Note of Meeting between Energy Division and NIAO on RHI Irregular Spend

Date: 10/03/16

Attendees:

John Mills (DETI)

Stuart Wightman (DETI)

Brian O'Neill (NIAO)

Pauric Higgins (NIAO)

NIAO Report to Qualify RHI Irregular Spend in 2015/16

1. NIAO confirmed that they had to prepare a Report to accompany DETI's Annual Accounts 2015/16 which would be qualified in light of the irregular spend for RHI installations accredited during the period from 1/4/15 up to and including the 28 October 2015. NIAO confirmed that they were not seeking information on the Domestic RHI Scheme as its approvals were in place.

2. A draft of the Report will be shared with DETI for comment in early May with a view to finalising by 31 May 2016. With the levels of expenditure involved and the high levels of public interest, NIAO confirmed that it was likely that a PAC Hearing would be held, probably in the autumn 2016 arising from the report.

Scheme Closure – Legal risk associated with scheme closure

3. DETI confirmed that:
   - with the speed at which both RHI schemes were closed without public consultation, there was a risk that a JR could be taken against the decision to close;
   - the biggest financial risk comes from the energy services sector where jobs will be lost and where installers / suppliers may have invested in boilers on the expectation that the scheme would continue; and
   - there has also been calls for compensation on the domestic side for households who are in the process of installing GSHPs (which can take many months to complete) and have already made significant investments.

Funding - Impact on future funding.

4. DETI confirmed that following the SR in November, HMT capped future AME allocations for the NI RHI at 3% of DECC budget and in addition, the DECC budget was reduced by over 30% thus reducing the NI allocation. This is despite the NI non domestic scheme incentivising nearly 7% of what the DECC scheme has achieved to date.

5. DETI confirmed that the forecast for 2016/17 had increased to £49m following the recent spike in demand before closure. However, DETI explained that it will

be some time before it can provide accurate expenditure forecasts as there are over 1,000 non domestic applications still to be processed. And it is not until meter readings have been received for these businesses that actual payment levels can be determined.

Approvals - Retrospective approval for the period 1 April to 28 October 2015 refused.

6. NIAO confirmed that they had received a copy of the paper prepared for the DETI Audit Committee which provides an explanation of how the need to seek re-approval had been overlooked. NIAO will ask DETI to provide an explanation for inclusion in their Report.

Review - Role of OFGEM in monitoring the scheme.

7. DETI explained that Ofgem administers the non domestic on its behalf and that the legal basis for this arrangement is Section 113 of the 2011 Energy Act. The legislation permits DETI to administer the scheme itself or to use the local Regulator or Ofgem to administer the scheme on its behalf. Ofgem also administer the GB domestic and non domestic RHI schemes. The Domestic scheme is administered by DETI.

8. DETI explained that:
   - administration of the non domestic scheme if fully outsourced to Ofgem;
   - Ofgem implement a system of desk based / site audit and assurance checks across both the NI and UK schemes;
   - monthly checkpoint meetings are held with Ofgem via teleconference at which operational issues are discussed and weekly reports of new applications and payments are also provided for payment/forecasting purposes; and
   - administration costs for the NI scheme are charged at 3% of the GB Scheme costs (removing any GB specific costs) with any specific NI costs for legal or IT etc added on.

9. DETI confirmed that in response to the unprecedented increased number of NI installations it plans to procure additional NI specific audits to complement Ofgem's programme. The number of site checks Ofgem currently carries out for the NI scheme are based on 3% of the GB scheme which translates to 6-7 detailed site inspections annually together with a desk based audit.

10. DETI also confirmed that it is working with Ofgem to commission an independent review of the administration of the Non Domestic RHI scheme in response to claims that the scheme is being abused.

Degression – implemented in GB, but not in Northern Ireland

11. DETI explained how the GB system of digression works with application numbers and costs reviewed every three months and if pre-determined triggers are reached, tariffs are reduced at the end of the fourth month. This in itself triggers a spike in demand during the 4th month as applicants try to submit

before tariffs reduce. Unlike GB (which has 33x the budget), the NI scheme cannot afford absorb a relatively modest spike, even for 4 weeks. Degression would not therefore have avoided a spike in applications / expenditure if this had been introduced in NI although it might have dampened the level. DECC are now consulting on further cost control measures (including suspension powers) over and above degression.

State Aid threshold – any impact

12. DETI explained that it was reviewing the position State Aid approval.