

From: [McCutcheon, Joanne](#)
To: [Woods, Michael \(DETI\)](#)
Date: 18 April 2016 15:45:39
Attachments: [To Michael Woods.docx](#)

Michael

Sorry, bit rushed but comments attached. I haven't had time to look at Fiona's and link mine to hers – hope that's ok.

If I said anything when we spoke that you feel it would be useful to incorporate then please let me know.

Regards

Joanne

To: Michael Woods

From: Joanne McCutcheon

Date: 18 April 2016

RHI – Initial Synopsis of Issues identified by Audit Review

1. I have reviewed the 'Initial Synopsis of Issues' report you sent me in relation to the NI Renewable Heat Initiative. As you will appreciate, it is some time since I worked on the RHI and having been off for much of the interim period on Personal information redacted by the RHI Inquiry I cannot readily recall some of the details. However, based on my recollections the comments I have are as follows.
2. When I arrived in Energy Division, the RHI Project was up and running with the Minister having already made an announcement, the previous year, that she would introduce an NI RHI if it was viable to do so. The GB RHI was at a further stage of development (approx 18 months ahead) and the branch was under pressure to 'catch up' with our counterparts. CEPA/AEA was acting as consultants for the NI RHI (they had acted as consultants for planning the GB scheme too). We were very much following in the footsteps of GB, albeit tailoring the scheme for the NI heat market – evidence showed that the GB tariffs would have over-incentivised adopters in NI.

Planning and Design - Business Case

3. I do not remember the specific content of the written Business Case, though the number of installations and the projected costs would have been part of the work undertaken for DETI by CEPA/AEA. The complex modelling on which the Business Case was based looked at the difference in costs between renewable and conventional technologies, producing costs per unit of heat. From these, supply curves were produced for each technology and from these curves the median tariff (the tariff at which it would be economic for 50% to adopt the technology) could be obtained. The modelling exercise had a large number of assumptions built in e.g. costs of the technology, fuel costs, anticipated use of the technology, location and performance data. Changes to any of these assumptions had an impact on the tariffs required. Therefore it was understood that while we needed to set tariffs for the scheme to commence, it would be very important that these would be reviewed on a regular basis going forward i.e. if any of the underlying assumptions were to change the level of incentive might need to change also.
4. The Business Case was developed with significant input from an Economist who attended the meetings with CEPA/AEA. It was also approved by Casework (which had the Grade 6 Economist on it) and also DFP.

5. Your report mentions that the projections of two reviews carried out by external bodies were not taken into consideration. I think this is inaccurate. The CEPA report (and all the additional work they undertook), including projections, formed the basis of the whole RHI. Furthermore, Ofgem did not carry out any separate or independent work to provide estimates of uptake – they asked DETI to advise.

Outsourcing delivery

6. Ofgem was indeed appointed via a DAC for which approvals were in place. There was substantial discussion within DETI (including Finance colleagues) and with colleagues in CPD. Other options were considered and included 'in house' and NIAUR. As I recall, the reasons for awarding the DAC to Ofgem were
 - Time pressures to get the NI RHI started
 - Lack of resource in house
 - Ofgem was already managing the GB RHI and had substantial experience
 - Negative experience from previous energy schemes, managed on behalf of DETI, by external organisations.
7. It was not necessarily envisaged that Ofgem would be doing it for 20 years. This was one of the reasons we negotiated with Ofgem about data access

Funding

8. The agreed funding was £25m 2011-15. As we worked with DECC throughout the project, it was very difficult to get clarity on funding post the spending period. The assumption, from a number of our discussions with colleagues in GB, was that there would be funding post 2015 (over and above the tail on the money already committed); this was the assumption that they were working on, on a day to day basis. CEPA/AEA were also aware of these assumptions too as they were working with DECC.
9. This ambiguous reference in the Business Case is unfortunate. However, we were quite clear that the funding was available until April 2015 and that was the period covered by the DFP approval.
10. I am not sure why there is no signed and dated copy of the Business Case; that should have been on file.

Project management

11. The report is correct in saying that the RHI was not being managed as a formal Project. I am not sure at what point the RHI was initiated but I suspect it was pre 2010; by the time I arrived in the branch work was well underway.
12. Although it was not managed formally as a Project, Fiona Hepper (Grade 5) during her time as HOD was very much acting as a SRO. There was a clear Project Plan and she held meetings on a weekly basis to discuss progress, review risks and manage issues. The Project also had the involvement of the DETI economists and advice from Finance and Audit colleagues.

Degression

13. As indicated previously, the NI RHI was following behind the GB RHI. We were very much following the GB pathway, albeit tailoring the tariffs to the NI heat market. Degression was not built into GB initial legislation, neither was it built into the NI legislation. However, by 2012 we were aware that GB was looking at the issue of degression and that this was something that we would have to do in due course. From memory, DECC introduced degression in Spring/Summer 2013. We knew this was going to happen at the time we were formulating our Phase 2 consultation (which ran from July- October 2013) which is why that consultation specifically mentions degression and also outlines some interim cost control measures which we might employ.
14. In 2012/13, degression would not have been seen as a priority as we were still trying to promote renewable uptake against a back drop of concern within the industry (and MLAs) that the NI tariffs were too low to provide an incentive. Nonetheless, it was something that we were aware needed to be addressed.

Review of Scheme

15. The Business Case did indeed state that a review would take place in 2014 and that was our intention. It is important to note however that the introduction of the NIRHI was delayed by some months compared to the start date that was anticipated when the Business Case was approved. A Review was probably best undertaken when the scheme had a reasonable level of uptake and had had an opportunity to bed down. This meant have resulted in the review being conducted towards the end of 2014.

Ofgem

16. You raise the issue of the Business Case/ Contingency. I recall that the contingency was reduced subsequent to discussions around legal risk. There were further issues around the costings contained in the Feasibility Study and those in the Baseline Scope particular given change in timing of the commencement of the scheme. The arrangement with Ofgem was difficult and although I cannot recall all the details, they should be on file.
17. Ofgem also proved to be difficult to work with on a day to day basis. It is an independent body and had difficulty agreeing to DETI 'monitoring' the working arrangement in any way,

even through an SLA or similar. It would not agree to performance targets and we had to fight to get data access, accountability for payments, audit arrangements etc. Much effort was spent on these negotiations (right up to Grade 5 level) and at the time I left the Branch we were still negotiating on a day to day basis on charging, invoicing, transfer of payments etc. We were also trying track the 'tail' of the payments for the applications that Ofgem was approving.

Resources

18. During my time in Energy Division, I worked part time (Personal information redacted by the RHI Inquiry). When I arrived in the branch my work was essentially the development of Phase 1 of a non domestic RHI and assorted SEIDWG and Bioenergy issues.
19. By the time I finished in the Branch it had expanded to include – the management of the Phase1 RHI including working with Ofgem, the setting up, managing and monitoring of a domestic premium payment scheme in-house, the development of Phase 2 RHI proposals, the overseeing of the creation and development of the cross departmental 'Energywise' brand including two external advertising campaigns The only additional resource made available during this time was 2 FTE admin staff to administer the premium payment scheme and conduct site visits. In contrast, DECC had teams of people each working on particular issues – microgeneration standards, degression, new technologies etc.
20. I don't know what additional resource was made available after I left but I can see how it would have become increasingly difficult to keep pace with the work DECC was doing.

Business Continuity

21. The whole RHI scheme and the model on which it was based was complex. When I arrived in the branch it took me quite some time to begin to understand the work area and I was very dependent on the expertise of the DPs in the branch. Over my time in the Branch the breadth and detail of the work had expanded which is why I think it would have been very helpful for there to have been a handover between myself and the new Grade 7 (which I offered to facilitate but didn't happen) and also between the existing DP (who had been there from the start of the project) and his successor.

Joanne McCutcheon