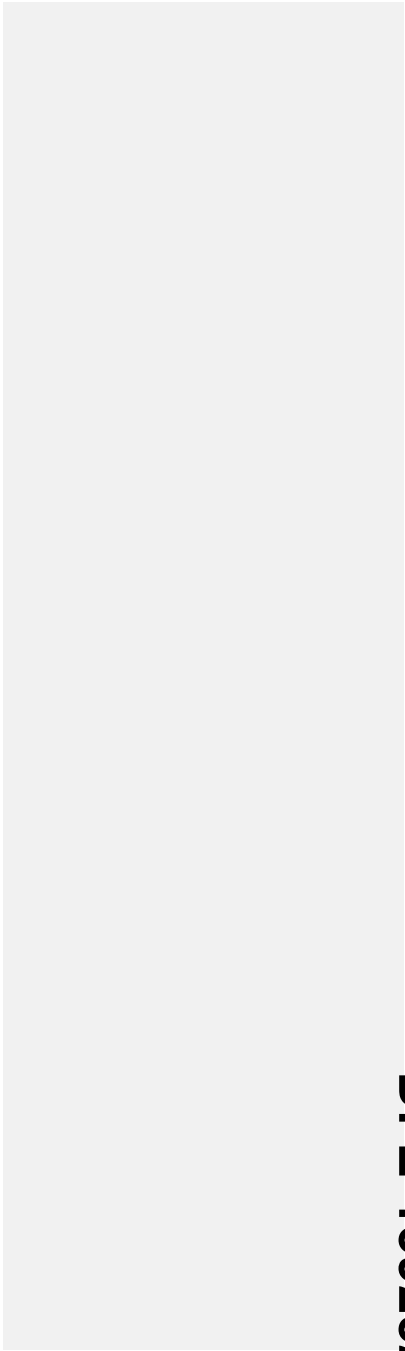


32.	Textual amendments in the interests of accuracy and clarity.	<p>Mainly Accepted. Now paragraph 34. Amendments substantially made. NIAO have made some minor changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>The consultants were asked to reconsider the rates following feedback from the industry received through the consultation process and i-In February 2012, the consultants produced a new paper which increased the rates to <u>take into</u> account for a larger reference <u>ease point</u> boiler of 50kw in size rather than the original 20kw reference case. The rate proposed in this paper for biomass boilers less than 100kw was increased to 5.9 pence per kwh but there was no mention of the need for tiering or that this was not in excess of the cost of wood pellets. The final business case, approved by the Department and DfE in mid 2012 included the 5.9 pence tariff subsidy <u>rate</u> which has subsequently been increased <u>in line</u> with inflation to 6.4 pence per kwh.</p> <p>Coyne DN: <u>Are colleagues content with NIAO's removal of the references to boiler size?</u></p>
33 and Table 2.	Textual amendments in the interests of accuracy and clarity and figure in Table 2 amended in the interests of accuracy.	<p>Accepted. Now paragraph 35. NIAO have also revised the subsidy rate quoted in penultimate sentence from 6.4 pence per kwh to 5.9 pence per kwh. This change is in line with Table 2.</p>

Formatted: Font: Bold

35.	Textual amendments in the interests of accuracy and clarity.	<p>Mainly Accepted. Now paragraph 37. Amendments substantially made. NIAO have made some changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>At the time degression was introduced in GB in April 2013, demand for RHI was very low in Northern Ireland, thus creating a significant under spend for the Department (see Table 1). The Department has told me that its priority at that time was in identifying ways to increase demand and also on the introduction of a similar scheme for domestic applicants. As a result the degression system (or <u>an alternative costs control system</u>) was not introduced in Northern Ireland and the tariff rate was unchanged(<u>other than being increased by inflation</u>) for a long period of time. Once it became apparent that demand was increasing significantly the Department was unable to react quickly due to legislative constraints.</p> <p>Coyne DN: Content with revised wording.</p>
Note	Para 38 (formerly para 36) and Graph 1 updated to reflect upward trend in NI tariff with an increase from 5.9 pence in 2012 to 6.4 pence in 2015.	
38.	Textual amendment made to Table 3 in the interests of accuracy.	<p>Coyne DN: NIAO has completely redrafted Table 3. Are colleagues content with the figures used by NIAO?</p>



39.	Textual amendment in the interests of accuracy and clarity.	<p>Mainly Accepted. Now paragraph 41. NIAO have made some changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>As there were no tiering of tariff rates in Northern Ireland <u>for schemes approved before November 2015</u>, even greater amounts of grant could be obtained by running the boiler for up to 24 hours a day as there is no upper limit on the amount of energy that would be paid for. The more heat that is generated, the more is paid. Indeed with the cost of <u>running a biomass boiler estimated at around 4.01 p/kWh wood pellets at around 4.4p/kWh</u> and the RHI grant at 6.4p/kWh it would appear to benefit those in receipt of a grant approved prior to November 2015 to use the boiler 24 hours a day, even if the heat generated is not being used. This type of use may be an example of the scheme's inherent vulnerability to fraud. This can be seen in the example below based on the same 99kw boiler being used 24 hours a day, 7 days a week and achieving 93 per cent efficiency.</p> <p>The previous footnote to this paragraph has been amended from "Biomassenergycentre.org.uk – Fuel costs per kWh, December 2013" to "College of Agriculture, Food and Rural Enterprise – May 2016"</p> <p>Coyne DN: Are colleagues content with the source and accuracy of the amended figures? Also in the first sentence should the reference to "schemes" be to "installations"?</p>
-----	---	---

Note:	<p>A new paragraph 42 has been inserted as follows:</p> <p>“In some cases such as in the Poultry industry, it is possible that a biomass boiler could be used almost all of the time in order to replace an oil boiler. In an extreme case of the boiler being operated 24 hours a day and only being stopped for servicing, as shown in Table 4 below, very large profits could be realised, even though the use of the biomass boiler would still be in line with the spirit of the scheme.”</p> <p>Table 4 has also been rewritten by NIAO. Are colleagues content with paragraph 42 and with the source and accuracy of the figures in the amended Table 4?</p>
Note:	<p>A new paragraph 43 has been inserted as follows:</p> <p>Alternatively it has been alleged by a whistleblower that the scheme’s inherent vulnerability to fraud has led to abuse of the scheme, with biomass boilers purchased just to collect the subsidy, while not replacing any previous heating and just heating empty space. This can also generate significant returns as can be seen in the example below, which is also based on the extreme assumption of virtually continuous use.</p> <p>NIAO has inserted a new Table 5.</p> <p>Are colleagues content with paragraph 43 and with the source and accuracy of the figures in Table 5?</p>

41.	Textual amendments in the interests of accuracy and clarity. Figures inserted.	<p>Mainly Accepted. Now paragraph 45. NIAO have made some changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>RHI was extended to homes in the domestic sector in December 2014 to encourage people to switch renewable heating systems and reduce carbon emissions. Similar to the non-domestic scheme, the main methods of generating heat included biomass (burning wood pellets), air and ground source heat pumps and solar thermal. The benefits to applicants are less lucrative, with an upfront payment to a maximum of £3,500 and up to £2,500 a year for seven years, depending on heat requirements. Uptake for the domestic scheme is comparable with to the non-domestic scheme but the costs are considerably less with the total cost of the scheme being estimated at around £30 million compared to £1.15 billion for the non-domestic scheme. As outlined in Table 4 below, total applications for the domestic scheme were 2,721, compared to 2,128 for the non-domestic scheme. In addition, there was not the same spike in demand for the domestic scheme as there was for the non-domestic scheme in the Autumn of 2015, as there was no change in the tariffs for the domestic scheme at that time.</p> <p>Coyne DN: This paragraph is now significant as it includes an estimate of future costs at £1.15 billion. Are colleagues content that this is a reasonable estimate?</p>
-----	--	--

42.	Textual amendments in the interests of accuracy and clarity.	Accepted. Now paragraph 46. Coyne DN: The 17 November 2015 date in Table 6 will have to be amended to 18 November 2015 for consistency with the amendment to the date in para 46.
43.	Textual amendments in the interests of accuracy and clarity and figure in Table 6 amended in the interests of accuracy.	Now paragraph 47. The amendment we put forward has been accepted. However, NIAO has now amended the estimated annual cost of applications made in the seven week period from £20 million to £24 million. Minor typo the word “the” which precedes “each” in the penultimate sentence should be deleted. Coyne DN: Are colleagues content with the revised estimate of costs and with the figures in Table 7 (some of which have been rounded)?
45.	Textual amendments in the interests of accuracy and clarity.	Accepted. Now paragraph 49. Amendments made.
46.	Textual amendments in the interests of accuracy and clarity.	Accepted. Now paragraph 50. Amendments made.

47.	Textual amendments in the interests of accuracy and clarity.	<p>Partly Accepted. Now paragraph 51. NIAO have made some changes to the wording proposed by DfE (changes have been tracked by me):</p> <p><u>While there may initially have been some confusion as to the AME limit, this was clarified in an email from Treasury and</u> two letters to the DETI Minister from the Department of Energy and Climate Change (DECC) Minister:</p> <ul style="list-style-type: none">• In April 2011, <u>an e mail from HM Treasury officials confirmed by email stated</u> that RHI spending was not being treated as standard AME, where the Exchequer takes on all risks of overspend, <u>but i-</u>Instead, there would be a risk-sharing arrangement. <u>The e mail pointed out that the NI share of funding would be around 3 per cent of the GB funding and if whereby should</u> RHI spending in one year exceeded the profile set in the Spending Review, then the Department would need to repay this in future years and <u>may-would incur a Departmental Expenditure Limit (DEL)</u> penalty likely to be of the order of 5%. <u>This It appears that this relatively informal, -and explicitly indefinite,</u> information was never confirmed by HM Treasury. However, DETI officials, in an exchange of emails in May 2011, noted that the implication of the Treasury position was that it would be necessary to consider having controls in place to limit expenditure: there is no record of subsequent attention to this point.• In November 2013, a letter drawing attention to the changes made to the GB scheme to ensure affordability and value for money (including the degression changes);
-----	--	---

		<p>and</p> <ul style="list-style-type: none"> In January 2014, a letter confirming that the NI allocation of AME funding would be based on a Barnett formula share (3 <u>per cent</u>%) of the GB RHI budget <p>Coyne DN: Are colleagues content with the NIAO amendments to our suggested wording.</p>
48.	Additional paragraph inserted in the interests of accuracy and clarity.	<p>Accepted. Now paragraph 52. NIAO have made some minor changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>The Department has confirmed <u>told me</u> that although it was aware from January 2014 that the 2015/16 allocation would be a Barnett consequential share, officials did not know until December 2015 that the rate of increase in the DECC budget on which that share was based was to be much lower than in the plans previously communicated by HM <u>Treasury</u>, and that all overspend after 2016/17 would have to be met from resource DEL.</p>
49.	Textual amendments in the interests of accuracy and clarity. Figures in Table 7 updated.	<p>Accepted. Now paragraph 53 and Table 8. Coyne DN: NIAO's reference to Table 5 in para 53 should be amended to Table 8.</p>
51.	Explanatory text inserted at the request of NIAO.	<p>Accepted. Now paragraph 55. Coyne DN: Is this still an accurate reflection of the position?</p>

52.	Textual amendment in the interests of completeness.	<p>In our response to the first draft of the NIAO report, this paragraph originally read:</p> <p>It is anticipated that the findings of this Review will be reported in June 2016. I would expect the Department to ensure any recommendations are acted upon and any necessary action is taken. I will closely monitor the outcomes of these reviews instigated by the Department.</p> <p>NIAO has moved the majority of this paragraph to a new paragraph 57 and inserted the following at the end of paragraph 55 of the revised draft:</p> <p>The Department expects that the findings of this Review will be reported in June 2016.</p> <p>NIAO also has a drafting note – IS THIS CORRECT?</p>
53.	Additional paragraph inserted in the interests of accuracy and clarity.	<p>Accepted. Now paragraph 53. NIAO have made some minor changes to the wording proposed by DfE (changes have been tracked by me):</p> <p>The Department has also said that it intends to respond to the large spike in demand by initiating procurement of additional auditing and checks. A business case is under development to procure an independent audit assurance body which will undertake a range of site audits on both the NI non domestic and domestic schemes. The Department has secured additional funding for extra audits in 2016/17. This will supplement the OFGEM programme of audits under the non domestic scheme. It is planned that around 1</p>

		<p>in 10 installations will be audited annually under both schemes, (around 500 audits each year).</p> <p>Coyne DN: Is this still an accurate reflection of the position?</p>
Note:	<p>New paragraph 57 with text taken from paragraph 52 of the previous draft:</p> <p>I would expect the Department to ensure any recommendations are acted upon and any necessary action is taken. I will closely monitor the outcomes of these reviews instigated by the Department.</p>	
54.	<p>Textual amendment in the interests of accuracy and clarity.</p>	<p>Accepted. Now paragraph 58.</p>
Annex A	<p>Figures updated.</p>	<p>Colleagues to confirm that they are content with the figures in the three examples.</p>