

From: Woods, Michael (DETI)
To: [Clydesdale, Alison](#)
Cc: [McCormick, Andrew \(DFE\)](#); [Stewart, Chris \(DFE\)](#); [McMurray, Stephen](#); [Cousins, Heather](#); [Rooney, Eugene](#); [Wightman, Stuart](#); [Murray, Debbie](#); [Brankin, Bernie](#)
Subject: REquirements for Phase 2 of the invetsigation into RHI
Date: 24 May 2016 17:52:00
Attachments: [FY16-10 - Non-Domestic NIRHI - Final Scope - 23.03.2016.pdf](#)
[image001.gif](#)

Alison

We discussed at this morning's meeting the need to have clear understanding with OFGEM on the nature of the investigation in the RHI Allegations. I have attached the document that set out the agreed scope of the work by Deloitte on RHI. The objective for this review taken from the document was as set out below and was explicit in its reference to the risk of fraud and abuse.

Audit Objective

The objective of this review is to assess whether the operation of the NIRHI is in compliance with the Scheme Regulations and if there is any evidence of the NIRHI having been abused, fraud having occurred or if eligible scheme participants have failed to operate within the Scheme Regulations. This review is to be conducted in a two-part process:

1. Phase 1 – an assessment of Ofgem's processes and controls to administer the NIRHI in accordance with the Regulations, to assess whether the scheme is operating in compliance with the legislation and highlight any areas of concern warranting further investigation; and
2. Phase 2 - site inspections of a sample of (a) current applicants awaiting award; (b) scheme participants with multiple installations; and (c) scheme participants with single installations.

Given the concerns I expressed over limitations of the report received at the conclusion of Phase 1, it is critical that we obtain confirmation from OFGEM that Phase 2 of the review will be an Investigation of the Allegations received by the Department and passed to OFGEM. Deloitte have stated that they have not had sight of these and it is unclear how they could conclude on the overall objective of the review without having done so. The proposal for Phase 2 must be unambiguous in that the purpose is to investigate the allegations and provide a report with an opinion that concludes on each of the allegations and whether or not there is evidence to prove that these are true.

The key elements of the Phase 2 must include

- 1) Investigation of the allegations received by a combination of an appropriate sample of installations for site visits and reference back to information held by OFGEM on applications and supporting information submitted by installations;
- 2) A clear opinion in the final report on whether or not the allegations were found to be true and a description of the work undertaken as part of the investigation, i.e. size and sampling methodology for site visits. With each allegation in the correspondence received addressed separately and then an overall conclusion;
- 3) The work in Phase 2 should include an assessment of
 - Are participants generating heat for eligible purposes but which do not meet the spirit of the RHI regulations e.g. heating empty buildings, using inappropriate

- sourced fuel; or generating unnecessary heat that is compliant with the scheme requirements but in a non-energy efficient way;
- Have participants misled or provided false metering or periodic date in order to increase the level of RHI support payments they receive; and
 - Are Participants purposefully generating unwanted heat purely to claim RHI payments in breach of regulations / scheme guidance.
- 4) An assessment of whether or not scheme controls have been successful in either preventing or detecting fraudulent behaviour or abuse of the scheme based on the results of site inspections and the reality of operations on the ground.

The Main issue is that having received the allegations from the Department, that OFGEM are treating these with all seriousness, that the review commissioned is a response to these allegations, is an investigation of these allegations and that the final report will provide an opinion on the allegations and any consequential issues that arise.

Happy to discuss

Michael Woods

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

Independent Assurance	Project Specification
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Project Name	FY16-10 Non-Domestic Northern Ireland Renewable Heat Incentive
Project Outline	Independent Assurance work over the Non-Domestic Northern Ireland Renewable Heat Incentive Scheme
Project Sponsor	Gareth John, Associate Director, Non-Domestic Renewable Heat Incentive
Key Ofgem Contact(s)	Edmund Ward, Head of Technical & Compliance, Non-Domestic Renewable Heat Incentive
Deloitte Contact(s)	Walter Carlton, Head of Internal Audit 0131 535 7244/ Personal information redacted by the RHI Inquiry Tahlee Fong, Internal Audit Manager 0207 007 7724/ Personal information redacted by the RHI Inquiry

Background	<p>Background</p> <p>This review was requested by the Head of Technical & Compliance from the Non-Domestic Renewable Heat Incentive Team.</p> <p>The Northern Ireland Renewable Heat Incentive ('NIRHI') is a government environmental programme that provides financial incentives to increase the uptake of renewable heat and reduce the UK's carbon emissions. It provides subsidies to eligible non-domestic renewable heat generators and producers of biomethane based in Northern Ireland, payable in quarterly instalments for 20 years. The NIRHI policy, tariff rates and legislative framework are set by the Department of Enterprise, Trade and Investment ('DETI'). The scheme is administered by Ofgem in accordance with the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012, the Domestic Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2014, the Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2015 and the Renewable Heat Incentive Schemes (Amendment) Regulations (Northern Ireland) 2016 (hereinafter referred to as the 'Scheme Regulations').</p> <p>The overall process for an NIRHI participant is as follows:</p> <div style="text-align: center;"> <pre> graph LR A[Owner decides to apply for accreditation to the Renewable Heat Incentive] --> B[Submits an application to Ofgem using their online account] B --> C[Ofgem considers the application and accredits the installation (providing all eligibility criteria are met, the identity of the applicant has been verified, and the prospective participant's bank details have been validated)] C --> D[Participant submits meter readings and other periodic data on an ongoing basis] D --> E[Participant receives quarterly RHI payments] E --> F[Support ends after 20 years] </pre> </div> <p>DETI has received recent allegations that the scheme is being abused or is vulnerable to abuse. There has also been a significant increase in the volume of NIRHI applications in advance of the 2015 regulation changes, and in response to the scheme suspension announcement (effective 29 February 2016) due to insufficient funding.</p>
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<p>Audit Objective & Scope</p>	<p>Audit Objective</p> <p>The objective of this review is to assess whether the operation of the NIRHI is in compliance with the Scheme Regulations and if there is any evidence of the NIRHI having been abused, fraud having occurred or if eligible scheme participants have failed to operate within the Scheme Regulations. This review is to be conducted in a two-part process:</p> <ol style="list-style-type: none"> 1. Phase 1 – an assessment of Ofgem’s processes and controls to administer the NIRHI in accordance with the Regulations, to assess whether the scheme is operating in compliance with the legislation and highlight any areas of concern warranting further investigation; and 2. Phase 2 - site inspections of a sample of (a) current applicants awaiting award; (b) scheme participants with multiple installations; and (c) scheme participants with single installations. <p>This document defines the scope for phase 1 only.</p> <p>Audit Scope</p> <p>The review (phase 1) will address the following areas:</p> <ul style="list-style-type: none"> • Eligibility: The process for accrediting installations and registering biomethane producers who meet the eligibility criteria, including verifying applicant identity, bank details and ownership of the installation; • Ongoing compliance: Monitoring and enforcing compliance with the initial eligibility criteria and ongoing requirements of the NIRHI. This includes the process for undertaking inspections to verify participants’ ongoing obligations under the NIRHI are being complied with and that information provided in the application remains true and accurate; • Payments: Assessment of the payments process to confirm that payments are only made on the receipt of valid, relevant and accurate information supplied by participants; • Governance: Consideration of any Ofgem NIRHI policies and procedures for administering the scheme; and • Site inspections: Appropriateness of the scope and approach undertaken by Ricardo Energy and Environment in carrying out site inspections of scheme participants on Ofgem’s behalf.
<p>Scope Limitations</p>	<p>This review (phase 1) will not:</p> <ul style="list-style-type: none"> • consider the adequacy and appropriateness of the NIRHI Regulations or policy framework (including eligibility criteria and Scheme Regulations), for which DETI is responsible; • extend to site visits or physical inspection of renewable heat generation equipment, meters or pipework; and • cover the Domestic Renewable Heat Incentive. <p>Phase 2 would involve conducting site visits or physical inspection; the commissioning of this work would depend on the findings from phase 1. These would not be conducted by Deloitte, but our understanding is that this could be delivered through Ofgem’s arrangements with Ricardo Energy & Environment.</p>

<p>Approach</p>	<p>We will apply the following approach:</p> <ul style="list-style-type: none"> • Make contact prior to audit commencement to identify key staff, arrange initial meetings and obtain documentation to which we will require access; • Conduct process discussions with key staff to understand the processes and controls in place for each of the above scope areas; • Obtain NIRHI system data and conduct basic analytics to identify any trends and anomalies; • Assess the design appropriateness of key controls; • Conduct sample testing to assess the operating effectiveness of key controls; • Meet with responsible management to discuss any findings and our proposed recommendations; and • Produce and issue a draft report, prior to the issue of the final report. 																	
<p>Deliverables</p>	<p>The deliverable will be an interim Independent Assurance Report based on the outcomes of phase 1.</p> <p>Note: After phase 1, a further detailed proposal for phase 2 will be prepared. The outcome would be a single Report, to be informed by the outcomes of phase 1, and the site audits conducted by Ricardo Energy and Environment as part of phase 2, to address the overall objective.</p> <p>Our Report will be prepared for the exclusive use of Ofgem and DETI (per our agreement letter with DETI dated 23 March 2016). Our work will be undertaken solely for the purpose of assessing whether the operation of the NIRHI is in compliance with the Scheme Regulations. Our work will not be planned or conducted with any other objective in mind and so cannot be relied upon for any other purposes. Our Report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Ofgem and DETI for this Report or for the conclusions we have formed.</p>																	
<p>Timetable</p>	<table border="1"> <thead> <tr> <th>Key stages</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Planning meeting</td> <td>3 March 2016</td> </tr> <tr> <td>Fieldwork start</td> <td>23 March 2016</td> </tr> <tr> <td>Fieldwork end</td> <td>1 April 2016</td> </tr> <tr> <td>Closing meeting</td> <td>8 April 2016</td> </tr> <tr> <td>Draft report</td> <td>15 April 2016</td> </tr> <tr> <td>Management response</td> <td>22 April 2016</td> </tr> <tr> <td>Final report</td> <td>29 April 2016</td> </tr> </tbody> </table>	Key stages	Date	Planning meeting	3 March 2016	Fieldwork start	23 March 2016	Fieldwork end	1 April 2016	Closing meeting	8 April 2016	Draft report	15 April 2016	Management response	22 April 2016	Final report	29 April 2016	
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<p>Fieldstaff</p>	<p>Meeting the above dates is dependent on our access to Ofgem personnel, provision of documentation, explanations and information necessary for completing our procedures and timely review and approvals by Ofgem.</p> <p>Lin Li, Senior Consultant</p>																	

Estimated Input

The following table outlines our estimated input:

Grade	Day Rate (£)	Estimated Input (Days)	Cost (£)
Partner	Sensitive commercial information redacted by the RHI Inquiry	1	Sensitive commercial information redacted by the RHI Inquiry
Manager		3	
Senior Consultant		8	
Total		12	

From: Woods, Michael (DETI)
To: [Bagdonaitė, Dovile](#)
Cc: [Saunders, David](#)
Subject: FW: REquirements for Phase 2 of the invetsigation into RHI
Date: 26 May 2016 09:14:00
Attachments: [image001.gif](#)

From: McCormick, Andrew (DFE)
Sent: 24 May 2016 22:26
To: Woods, Michael (DETI); Clydesdale, Alison
Cc: Stewart, Chris (DFE); McMurray, Stephen; Cousins, Heather; Rooney, Eugene; Wightman, Stuart; Murray, Debbie; Brankin, Bernie
Subject: Re: REquirements for Phase 2 of the invetsigation into RHI

This is helpful.

Important to move this aspect on asap and happy to engage again with OfGEM and DECC as need be.

Many thanks.

Sent from my BlackBerry 10 smartphone.

From: Woods, Michael (DETI)
Sent: Tuesday, 24 May 2016 17:55
To: Clydesdale, Alison
Cc: McCormick, Andrew (DFE); Stewart, Chris (DFE); McMurray, Stephen; Cousins, Heather; Rooney, Eugene; Wightman, Stuart; Murray, Debbie; Brankin, Bernie
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