

**From:** [McCoy, Laura](#)  
**To:** [Smith, Rae](#)  
**Subject:** FW: RHI Casework Minutes : Final Draft  
**Date:** 24 July 2012 11:26:00  
**Attachments:** [Draft casework committee minutes - 9 March 2012.DOC](#)  
**Importance:** High

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*The new website for the European Sustainable Competitiveness Programme for NI is now available - visit [www.eucompni.gov.uk](http://www.eucompni.gov.uk)*

**[www.ni2012.com](http://www.ni2012.com)**

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**From:** Hepper, Fiona  
**Sent:** 30 March 2012 15:22  
**To:** Hutchinson, Peter; Stewart, Susan  
**Subject:** FW: RHI Casework Minutes : Final Draft  
**Importance:** High

[See below for the file](#)

[Fiona](#)

## **Fiona Hepper**

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**From:** Smith, Rae **On Behalf Of** Cooper, Trevor

**Sent:** 30 March 2012 15:18

**To:** Hepper, Fiona

**Subject:** FW: RHI Casework Minutes : Final Draft

**Importance:** High

Fiona

Please see below casework minutes signed by Trevor as requested.

Thanks

Rae

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**From:** Hepper, Fiona

**Sent:** 27 March 2012 16:41

**To:** Cooper, Trevor

**Cc:** Hepper, Fiona; McCutcheon, Joanne; Hutchinson, Peter; Stewart, Susan

**Subject:** RHI Casework Minutes : Final Draft

**Importance:** High

Trevor

Many thanks for considering the casework minutes. Your comments have been taken on board in full, and I attach a final set for your approval and signature.

Happy to speak

Regards

Fiona

**Fiona Hepper**

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**Renewable Heat Incentive Scheme Case Work Committee**

**Friday 9<sup>th</sup> March 2012 @ 2.00pm**  
**DETI Headquarters, Netherleigh House**

**Present:**

Casework Committee panel:

Trevor Cooper (Chair)  
Philip Angus  
Shane Murphy

Energy Division:

Fiona Hepper  
Joanne McCutcheon  
Peter Hutchinson  
Susan Stewart (note taker)

Economics - Analytical Services Unit:

Sam Connolly

**Documentation provided:**

1. Synopsis of Renewable Heat Incentive Scheme Project
2. Assessment of the Potential Development of Renewable Heat in Northern Ireland - AECOM Pöyry
3. Full Economic Appraisal – CEPA/AEA June 2011
4. CEPA/AEA additional analysis
5. Ofgem Feasibility Study
6. Risk Register
7. State Aid application / Addendum to application
8. DFP – Strategic Outline Case & DFP response
9. Economists comments

**Issues addressed**

1. Background
2. Policy Context
3. Options
4. Additionality
5. Budgetary management solutions
6. Governance / Ofgem management arrangements
7. Funding issues arising from Ofgem and internal resources
8. State Aid
9. Risk management
10. Conclusion and Agreed Actions

## 1. Background

TC asked for a brief overview of the proposed project.

FH advised that the work on the Renewable Heat Incentive (RHI) came as a result of the Renewable Energy Directive (RED), published in June 2009, which requires the UK to ensure that 15% of its energy consumption comes from renewable sources by 2020. In September 2010, the Northern Ireland Executive endorsed a target of 10% renewable heat in NI by 2020 (against a baseline of 1.7% in 2010). This target is included in the Strategic Energy Framework (SEF) and an interim target of 4% by 2015 is included in the Programme for Government (PfG).

FH explained that the NI RHI was largely based on the GB RHI which provides a continuous income scheme of 20 years (the lifetime of the technology) for those who generate renewable heat. The main differences between the NI and GB schemes is that the NI tariffs are set against an oil counterfactual whereas the GB tariffs have been set against a natural gas counterfactual; this results in lower tariffs being required in Northern Ireland. The reason for this is that the NI heat market is dominated by oil (over 75%) with an emerging gas market (17%), in GB gas is the market leader (70%) with oil a secondary heating source (10%).

FH also explained that the introduction of the RHI would be through a phased approach. The scheme will firstly be open to the non-domestic sector and include the most well-established renewable heating technologies. The domestic sector would then be introduced in phase 2; this phase might also include additional technologies. In the interim, domestic householders will be able to apply for *Renewable Heat Premium Payments* to assist in the capital cost of installations. Those who do avail of the RHPP will still be able to get a RHI but for a lesser period i.e. 18 years instead of the full 20 years as the RHPP represents two years of RHI payments.

FH also advised that another major component of the RHI would be the administration of the scheme. Her Majesty's Treasury (HMT) has provided DETI with funding of £25m over the next four years for the development of the renewable heat market. However HMT has advised that this funding is only to be used for the RHI itself and not the administration of the scheme. Therefore the costs of administration will have to be paid by the DETI. The Department of Energy and Climate Change (DECC) in GB has paid Ofgem (the GB energy regulator) over £5m for the development of the system, of which IT systems are a large part; it expects to pay around £10m over the next 4 years for the administration of the system. By contracting with Ofgem and utilising systems and processes already in place, DETI can expect significant savings whilst enjoying the benefits of the Ofgem administration systems.

SM clarified that the approvals being sought were for the RHI scheme, the RHPP scheme and the costs for administering these schemes. TC confirmed that it would be essential to address all the costs that arose from any policy proposal including administration consequentials.

FH added that by growing the renewable heat market there are significant opportunities for Northern Ireland to reduce our dependence on imported fossil fuels and increase NI's fuel security and diversity of supply, this in turn will reduce carbon emissions.

## **2. Policy Context**

TC asked what would happen if the NI target of 10% renewable heat generation by 2020 was not met, given the target set under the RED. TC also asked if DECC was comfortable with the target set for NI.

FH advised that Northern Ireland, whilst not an EU Member State, is expected to contribute to the UK target of 15% renewable energy by 2020. To support this target, DETI has set targets of 40% renewable electricity and 10% renewable heat by 2020. If the UK as a whole fails to achieve its target of 15%, then it would be expected that the EU Commission would impose infraction fines at Member State level. It would then be up to Whitehall to pro-rata fines depending on how each of the regions had contributed to the target. It is therefore important that Northern Ireland demonstrates a significant increase in renewable heat levels by 2020. DECC is content with targets set by DETI for Northern Ireland.

FH added that renewable heat technologies are currently unable to compete with existing fossil fuel alternatives, given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies. There is a need to consider the implementation of both policy instruments and financial incentives as there is a risk of market failure and of Northern Ireland not achieving the targets set. Financial incentives have already been successful within the Northern Ireland Renewable Electricity market. Since the introduction of the Northern Ireland Renewables Obligation (NIRO) in 2005, the level of electricity generated from renewable sources has increased from 3% to over 12%.

SM confirmed that he was content that there were legal and statutory obligations to be met. PA asked if NI is not on course to meet its target, is there room to negotiate with DECC on the NI target? FH advised that GB would probably look at how the other regions were progressing with their targets. However, if NI did alter its target, this would affect the amount of funding from HMT. As with the NI Renewables Obligation (NIRO), the Department has sought to counteract the possibility of not meeting targets by including periodic reviews of the RHI scheme; the first review is scheduled for 2014. However, the Department has also included an option to hold emergency reviews, if the need arises.

PH added that a RHI roadmap will also be developed, with other NI Departments, and that the Renewable Heat Strategy Group would facilitate this.

TC confirmed that the policy development and implementation had been thorough and robust and showed that there was a definite need to implement a renewable heat scheme in Northern Ireland in line with EC and National obligations and in particular given the provision of GB funding for the policy (although not for the administration thereof).

### 3. Options

SM asked why the challenge fund was not taken forward as the preferred option, as evidence in the consultant's report showed it to be a viable alternative.

PH advised that the report by CEPA and AEA Technology examined a number of options to incentivise the renewable heat market. The two main type of options included capital grant/challenge fund options, which would provide a one off payment to consumers, and renewable heat incentive options that provide a long term, 20 year, stream of payments to consumers to make up the difference in the whole-life cost of a renewable heating system compared to an oil based heating system.

The June 2011 economic appraisal recognised that each approach had its own merits but it was not unequivocal in its overall conclusion. In addition, since then, the feasibility study report compiled by Ofgem has provided further information on the cost of administering a RHI scheme. Whilst the June 2011 analysis suggested that a challenge fund option could produce the most renewable heat at the lowest cost, Energy Division was conscious of a number of other key factors that needed to be taken account of in the final policy decision. These factors have been very influential in the conclusion, by Energy Division, to proceed with the RHI option. They include the following:

- ***Affordability of Administration***

In terms of administration, the costs of running a Challenge Fund were considered to be prohibitive, especially in comparison to potential costs of administering the NI RHI. Previous experience of running *Reconnect* demonstrated administration costs of £1.48m for a grant scheme worth £10.5m (14%). The *Reconnect* scheme was for domestic customers only, and on a 'first-come-first-served' basis. A challenge fund, dealing with commercial applications and involving complex evaluation metrics, could be expected to be at least as, if not more, costly than the *Reconnect* scheme, equating to potentially £3.5m over the first 4 years. **This would not be available within DETI budget.**

The RHI option, whilst requiring complex administration arrangements, can be implemented at a fraction of the cost through building on existing systems already in place for the GB RHI. The expected costs of the RHI scheme have been assessed and project development costs of £386k and running costs of £710k over the first 4 years. These administration costs are much more affordable in comparison to the Challenge Fund option.

- ***Challenge Fund Assumptions***

Under the Challenge Fund options it is assumed that only the most cost effective systems are incentivised given that applications are ranked via a set of evaluation criteria. On reflection, it has been considered that this assumption is much too idealistic,

in that it relies on cost effective applications being made in the first instance. If, however, applicants unduly focus on less efficient technologies then the scheme will be skewed towards these less efficient systems. The experience learned from *Reconnect* was that in a capital grant scheme applicants will focus on technologies that are most affordable, not the most appropriate or efficient. Under *Reconnect* the most popular technology, the one installed most often (50% of the time), was solar thermal. Within this analysis solar thermal is shown to be the most costly and least efficient renewable heating technology. If this experienced was repeated, in a RH grant scheme, the target would be missed, funding would be skewed towards the most costly and inefficient systems and the appraisal's NPC would undoubtedly be wide of the mark.

The RHI operates a technology neutral approach in that the same methodology is used to determine each tariff and a specific tariff set for each technology. This, in theory, results in each technology being as attractive as each other and therefore consumers are free to select the most appropriate application. As the tariff factors the whole life cost of the technology (capex, opex, fuel and non-financial hassle costs) consumers are expected to select the most efficient system. This in turn supports the achievement of the renewable heat targets, as well as helping to build overall capacity within the renewable heating industry as it should support a wider range of technologies, helping this market to grow further than might be expected under a challenge fund.

- ***Ability to meet targets over set timescales***

The RHI scheme provides the most certainty in terms of achieving the targets of 4% and 10% renewable heat by 2015 and 2020 respectively, as set out in the Programme for Government. This is because an RHI will deliver more heat earlier than a challenge fund as the initial annual payments to consumers will be smaller compared to capital grants, thus enabling more installations to be facilitated within each budgetary period. Whilst the Challenge Fund could also meet the targets, and potentially deliver more renewable heat, it is likely that this would be at a later date. As designed currently the RHI will achieve around 11% renewable heat by 2020.

- ***Risk***

It has been considered that the RHI presents a lower level of risk than the potential Challenge Fund. This is largely due to the fact that incentives will be paid on actual heat output. RHI payments will only be made on metered heat output with installers paid for the amount of heat generated. This ensures that installations are kept in working order and used therefore meeting the renewable heat targets.

As the Challenge Fund would be contributing to the capital costs of the installation (rather than the whole life costs under the RHI) a risk would develop that, after a short time, installations would stop generating renewable heat. This could be because the renewable heat fuel is no longer affordable, that a fossil fuel alternative (such as gas) become available or more attractive, that the site is no longer in business etc. In these circumstances clawback arrangements would need to be initiated, which could be costly and complicated, and the target would be hindered. As the RHI only rewards actual heat output there is less risk and less impact if sites stop generating renewable heat.



Also, in terms of risk, an RHI delivers earlier against the target. In the event that corrective action were required then the RHI option would identify this need earlier and also allow more time, scope and budgetary flexibility for action to be taken to put the scheme back on track.

- ***Consistency with GB***

Whilst energy is a devolved matter Energy Division is mindful that a high number of commercial operators wishing to avail of support for renewable heat in Northern Ireland will operate jointly in GB. Whilst it is wholly appropriate for a specific incentive mechanism to be developed in Northern Ireland given the variances in the two energy markets, Energy Division is conscious that consistency in approach with GB would be beneficial to those availing of support in both Northern Ireland and GB. Therefore a specific NI RHI, whilst addressing the NI heat market, would be a more consistent approach with GB and will assist policy development options in the future.

- ***Example of the NIRO***

The NIRO was launched in Northern Ireland in 2005 to support the development of renewable electricity installations. Similar to the RHI, the NIRO offers no up-front capital support for installations but instead offers 20 years of payments over the lifetime of the technology with payments determined by actual energy output. This example has proved successful with installers and has led to an increase of renewable electricity levels from 3% to over 12% currently. This experience increases confidence in a RHI scheme to generate investment in renewable heat. On the other hand the potential uptake under the Challenge Fund option would be subject to greater unknowns.

On the basis of the information presented above, the Casework Committee accepted that the RHI was the most appropriate method of incentivisation for the Northern Ireland renewable heat market.

TC asked how the tariffs had been designed and whether Energy Division felt that the various tariffs and types of technologies were appropriate.

PH advised that the tariffs vary depending on the type and size of technology to ensure that financial support is targeted for the specific installation and so over-compensation is avoided. Tariffs are paid for 20 years (the lifetime of the technology) and are 'grandfathered'. This provides certainty for an investor by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews. The tariffs will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation (RPI).

PH further explained that the tariff setting methodology has three general principles:

- Renewable installations are divided depending on the type of technology and size of installation;
- Within each banding a reference technology is chosen to develop a consistent tariff across technologies and scales; and

- The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined.

In order to generate the appropriate tariff, the difference is determined in the costs between the renewable technology and the fossil fuel counterfactual and this figure is divided by annual heat output to arrive at the appropriate tariff. For most of the tariffs a discount rate of 12% is applied, this is consistent with the GB approach in designing the GB RHI and other renewable energy schemes, for 'domestic' tariffs a discount rate of 16% is assumed, again this is consistent with GB. The solar thermal tariff is set differently, in-line with GB, as to set the tariff in the same way would result in a tariff vastly higher than the other incentives given the cost of solar thermal and could lead to a large amount of the funding being skewed to the least efficient technology.

PH explained that the scheme would be open for new installations until 31 March 2020 and therefore the final payments would be made in 2040. The length of payment is set as the lifetime of the technology. The first review of the scheme would begin in 2014, with proposed changes implemented in 2015. In addition to this, phase 2 of the scheme would begin in April 2013 and involve the introduction of the domestic sector and consideration of tariffs for additional technologies (bioliquids, air-source-heat-pumps, deep geothermal etc).

PA asked what factors have been taken account of when scheduling a review of the RHI scheme.

FH explained that the NI RHI will have scheduled reviews built-in to the scheme to allow DETI to ensure that the scheme remains fit for purpose and value for money for the duration. The scope of these reviews will include analysis of tariffs (either to be reduced or increased), the appropriateness of technologies (remove existing technologies or add new innovative ones) and the assessment of effectiveness and success.

PH added that it may be that the tariff levels are not sufficient to encourage uptake or that they are too generous (very unlikely) and hence uptake is such that there is insufficient budget. This is a main risk of the RHI and to help counteract this risk, Ofgem will provide regular management reports which will enable uptake to be carefully monitored and forecast expenditure. The RHI will be reviewed in 2014 (and at regular intervals thereafter) and tariff levels may be adjusted, for new installations, if appropriate.

TC asked why each accredited technology was guaranteed payment for 20 years and how can we ensure that the renewable heat technology was being utilised. PH advised that tariffs are paid for 20 years as this is the lifetime of the technology. Currently, the RHI only applies to the non-domestic sector therefore all renewable heat installations will be required to be accompanied with a heat meter that will determine actual heat output. Heat meters are already common in many commercial applications and therefore should not be a barrier to uptake. Meters will allow for accurate readings to be taken of actual heat usage and appropriate payments made. They will also ensure accurate statistics are maintained throughout the lifetime of the scheme.

SM sought clarification on the fact that the scheme appeared to be backdated to September 2010. PH explained that applicants who had technologies installed on or after that date would be able to avail of the RHI scheme but the payment would not be backdated to that date. It was confirmed to TC and SM that no retrospective payments would be given out under the NI RHI and RHPP schemes.

On the basis of the evidence presented, the panel accepted that of the options presented the proposed RHI scheme was the most appropriate option to implement in NI.

## **ACTION**

- The business case to DFP (and the Minister) should explicitly address the reasons why the RHI is favoured over the Challenge Fund option.

## **4. Value for Money / Additionality / Displacement**

FH advised that without Government subvention for renewable heat installations, the target of 10% renewable heat by 2020 would not be met. This would impact on the UK's delivery of 15% renewable energy set under the RED. FH also said that it was important that the scheme was not over-subsidising the renewable heat sector; the consultant's work ensured that there was a balance created in terms of the technologies to be incentivised and the tariffs to be given.

The DETI Economist has reviewed the approach taken by the consultants and is content that the proposed scheme represents the best value for money.

In terms of displacement, the main area where displacement might occur, as a result of the RHI, will be in the established heating markets. Displacement is likely to be greatest in the oil market given the fact that tariffs are set against an oil counterfactual (and therefore provide oil customers with a greater incentive). However, this displacement is necessary to ensure a more diverse heating market and reduced carbon emissions. Displacement of natural gas is likely to be much more limited. In terms of job displacement, the RHI is expected to create new jobs, given the need for installers and suppliers. However, these jobs will, to a certain extent, be displacing existing jobs in the fossil fuel market.

TC enquired whether it would also be beneficial to switch natural gas customers to renewable heat as well as oil consumers.

FH stated that the Department was not excluding gas customers from switching and that they could avail of the RHI. However, the Department had based the NI RHI on an oil counterfactual because oil was the predominant fuel source in NI. Oil is also a greater polluter (through carbon emissions) than natural gas. Gas customers are also relatively new and it would be wasteful for consumers to switch whilst their boilers which were reasonably new whereas a large proportion of oil boilers had reached the end of their life.

## **5. Budgetary management solutions**

TC asked what commitment there was from HMT that payments made up to 2015 would be met for 20 years and how would the Department manage the payments based on the current budgets.

FH highlighted the financial commitment made by HMT in the GB RHI and the subsequent funding made available to DETI for the Northern Ireland scheme. FH also advised that HMT had informed DETI that any commitments made under this initial budget would be met by HMT for the lifetime of the scheme i.e. meeting the 20 year payment commitment. The RHI is a flagship policy for DECC and whilst budgets have only been set until 2015/2016 it is expected that further monies will be made available in the next budget period. This is demonstrated by the GB scheme being open to 2020 and in documentation provided by DECC to the EU Commission suggesting expected subsidies of £2.2bn in 2020.

In terms of managing payments, PH explained that there would be monthly draw downs to maintain and manage the financial aspect of the RHI to ensure that the budget would not go into overspend on any particular year. PH further advised that Ofgem has significant experience in financial profiles and budget handling as it has also worked on the GB Renewable Obligation, the NIRO and the GB RHI.

FH added that a monitoring committee would also be established in respect of the budget and the Department would receive monthly reports from Ofgem on the applications, accreditations and spend budget for the NI scheme.

TC asked how often the meters would be read for non-domestic customers. PH advised that meters would be read on a quarterly basis. The amount paid will be based on metered heat output and the tariff for the type of technology installed. This would also allow the Department and Ofgem to calculate annual forecasts for the RHI budget. If necessary the scheme could be closed to new applicants mid-year if applications were higher than expected and budgets risked being overspent.

FH confirmed that Energy Division would return to the casework committee within the next year to seek approval for the implementation phase 2 of the NI RHI.

## **ACTION**

- Energy Division to seek casework committee approval in advance of Phase 2 of the RHI scheme.

## **6. Governance / Ofgem management arrangements**

TC asked what controls would be in place for the project management aspect of the contract with Ofgem. JMC advised that discussions had taken place with CPD and Ofgem. TC asked for assurance that any contract would include detail on performance targets, remedies, safeguards in place for under-performance, and breakpoints. PA enquired if the Department would have a separate contract or be part of the DECC contract in place with Ofgem. JMC confirmed it would be a separate contract.

PA asked if we had a right of audit entry included in the contract. FH assured that this would be put in place.

TC stated that IAS should be consulted in relation to the proposed management arrangements (in particular in regard to validation of amounts due and controls over payments as appropriate), and assurances that any contract would give DETI/NIAO etc appropriate inspection/monitoring/audit rights. FH stated that IAS had not yet been consulted but this would be done.

TC stated that when seeking approval for any contract, Accounting Officer approval should also be sought on the basis of the appointment of an external delivery/management organisation.

FH confirmed that a request for approval of a Direct Award Contract would be submitted to the Permanent Secretary, David Sterling along with a Third Party Organisational delivery award.

SM asked if the Utility Regulator was to be involved in the management of the RHI scheme. FH explained that the Utility Regulator was to have no role in the scheme; it was felt that it was more appropriate to deal directly with Ofgem to ensure that all of the Department's corporate and governance requirements were put in place.

## **ACTIONS**

- Energy Division to obtain the respective approvals from DAO and Minister for the appointment of Ofgem through a Direct Award Contract (if confirmed as appropriate by CPD) and Third Party Organisation Delivery Award.
- Energy Division to engage with Internal Audit regarding Ofgem management arrangements and, in particular on the requirement for External Delivery Organisation (EDO) audit inspections to be carried out on Ofgem as administrators of the scheme.
- Energy Division to confirm Casework Committee that any contract with Ofgem for administration of the RHI scheme would have performance targets, remedies, safeguards in place for under-performance, and breakpoints.

## **7. Funding issues arising from Ofgem and internal resources**

TC asked how the Ofgem feasibility study had been financed and was advised that it had been paid from Energy Division's consultancy budget. FH added that Energy Division would be putting in a bid for the budget to cover Ofgem's development and operating costs. For the NI RHI, estimates are - £386k capital spend to develop the system and then a further £136k operational spend in the first year. TC stated that the costs of any scheme would need careful consideration and as noted above, TMT approval would need to be sought.

PA enquired whether there is the possibility of developing and operating the RHI system in-house. FH explained that there were neither the skills, expertise nor resources within DETI or the wider NI Civil Service to currently undertake the administration of the NI RHI.

SM expressed concerns over the 100% contingency budget for the development of the IT systems. JMC advised that this contingency was for the development phase and would only be required for a short period of time. Energy Division had sought clarification on the Ofgem proposal for £1m legal budget. Ofgem has accepted that DETI already has a separate legal contract in place to cover DETI's legal responsibilities and it was not anticipated that the existing budget would be exceeded. TC asked if there had been much experience of legal claims. FH confirmed that there had been one recent incident under the NIRO but the matter was concluded satisfactorily without any legal involvement.

## **ACTION**

- Energy Division to send a paper to the Top Management Team seeking approval for the ongoing administration costs for Ofgem to operate and maintain the NI RHI system.

## **8. State Aid**

TC enquired about the current status of the state aid application.

FH advised that in December 2011, the Department sent a detailed submission to the Commission, outlining the NI RHI proposals. This submission took on board lessons learned from the GB application that was approved in November 2011. An addendum to the December application was submitted in February 2012 advising on proposed changes as a result of further economic analysis carried out by external consultants.

TC was advised that as and when the tariffs are amended or revised, the Department would have to reapply for State Aid approval.

## **9. Risk management**

PH provided a brief overview of the risks and uncertainties in implementing a renewable heat incentive in Northern Ireland: These are:

- Incorrect subsidy level - subsidy levels proposed for the RHI are either too high or too low. This risk will be managed through regular, planned, reviews of subsidy levels.
- Risk of harm to other sectors - an increase in renewable heat may lead to a reduction in the demand for conventional heating (oil, gas, coal and electric heating). At a high level, the short term harm to any sector should be relatively small, especially given the current scale of the oil market. However if the uptake of

renewable heat impacted disproportionately on the gas sector this could have negative consequences for the extension of the gas network.

- Risk of failure of renewable heat supply - supplies of renewable fuel (i.e. biomass, biogas and bioliquids) may be disrupted. In addition, new skills will be required if installations can be made. DETI will work with colleagues in DARD and DEL to mitigate against this.
- Risks of low take-up – This could be a result of tariffs or other possible barriers include planning restrictions, a lack of awareness, and negative perceptions of the reliability and/ or cost of renewable heat. The Department has budget cover to deliver messages about renewable heat to homes and businesses.
- Risk of failure to implement targets set by EU Renewable Energy Directive - the RED is the key driver for the work undertaken by the Department on renewable heat. The requirement to meet the very challenging 12% renewable energy target falls at Member State level, not at Devolved Administration (DA) level. Each DA is expected to contribute as much as possible to the overall UK target and the Department has undertaken to introduce a renewable heat scheme in Northern Ireland in order to mitigate this risk.
- Risk of insufficient budget for administration or future payments - there may be the possibility of a higher than expected uptake leading to a requirement to manage the annual budget and higher administration costs. This will be mitigated by liaison with Ofgem to assess uptake levels and expected spend against profiled budget. The Department has also been liaising with the DECC finance team regarding future financing and with HMT relating to the budget for existing commitments.
- Risk of failure to receive State Aid approval - the EU Commission may refuse to approve the NI RHI scheme. The Department took on board the lessons learned from the GB state aid application. This is a low risk; it would be more likely that the scheme would be amended.
- Risk of instances of fraud - instances of fraud could include duplicate applications, unusual meter readings (too high for expected output), lack of information being provided to the administrator and using unregistered installers. The Department has put in place measures to counteract instances of fraud and where there are instances of suspected fraud, the participant will be investigated and payments will be stopped.
- Risk of failure in administration of RHI - there is the potential for delays in dealing with applications, accreditations and payments for the NI RHI scheme which would lead to stakeholders complaining about application process. This could be as a result of difficulties in IT systems or a lack of communication between Ofgem and the Department. The Department will establish a joint project team with Ofgem as the scheme is implemented.

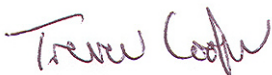
**10. Conclusion and Agreed Actions**

The Casework Committee confirmed that they were content to approve the RHI and the RHPP schemes to proceed to DFP conditional on completion of the following agreed actions:

- Energy Division to obtain the respective approvals from DAO and Minister for the appointment of Ofgem through a Direct Award Contract (if confirmed as appropriate by CPD) and Third Party Organisation Delivery Award;
- Energy Division to confirm Casework Committee that any contract with Ofgem for administration of the RHI scheme would have performance targets, remedies, safeguards in place for under-performance, and breakpoints;
- Energy Division to engage with Internal Audit regarding Ofgem management arrangements and, in particular on the requirement for External Delivery Organisation (EDO) audit inspections to be carried out on Ofgem as administrators of the scheme;
- Energy Division to send a paper to the Top Management Team seeking approval for the ongoing administration costs for Ofgem to operate and maintain the NI RHI system;
- Energy Division to seek casework committee approval in advance of Phase 2 of the RHI scheme;
- The business case to DFP (and the Minister) should explicitly address the reasons why the RHI is favoured over the Challenge Fund option; and
- Energy Division to send submissions concurrently to DFP and Minister seeking approval for the RHI scheme.

**11. Approval of Note**

Signed:



Trevor Cooper,  
Panel Chairman

Date: