From: Hutchinson, Lee-Anne
To: Johnston, Iris
Subject: FW: Minutes -RHI - for signing
Date: 17 October 2014 09:51:00
Attachments: Minutes - DETI HQ Casework Committee - Phase 2 Domestic Renewable Heat I (3) (2).doc

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Hi Iris

I was just wondering if you would chase these up with Eugene when you get an opportunity.

Many thanks
LA

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From: Hutchinson, Lee-Anne
Sent: 25 September 2014 09:51
To: Rooney, Eugene
Cc: Johnston, Iris; Cooper, Trevor; Linton, Rachel; McFarlane, Iain
Subject: Minutes -RHI - for signing

Eugene

Please find attached the DETI HQ casework minutes RE: RHI there was only a small change added by the project team the budget was included. I would be grateful if you would arrange for your signature to be added and the final signed version returned to me.

Many thanks
LA

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From: Hutchinson, Lee-Anne
Sent: 25 September 2014 09:42

DFE-193915

To: Hutchinson, Lee-Anne
Subject: Minutes - DETI HQ Casework Committee - Phase 2 Domestic Renewable Heat I (3) (2)

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 – Head of Energy Division)
	Davina McCay	(DETI – Sustainable Energy Branch)
	Dan Sinton	(DETI – Renewable Heat Branch)
	Alan Smith	(DETI – Energy Coordination Branch)

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 the aim is to get to the ETI Committee before summer recess so that the NI Scheme can be taken forward this year.

4. JM explained that the main change to the scheme operating in GB was an element of upfront capital payment. The proposal for the NI domestic RHI has a small upfront capital payment plus a seven year

tariff support. There is enough funding to maintain the payments over this period.

Options

5. 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.

6. JM explained that new customers would not be allowed to apply over the summer; they proposed to use 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 in time for its launch.

7. ER asked why there was a wider range in payments being made to customers linked to different approaches. DS provided a response explaining that it depended on the type of technology and also the complexity of the installation system. This led 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 was a common theme within the energy sector. DS explained that the air source heat pumps had gained status and they might become more popular so this would have an effect on the forecasts.

Budget

8. TC asked what budget had been set aside for the scheme and was there a forecast of the expenditure available. JM stated that they did not have a reliable forecast but they didn't anticipate the available funding which totalled £103.35M up to 2020 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 that further confirmation of the available budget position be provided in terms of profile and overall total. 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 GB that would ensure funding is available for commitments entered into up to 2020, but which would fall up to seven years later.

Action: Profile and total available budget to be confirmed to the Committee.

9. TC enquired was the upfront payment a Capital payment and the remaining payments during the year were Resource or were all payments resource in nature. He wants to ensure that it is

managed correctly and receives the correct accounting treatment. JM said he would clarify the position.

Action: Nature of expenditure to be confirmed

10. ER asked were there restrictions on the scheme as to how it should be implemented locally given it was money allocated from the UK Government. JM stated he thought they were constrained a bit due to the GB scheme.

Tariffs

11. ER asked how often the tariffs will be reviewed to ensure they are set at the correct level. JM confirmed it will depend on what the market is doing but it will be reviewed at least annually. They will be able to update the tariffs via legislation as they do for the electricity renewable obligations. ER asked why the GB tariffs had changed so much between the consultant's report and the casework papers and would 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 stated that the difference in costs may depend on the technology and type of boilers used.

    DMcC said that they had gone to consultation although there had been a few complaints about the rate being lower than GB but the NI market was predominantly oil based. JM stated if the oil prices rapidly changes it affect the tariffs.

Administration Costs of the Scheme

12. 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 use Ofgem. The cost of running it in-house would initially be approximately £150k for staff and £30-50k for IT costs although as the scheme was rolled out these costs would increase. The payment system will be quite complicated so the IT systems may need extra work although the in-house option maybe the cheapest option. JM believed that a worst case estimate of peak administration costs was £1.5m.

13. MT asked about marketing and would it be increased if there was not a big up-take of the scheme. JM commented that it is hoped the marketing costs won't be too expensive as OFMDFM have a similar scheme and they could share costs with them.

14. 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 ongoing payments

and would be more complex. DMcC confirmed that it will be more difficult for staff to manage once the initial payment has been made. By year 8 volumes will drop off as the first set of customers will be paid.

15. DMcC explained that Ofgem will likely be more expensive as the approximate costs are £1,800 for each application.

<u>Risks</u>

16. JM confirmed that the administration costs would be a big risk to the Department in regard to the delivery of the scheme and confirmed that further work would be undertaken around the business case to determine the most efficient and cost effective way of delivery. This would also provide forward forecasts of the actual funding that would fall to the Department in relation to the Scheme's delivery. It was agreed that there would be further interaction to see if the costs of delivery of the scheme as well as the funding for payments out of the scheme could be sourced from the AME funding allocated by GB for the schemes implementation. Should this not be agreed, the associated administration costs, and funding risks falling on DETI in relation thereto, should be clearly articulated in any submission to the Minister in relation to approval for the scheme.

17. 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.

<u>Payments</u>

18. ER raised the allocations profile and the possibility of carry over of allocations each year. DS said that the payments will be managed and that they will increase each year due to the annual payments; he indicated that further work would be undertaken on forecasting forward budgetary needs. MT asked about the annual payments; - when are they processed and is it possible to spread the payments through the year.

<u>Supply Side</u>

19. MT asked would there be enough companies to meet the demand and DS confirmed that there was.

<u>Business Case options</u>

20. TC asked about the business case options and he enquired would option 3 not deliver more renewable heat than option 5 and was it not a potentially better option on that basis. AS confirmed option 3 was forecast to produce more heat but this was on the basis that

units installed continued to be used and this option had a higher NPC because of the upfront nature of a grant payment. DMcC said that if it units were installed and not used then you would not get the full forecast renewable heat outcome. DMcC stated that option 5 is the better option per tonne of CO_2 used.

21. ER mentioned that option 4 had no NPC calculated for it and though it was odd it was not presented given that it is the option that GB has used.

22. 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.

23. MT stated that the admin costs are important and should be included as part of the options analysis.

24. ER said that the project funding appeared constrained by the DECC model of allocations and that the administrations cost were going to be difficult, and also stated they should be included.

<u>Conclusion and recommendation</u>

25. ER drew the meeting to a close by identifying objectives that need to be completed to inform a decision and way forward:

    - TC to confirm if DFP approval is required;
    - AS to speak to ASU Economists on the economic analysis (as revised below);
    - Energy Division review the economic options analysis to ensure completeness and to incorporate administration costs;
    - JM to clarify the position regarding the capital/resource position.

26. ER confirmed that these Actions should be taken forward and be reflected in the submission to the Minister.

EUGENE ROONEY

XX JUNE 2014