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To:	Cooper, Trevor
Cc:	Linton, Rachel; McFarlane, Iain
Subject:	FW: Minutes - DETI HQ Casework Committee - Phase 2 Domestic Renewable Heat Incentive
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Attachments:	Minutes - DETI HQ Casework Committee - Phase 2 Domestic Renewable Heat Incentive.doc

Trevor

Please find attached the first draft minutes of the DETI HQ Casework Committee iro of Phase 2 Domestic Renewable Heat Incentive (Domestic RHI) .

I would be grateful if you could review and let me know of any changes required before I send to Mike and Eugene.

Many thanks
LA

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MINUTES OF DETI HQ CASEWORK COMMITTEE
PHASE 2 RENEWABLE HEAT INCENTIVE (DOMESTIC RHI)
9 JUNE 2014

COMMITTEE:	Eugene Rooney	(Chairperson, DETI)
	Trevor Cooper	(Head of Finance, DETI)
	Mike Thompson	(Head of Tourism, Telecoms & GSNI Policy, DETI)

IN ATTENDANCE: PROJECT TEAM

John Mills	(DETI)
Davina McCay	(DETI)
Dan Sinton	(DETI)
Alan Smith	(DETI)

SECRETARIAT:	Rachel Linton	(DETI ACB)
	Lee-Anne Hutchinson	(DETI ACB)

Introduction

1. ER welcomed attendees to the DETI HQ Casework Committee meeting to consider the proposed Phase 2 Renewable Heat Incentive (Domestic RHI).

2. It was confirmed by all attendees that there were no conflicts of interest to declare.

Background

3. JM provided a brief summary of the project. He explained that the RHI is a European driven scheme and the Executive target is to have 10% of renewable sources by 2020. JM also explained that this scheme is to replace the premium scheme which is already in place. JM stated that GB has a similar scheme that came into effect from April 2014 and there is pressure from the Ministers and Committee to get the NI scheme up and running. The aim is to get to the committee before summer recess.

4. In the past this project had been approved by the casework committee for domestic and non domestic renewable heat. It had already received DFP approval and therefore it was not required again.

5. JM explained that the main change to the premium scheme was the upfront capital payment. The domestic RHI has a small upfront capital payment plus a seven year tariff support; this is similar to the GB scheme. There is enough funding to maintain the payments.

Options

6. ER enquired had the SL1 been scheduled to go before the committee prior to summer recess. DMcC confirmed that it hadn't been scheduled yet but there was space available on 3 July 2014 but it had to go through the approval stages and the Minister prior to this date.

7. JM explained that new customers would not be allowed to apply over the summer they were using this time to transfer over the premium scheme customers. The phase 2 scheme would not start until the autumn but they would proceed to get guidance up on the internet regarding the scheme.

8. ER asked was the difference in payments being made to customers due to the technology. DS provided a response explaining that it depended on the type of technology and also the complexity of the installation system. This lead to a further query from ER who asked did this not cause problems in forecasting how much will be spent if the department didn't know the preference of technology that was being chosen. JM provided assurance that they were used to this as this is the same process as the energy sector. DS explained that the airsource heat pumps had gained status and they might become more popular so this would have an effect on the forecast.

Budget

9. TC asked what budget had been set aside for the scheme. The allocated budget was identified as £6.35m but this was for both domestic and non domestic schemes. TC asked for a split between the two schemes. TC asked was there a forecast of the expenditure available. JM stated that they did not have a reliable forecast but they didn't anticipate it being fully spent. MT asked what happened if the budget was not spent. DMcC explained that it had to be returned to HMT it was only to be spent on this project. TC requested written evidence of the budget position. JM went on to explain the scheme was open until 2020 and would make payments for seven years after that date. JM confirmed that there is a commitment by levi framework to ensure funding is available.

10. TC enquired was the upfront payment a capital payment and the remaining payments during the year were resource. He wants to ensure that it is managed correctly and receives the correct accounting treatment. JM said he would clarify the position with DFP and was it resource if the installation had already taken place.

11. ER asked were there restrictions on the scheme as it was GB money or were there constraints on how to take it forward. JM stated he thought it did suit NI as it had been tailored as you didn't need to entice NI people as it was based on the oil industry prices but there would be a resistance due to the initial capital outlay. DS said that they had looked at the GB model but reduced it from 20 years to 7 years and he thought it improved the service. JM stated he thought they were constrained a bit due to the GB scheme.

Tariffs

12. ER asked how often the tariffs will be reviewed to ensure it set at the correct level. JM confirmed it will depend on what the market is doing but it will be reviewed annually. They will be able to update the tariffs via legislation as they do for the electricity renewable energy. ER asked why the GB tariffs had changed so much since they had been set and will this not make the tariffs difficult to set. DMcC stated there will be a provision to be included to ensure that an emergency review can be undertaken at any stage. The customers already on the scheme will have their costs "Grandfathered". DS wasn't sure what the difference in costs relates to but may depend on the technology and type of boilers used.

13. ER asked should the NI scheme have changed if GB has already changed. DMcC said it may be in relation to the counter factory being used. She also said that they had gone to consultation although there had been a few complaints about the rate being lower than GB but it still wouldn't put people off, it was due to the lower incentives in NI. JM stated if the oil prices rapidly increased it affect the tariffs.

Administration Costs of the Scheme

14. JM confirmed the administration costs of the scheme have to be paid by DETI. There are 3 options to make the payments in-house, outsource or Ofgem. The cost of running it in-house would be approximately £150k for staff and £30-50k for IT costs although it could increase to £300k. The payment system will be quite complicated so the IT systems may need extra work although the in hose option maybe the cheapest option. JM explained there was a possibility that the costs may catapult to 10 times the estimated cost to £1.5m.

15. MT asked a query about marketing and would it be increased if there was not a big up take of the scheme. It is hope the marketing costs won't be too expensive as OFDFM have a similar scheme and they could share costs with them.

16. DMcC confirmed they had in-house staff who were used to making the payments. TC asked would this payment process not be

different as the previous scheme only had a one off payment whereas this scheme involves monitoring and quarterly payments and will be more complex. DMcC confirmed that it will be more difficult for staff to manage it once the initial payment has been made. The number of application is high but by year 8 it will drop off as the first set of customers will be paid. It would be possible to limit the amount of applications accepted.

17. DMcC explained that Ofgem will be more expensive there approximate costs are £1,800 for each application.

Risks

18. JM asked where we going to inform the minister that the project wouldn't be going forward as DETI couldn't afford the administrations costs. TC explained the extra costs need to be identified and ask if they were affordable. JM confirmed that the administration costs could be a big risk. JM also stated that they could continue to process as a one off payment scheme but it was the Minister who wanted an incentive scheme introduced.

19. MT asked should targets be set for how many applicants they are trying to achieve so that it could be managed and it can be identified if more marketing is required.

Payments

20. ER discussed the carry over allocation to ensure that it will be handled correctly each year. DS said that the payments will be managed and that they will increase each year due to the annual payments. MT asked about the annual payments when are they processed and is it possible to spread the payments through the year.

Supply Units

21. MT asked would there be enough of the units to meet the demand and DS confirmed that there was.

Business Case options

22. TC asked about the business case options and he enquired was option 3 not delivering more renewable heat than option 5. AS confirmed option 3 did produce more heat but it was more expensive to install. DMcC said that if it was installed and not used then you wouldn't get value for money. DS also added that it was the same product but customers don't always use the technology if all paid up front. TC asked was it not possible to ensure the technology is still being used. DMcC stated that option 5 is the

better option per tonne of CO_2 used. DS said that option removes the capital payment and that the capital grant is the attraction.

23. ER mentioned that option 4 had no npc calculated for it and he asked where there a final report. ER also mentioned that it was interesting that the consultants were not keen to use option 4 but that is the option that GB used.

24. ER asked was it possible to reduce the upfront payment. DMcC said that they would need to go to consultation before they could take this action. JM explained that most people were content with the tariffs.

25. TC wanted it confirmed if DFP approval is required as it was stated at the start of the meeting it wasn't needed.

26. MT stated that the admin costs are important and should be included.

27. ER said that the project was constrained by the Decc model and that the administrations cost were going to be difficult and also stated they should be included.

28. JM explained the reasons for choosing option 5 were based on the renewable electricity models. DS explained that the maintenance and running cost were higher and so they want them to use the product over the next seven years. It was confirmed that the review would be tendered.

<u>Conclusion and recommendation</u>

29. ER drew the meeting to a close by identifying objectives that need to be completed before a decision could be taken:

    - TC to confirm if DFP approval is required;
    - AS to speak to Economists to have a quick review;
    - JM to include administration costs in the business cases;
    - JM to clarify the position with DFP regarding the capital/resource position.

30. ER confirmed that these objectives could be completed in parallel and be reflected in the submission to the Minister.

EUGENE ROONEY

JUNE 2014