be more effectively used in the challenge fund format.
19. If a grant scheme is the preferred option then a challenge fund scheme would be the preferred option and would ensure deliver more cost effective renewable heat. Lessons learned from the *Reconnect* scheme would support CEPA's view that a competitively awarded grant can be more cost-effective and targeted than an administratively awarded grant.

### **d. The Great Britain Renewable Heat Incentive**

20. CEPA also assessed the appropriateness of joining in with the existing GB RHI. There are many positives for doing so, including the consistency of approach with GB, savings in the cost of administrating an NI scheme, and the potential speed with which a scheme could be implemented.
21. However, CEPA has concluded that, given the differences between the GB and Northern Ireland heat markets implementing the GB RHI as it is currently devised and using the proposed GB tariffs in Northern Ireland would not be appropriate. The major issue that would arise would be that customers could be potentially over-incentivised and inefficient technologies supported; there would also be an unintended negative impact on the gas market. The GB tariff levels are largely based on the assumption of a household or business switching from gas to renewables. Whereas, given the prevalence of oil in Northern Ireland, tariff levels for a Northern Ireland scheme would need to be set on the assumption of moving from oil to renewables. If GB tariff levels were implemented there would potentially be an incentive for existing gas customers to switch to renewables and not just those using oil. Under statute, DETI has an obligation to develop and maintain an efficient gas industry and therefore it is important to develop tariff levels that make it attractive for oil customers to switch but **not** necessarily existing gas users.



**e. A Northern Ireland Renewable Heat Incentive**

22. CEPA has developed and assessed an appropriate RHI for the Northern Ireland. The tariff levels have been developed to encourage the movement of existing oil users to renewable heat, whilst protecting (to a degree) the existing gas market.
23. The NI RHI option is the preferred approach and offers the highest potential renewable heat output at the best value. It also would incentivise a wide range of technologies and provide investors with long-term support. Whilst it would only be open to non-domestic market, in the first instance, it would eventually be open to all consumers and therefore provide greater accessibility.
24. Preliminary tariffs are shown below, in comparison to the GB proposed levels (all tariffs are for 20 years and in pence per kWh). Column 1 details the tariffs set within the latest DECC publication and will apply to all non-domestic buildings in GB; Column 2 are tariffs developed by CEPA using the same methodology as DECC and are based on existing Northern Ireland energy costs; and Column 3 are tariffs set by CEPA which take into account the limited funding that is available.

	<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>
	<b>GB RHI Consultation</b>	<b>NI Levels – DECC methodology</b>	<b>NI levels – Alternative methodology</b>
<b>ASHP – all levels</b>	-	-	-
<b>Biogas Injection – all</b>	6.5	2.9	2.2
<b>Biomass boilers - small</b>	7.6 (1.9 after a certain level)	4.0	1.8
<b>Biomass boilers – medium</b>	4.7 (1.9 after a certain level)	1.4	1.4
<b>Biomass boilers – large</b>	2.6	-	-
<b>GSHP – small</b>	4.3	3.8	4.1
<b>GSHP – medium</b>	3.0	1.8	1.0
<b>Biofuels – small</b>	-	1.0	1.5
<b>Biofuels – medium</b>	-	-	-
<b>Biofuels – large</b>	-	-	-
<b>Solar thermal – small</b>	8.5	17.0	8.5
<b>Solar thermal - large</b>	8.5	-	-

25. The purpose of the RHI (in GB and NI) is to incentivise people to move from carbon-based heating to renewable energy sources. The ‘cost’ of the carbon fuel is therefore important and differs in the GB and NI markets. The tariffs for the Northern Ireland scheme are therefore lower as they are based on moving people from a more expensive fuel source, therefore the required incentive to move is deemed to be lower. In addition, the tariffs are based on an oil counterfactual, increasing the tariff levels could lead to consumers currently on gas switching to renewable heat, this would **not** be desirable as it could lead to long term price increases in gas distribution charges. The two NI options refer to tariffs developed using the DECC methodology for the GB scheme and an alternative set of tariffs developed using a different methodology. These tariffs are indicative and subject to further analysis and development.

26. Similar to the GB scheme, the NI RHI would be made available to the non-domestic market in April 2012, with the domestic market introduced in October 2012. The reason for this is difficulties in assessing and monitoring heat demand in domestic dwellings. DECC has recently gone to tender for an economic appraisal of phase 2 of the GB RHI which will consider incentives for the domestic market. In our consultation document a commitment to consider this issue and introduce the RHI to the domestic market as soon as possible, and in line with GB, could be included.
27. Some specific issues to be considered under a potential Northern Ireland scheme are;
- i) **Solar thermal:** Solar thermal is an expensive technology, this is primarily due to the fact that it can not meet space heating requirements. Whilst solar thermal will provide around 50% of yearly hot water requirements there still remains the need to retain a primary heat source such as gas, oil or renewables. To incentivise this technology using the same rationale as the other tariff levels there would be a danger of over-incentivisation and given the limited funding available this could divert funding from other more economical technologies. To this end, CEPA would recommend not including solar thermal within the RHI. This, however, could be open to criticism especially in light of solar thermal being a well-known and well established technology. Consideration could therefore be given to setting a tariff for solar thermal with a much lower rate of return, similar to the approach taken in GB, this would mean providing a rate of 8.5p per kWh.
  - ii) **Use of biofuels** – the GB scheme does not include biofuels. However CEPA do recommend their inclusion given the high use of oil in Northern Ireland and the many circumstances where neither renewables nor gas may be an alternative.
  - iii) **Support for anaerobic digestion** – given the increased support for AD under the NIRO, it is proposed not to support any heat generated from this technology, as to do so would amount to double incentivisation. RHI support could be made available for heat only AD plants that would not receive NIRO support. However given the level of support under the NIRO it is unlikely any heat only AD plants will be developed.
  - iv) **Support for the heavy industrial sector** – CEPA recommend that the heavy industrial sector (17 sites accounting for 22% of heat demand) is not supported under the RHI. This is because in some cases renewable heat technologies would already be cost-effective by 2020 and in other scenarios switching to renewable heat may badly affect the current gas network as well as its future development. As detailed later in the submission, there may be merit in supporting some heavy industrial sites and introducing different eligibility requirements, outside of the mainstream NI RHI.

### Possible Approach

28. In considering the economic appraisal, previous analysis, funding profile and the overarching policy objectives for renewable heat, I wish to get your view on the proposed design of an incentive scheme for Northern Ireland.