

From: [Murphy, Shane](#)
To: [Cooper, Trevor](#); [Rooney, Eugene](#)
Subject: RE: Business Case Addendum - Non Domestic RHI Scheme Extension
Date: 20 October 2015 09:24:20

OFGEM is a Non-Ministerial Government Department – so I would expect that this is internal service provision (energy can confirm I presume)

I'll call in on the telephone at 9:30am on Eugene's direct line.

Shane

Shane Murphy

Analytical Services Unit
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9250 (ext: 29250)
Mob: Personal information redacted by the RHI Inquiry
TextRelay: 18001 028 9052 9250
Web: www.detini.gov.uk

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

From: Cooper, Trevor
Sent: 20 October 2015 09:17
To: Rooney, Eugene; Murphy, Shane
Subject: FW: Business Case Addendum - Non Domestic RHI Scheme Extension
Eugene, Shane

See DFP comments below in advance of meeting this am.

Trevor

From: Scott, Michelle
Sent: 20 October 2015 00:34
To: Cooper, Trevor
Cc: McFarlane, Iain; Brankin, Bernie; Morelli, Emer; Millar, Angela (DFP); McNally, Noel
Subject: RE: Business Case Addendum - Non Domestic RHI Scheme Extension
Trevor

I agreed to come back with some initial comments before Wednesday's casework committee on this. I have only had the opportunity to have a quick first review of the documentation and will wish to seek the views of my economist and supply colleagues before responding more comprehensively. But in the meantime please see below a couple of quick reactions/queries – apologies for their rushed nature

In terms of the retrospective approval, it is clear that the reviews as set out within the non-domestic RHI OBC did not take place as regularly as intended – while the 2013 review is a plus, unfortunately it does not appear to have been implemented. The inclusion of the counterfactual within the document is particularly helpful in understanding what implications this has had on the value for money delivered by the scheme. To assist my understanding, it would be helpful if you could clarify -

The 2013 review (Phase 2 Review) concluded, amongst other things that annual cost control measures should be introduced. If I am reading para 2.9 correctly, it was then decided to focus on introducing the domestic RHI scheme and therefore the annual cost control measures were not introduced. Looking at the 2013 consultation document a key issue consulted on was 'A method of cost control is to be introduced that will ensure budgets are not overspent and will hopefully remove the need for emergency reviews'.

I can't get a clear picture of why this 2013 recommendation was not implemented – apart from the references to the focus on the domestic scheme. However given the trigger points set out within the consultation document, had this recommendation been implemented then the trigger points would all have been hit and the scheme closed to new applicants until the next financial year (the annual budget for this year was £12m, forecast spend is now £24m), This would surely have triggered an earlier review of the tariffs than has been the case – particularly in light of the automatic tariff digression introduced in GB . Indeed the 2013

consultation document, on the face of it, appears to contradict para 4.11 of this addendum. You are also seeking DFP approval to continue using Ofgem to administer the non-domestic scheme. While it does appear this provide is offering a vfm service, I am not clear on the procurement issues in terms of extending this contract to 2021. Are ofgem considered an internal service provider, was this contract tendered in 2012?

I am out at meetings most of tomorrow – however we will have an opportunity to discuss on Wednesday
Michelle

From: Cooper, Trevor

Sent: 13 October 2015 16:22

To: Scott, Michelle

Cc: Wightman, Stuart; McFarlane, Iain; Brankin, Bernie

Subject: FW: Business Case Addendum - Non Domestic RHI Scheme Extension

Sorry michelle

Word attached.

Trevor

From: [Wightman, Stuart](#)
 To: [Cooper, Trevor](#)
 Cc: [Thompson, Sandra](#); [Hughes, Seamus](#)
 Subject: FW: Commiments
 Date: 20 October 2015 11:25:02

Trevor

Please find revised Table below with updated Domestic Capital figures.

Thx, Stuart

From: Wightman, Stuart
 Sent: 19 October 2015 18:51
 To: Cooper, Trevor
 Subject: Fw: Commiments

Sorry, I've just realised that I haven't provided the correct lifetime figure for Domestic RHI capital. I'll send you a revised table in the morning.

Stuart

Sent from my BlackBerry 10 smartphone.

From: Wightman, Stuart <Stuart.Wightman@defini.gov.uk>
 Sent: Monday, 19 October 2015 17:31
 To: Cooper, Trevor
 Cc: Hughes, Seamus
 Subject: FW: Commiments

Trevor

Please see split below. Unfortunately, the Domestic RHI Business Case doesn't include a longer term forecast to give a lifetime comparison. It does however provide a previous DECC lifetime cost for the GB Scheme of £22Billion – the Barnett consequential of this would be £660m. I've also included a line showing the proposed funding profiles set out in the original 2012 business case for the Non Domestic and RHPP schemes. It was assumed that funding would increase by £5m/yr to reach a maximum of £42m in 2019/2020. Running this figure forward to 2040 would give a total funding requirement of £1Billion. I also include the relevant extract from the 2012 Business Case. It is worth highlighting that we're currently forecasting expenditure of £51.3m in 2020/21 which is well within the originally envisaged Barnett share of the original DECC figures of £70m. Happy to discuss.

Thanks

Stuart

Affordability

- 1.1** As previously stated, funding of £25m is available to 2015/16 for this scheme, following that DETI will need to secure additional funding from DECC to continue the scheme to 2020. DECC has indicated that the GB scheme will be open to new entrants to 2020 and in the GB State Aid application noted that the expected subsidies paid in 2020 in the GB RHI to be in the order of £2.3bn, a 3% pro-rata share of these subsidies is £70m.
- 1.2 In developing the NI RHI, CEPA assumed a funding profile of £2m/£4m/£7m/£12 (as indicated) and then an additional £5m per annum to 2020, i.e. £17m/£22m/£27m. This is less than an incremental 3% share of GB expected spend. The expected subsidy spend for the DETI policy in 2020 is £38m, again this is within both the profiled budget assumed by CEPA and the share that could be expected through DECC.
- 1.3 HMT have already indicated that any spending commitments made via the initial NI RHI (i.e. through the £25m) will be met by ongoing RHI payments from HMT.

| Table 3.10 – RHI AME Forecasts | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|--------------|------------------|
| Forecast | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | Total (6yrs) | Total (Lifetime) |
| Domestic Capital | 1,140,000 | 1,015,000 | 1,560,000 | 2,760,000 | 3,510,000 | 3,802,500 | 13,787,500 | 15,237,500* |
| Domestic Resource | 245,085 | 1,877,000 | 2,580,000 | 3,180,000 | 5,436,000 | 7,248,500 | 20,566,585 | 57,255,000 |
| Non Domestic Resource | 6,540,280 | 21,470,985 | 31,609,727 | 36,445,177 | 39,925,052 | 42,295,247 | 178,286,466 | 859,775,599 |
| Oct 2015 AME Forecast | 7,925,365 | 24,362,985 | 35,749,727 | 42,385,177 | 48,871,052 | 53,346,247 | 212,640,551 | 929,678,099 |
| Included in Domestic RHI Business Case | 6,500,000 | 9,500,000 | 13,500,000 | 18,500,000 | 24,500,000 | 31,000,000 | 103,500,000 | Not Available |
| "Barnett's" % of GB RHI Forecast | 6,496,400 | 13,976,200 | 19,966,000 | 26,283,600 | 36,236,800 | 49,170,000 | 152,129,000 | 660,000,000** |
| Included in 2012 Non Domestic RHI Business Case | 12,000,000 | 17,000,000 | 22,000,000 | 27,000,000 | 32,000,000 | 37,000,000 | 147,000,000 | 987,000,000*** |

*Includes £2.59m of capital expenditure during 2012/13 -2014/15.

**Taken from paragraph 10.4 in Domestic RHI Business Case.

**Original business case assumed a £42m requirement in 2020/21. Lifetime figure has been estimated by continuing this £42m requirement for 20 years until 2039/40.

From: Wightman, Stuart
 Sent: 19 October 2015 16:02
 To: Cooper, Trevor
 Cc: Hughes, Seamus
 Subject: RE: Commiments

Trevor

As discussed, please see split below of forecast Non Domestic RHI expenditure. One caveat is that this forecast includes an estimate of 130 applications for this month (October 15). We've already received 185. This is likely to increase the expenditure for the retrospective period. Happy to discuss.

Thanks, Stuart

| Non Domestic RHI Expenditure (for commitments up to 31 Dec 2016) £,000 | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|--------------|---------------|
| Non Domestic Forecast | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 6 Year Total | 20 Year Total |
| Previous Commitments (Nov12 – March15) | 13,058,742 | 13,058,742 | 13,058,742 | 13,058,742 | 13,058,742 | 13,058,742 | 77,229,074 | 261,174,840 |

| | | | | | | | | |
|-------------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| New Commitments (Apr15-Oct16) | 7,377,576 | 11,412,108 | 11,412,108 | 11,412,108 | 11,412,108 | 11,412,108 | 64,438,116 | 227,664,029 |
| New Commitments (Nov15-Mar16) | 1,034,667 | 3,382,067 | 3,382,067 | 3,382,067 | 3,382,067 | 3,382,067 | 17,945,002 | 67,434,400 |
| New Commitments (Apr16-Dec16) | - | 3,477,450 | 4,565,790 | 4,565,790 | 4,565,790 | 4,565,790 | 21,740,610 | 91,036,440 |
| Revised AME Forecast (Oct15) | 21,470,985 | 31,330,367 | 32,418,707 | 2,418,707 | 32,418,707 | 32,418,707 | 182,476,178 | 647,309,709 |

From: Cooper, Trevor
Sent: 19 October 2015 15:42
To: Wightman, Stuart
Subject: Commitments
Stuart

Could you enter figures into this format please:-

15/16 16/17 20 year total

Non –Domestic

Previous Commitments

New Commitments

April to October 2015

New Commitments October 2015

March 2016

New Commitments March 2016

to December 2016

From: [Rooney, Eugene](#)
To: [Cooper, Trevor](#)
Subject: RE: Business Case Addendum - Non Domestic RHI Scheme Extension
Date: 21 October 2015 08:17:27

Trevor – it would be useful to have Energy Division’s views on the points below in advance of the meeting.

I am wondering should we have a different approach to this Casework today and a more interactive discussion with DFP than normal given the involvement of FD and ASU in the development of the approach in the papers. If so we should alert DFP in advance. What do you think ?

Eugene

From: Cooper, Trevor
Sent: 20 October 2015 09:17
To: Rooney, Eugene; Murphy, Shane
Subject: FW: Business Case Addendum - Non Domestic RHI Scheme Extension
Eugene, Shane

See DFP comments below in advance of meeting this am.

Trevor

From: Scott, Michelle
Sent: 20 October 2015 00:34
To: Cooper, Trevor
Cc: McFarlane, Iain; Brankin, Bernie; Morelli, Emer; Millar, Angela (DFP); McNally, Noel
Subject: RE: Business Case Addendum - Non Domestic RHI Scheme Extension
Trevor

I agreed to come back with some initial comments before Wednesday’s casework committee on this. I have only had the opportunity to have a quick first review of the documentation and will wish to seek the views of my economist and supply colleagues before responding more comprehensively. But in the meantime please see below a couple of quick reactions/queries – apologies for their rushed nature

In terms of the retrospective approval, it is clear that the reviews as set out within the non-domestic RHI OBC did not take place as regularly as intended – while the 2013 review is a plus, unfortunately it does not appear to have been implemented. The inclusion of the counterfactual within the document is particularly helpful in understanding what implications this has had on the value for money delivered by the scheme. To assist my understanding, it would be helpful if you could clarify -

The 2013 review (Phase 2 Review) concluded, amongst other things that annual cost control measures should be introduced. If I am reading para 2.9 correctly, it was then decided to focus on introducing the domestic RHI scheme and therefore the annual cost control measures were not introduced. Looking at the 2013 consultation document a key issue consulted on was ‘A method of cost control is to be introduced that will ensure budgets are not overspent and will hopefully remove the need for emergency reviews’.

I can’t get a clear picture of why this 2013 recommendation was not implemented – apart from the references to the focus on the domestic scheme. However given the trigger points set out within the consultation document, had this recommendation been implemented then the trigger points would all have been hit and the scheme closed to new applicants until the next financial year (the annual budget for this year was £12m, forecast spend is now £24m), This would surely have triggered an earlier review of the tariffs than has been the case – particularly in light of the automatic tariff digression introduced in GB . Indeed the 2013 consultation document, on the face of it, appears to contradict para 4.11 of this addendum.

You are also seeking DFP approval to continue using Ofgem to administer the non-domestic scheme. While it does appear this provide is offering a vfm service, I am not clear on the procurement issues in terms of extending this contract to 2021. Are ofgem considered an internal service provider, was this contract tendered in 2012?

I am out at meetings most of tomorrow – however we will have an opportunity to discuss on Wednesday

Michelle

From: Cooper, Trevor