

Message: EC1/17/0146576

From: [McCay, Davina](#)
To: [Johnston, Iris](#)
Cc:
Sent: 23/05/2014 at 17:19
Received: 23/05/2014 at 17:19
Subject: Domestic RHI Casework - memo from David Thomson to Eugene Rooney

Attachments: [Covering Memo.DOCX \(18.0 KB\)](#)

Iris

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As discussed, please find attached memo from David Thomson to Eugene Rooney in support of the casework submission for the Domestic RHI.

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Many thanks

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Davina

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To: Eugene Rooney

Date: May 2014

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From: David Thomson

**CASEWORK PAPERS FOR PHASE 2 OF THE NORTHERN IRELAND
RENEWABLE HEAT INCENTIVE**

You will have received papers outlining the proposals from Energy Division regarding the introduction of the second phase of the Northern Ireland Renewable Heat Incentive (RHI). These papers are to inform the meeting of the Casework Committee scheduled for **Monday 9 June at 3pm**.

The RHI is a major policy initiative designed to develop the renewable heat market to an overall market share of 10% by 2020, in-line with EU and SEF targets. To support the uptake of renewable technologies, the RHI is designed to provide ongoing support to equalise the cost of conventional heating and alternative renewable heating technologies. Phase 1 of the scheme (which is for the non-domestic market) was launched in November 2012 following Casework, DFP and Ministerial approvals. At that time, the business case made clear that the department intended to extend the scheme to the domestic market in due course and the DFP approval covers the total expenditure.

In the interim, the domestic market has been supported through the Renewable Heat Premium Payment scheme (RHPP) which provides capital support towards the costs of installations.

Significant work and research has already been undertaken by Energy Division to assess how the RHI scheme can be developed for the domestic market and the appropriate support levels. This work includes procuring consultancy advice to develop policy proposals, a public consultation on the proposals and consideration of how the scheme can best be administered.

The final proposals for the domestic scheme are similar in many ways to the equivalent GB scheme which was launched on 9 April 2014; it is therefore important that the Northern Ireland scheme is implemented as a matter of urgency to ensure that the local renewable heat market is not unduly disadvantaged.

I am content that the proposals outlined have been thoroughly researched, analysed and appraised and note the supportive comments from the economist. This second phase is building on what is already in place and from the evidence available, I consider that the RHI in Northern Ireland represents the most appropriate way for the renewable heat market to be incentivised to a level of 10% by 2020. The development of the renewable heat market will support wider Energy Division policy, and indeed Departmental and Executive policy goals of energy security, reduced emissions and 'green jobs'.

I would be grateful if you consider the documentation provided in assessing the appropriateness of this scheme.

David Thomson
Head of DETI Policy Group

Cc: John Mills
Trevor Cooper
Mike Thompson
Alan Smith
Davina McCay
Dan Sinton

Domestic RHI – Casework Committee 9 June 2014 – 3pm (Room 18)

Committee Members:

- Eugene Rooney (Chair)
- Trevor Cooper
- Mike Thompson

Energy Officials attending:

- John Mills
- Davina McCay
- Dan Sinton
- Alan Smith (Economist comments)

Papers issued:

- Synopsis Paper
- Business Case
- CEPA Analysis
- Risk Register

Briefing notes**Opening remarks**

- RHI came about as a result of the Renewable Energy Directive (RED) which set 15% renewable energy target for UK.
- September 2010, NI Executive endorsed 10% renewable heat target for NI.
- Interim target of 4% included in PfG.
- Phased approach – Non-domestic RHI launched in NI in November 2012 and RHPP launched in May 2012 for domestic installations.
- RHI largely follows GB RHI.
- GB domestic RHI launched in April this year. NI consumers very keen for launch in NI, as is Minister and ETI Committee.
- Casework approval for Non-Domestic RHI and RHPP and associated administration costs was granted in March 2012. DFP approval granted for full £25m HMT funding April 2012.
- Accountability and Casework Branch have confirmed that no further approval is required from DFP for the Domestic RHI.
- Phase 2 of the RHI covers domestic support as well as changes to the non-domestic scheme. Today we are discussing the domestic RHI only.

What we are seeking casework approval for

- The format of the proposed domestic RHI – upfront payment plus 7 year tariff
- Potential administration costs – will run in-house and use existing resource while we determine what is required going forward. Worst case scenario budget wise is that we will need to procure an external administrator at a cost of around £60-100k plus approximately £600-1500 per application. Likely that a separate business case will be developed at this point and appropriate approvals sought.

Potential areas of discussion

- Proposed format of financial support – why are we proposing a slightly different set-up to GB?
 - Removes cost barrier for some consumers;
 - Simplifies administration as RHPP customers will have already received upfront payment. Annual tariffs for each technology will be the same for all applicants whether they received RHPP or not.
 - CEPA analysis found that net present value of payments is the same as for all other domestic options considered.

- Administrations costs
 - Estimates from IT branch
 - Can administer in-house for the first while, have staffing resource and an IT system which can deliver upfront capital payments
 - Current database cannot handle annual payments – IT have advised that if to be delivered in-house a new system will be required which will have to be procured from outside NICS.
 - Issues arise later in the scheme when the number of applications are accumulating year on year with the number of annual payments exceeding the level that Account NI and in-house staff can deal with.
 - Technical expertise required.

- Risks
 - Mitigating actions are recorded in risk register and will be monitored throughout the scheme.
 - These are also outlined in the final synopsis – I will cover if raised.

- Reviews
 - As with non-domestic NI RHI, will have scheduled reviews to allow DETI to ensure that the scheme remains fit for purpose and value for money for the duration.
 - Reviews to consider tariffs, technologies and effectiveness of scheme.

- Audit/vouching
 - Systems are already in place for the RHPP to minimise the risk of fraud. Where there are instances of suspected fraud, the participant will be investigated and payments will be stopped.
 - Dan will cover in more detail if necessary.

- Deeming v metering

- DETI's view that deeming is the most appropriate method for the majority of domestic installations. Metering will be required in some instances where there is more risk of a technology not being used to its full potential i.e. second home, secondary heating systems.
- Dan can cover in more detail if necessary.

- Displacement of oil/gas
 - Tariffs are based on an oil-counterfactual – unlikely that many gas customers would choose to switch as tariffs would not be so attractive for them.
 - Displacement of oil is necessary to ensure a more diverse heating market and reduced carbon emissions.
 - Likely that RHI will create some new jobs in the renewables field which may displace existing jobs in the fossil fuel market.

- Budget cover from HMT
 - £25m committed by GMT for the NI RHI up to 2015. HMT informed DETI that any commitments made under this initial budget would be met by HMT for the lifetime of the scheme.
 - GB scheme open to 2020 and documentation provided by DECC to the EU Commission suggested expected subsidies of £2.2bn in 2020.
 - DETI Finance Branch has advised that DFP has indicated that AME budgets are formulated using the information provided in AME forecasting exercises, and there is no separate bidding process. Therefore, for RHI the current profile is £6.35m 2014/15, £9.5m 2015/16, £13.5m 2016/17, £18.5m 2017/18, £24.5m 2018/19 and £31.0m 2019/20.

Timetable for Scheme Review and securing DFP Approval beyond 31 March 2015

Task		Description	Duration
1	Commission Independent Review	<ul style="list-style-type: none"> • Prepare Scope / TOR for Review • Prepare Business Case for using Consultants • Secure Resource Budget • Secure Senior Management / Ministerial / DFP Approvals • Advertise for Tenders / Appraise Tenders • Secure Approvals & Award Contract 	2-3 months
2	Complete Review	<ul style="list-style-type: none"> • Complete Review • Prepare Draft Report • Agree Draft Report 	4-6 months
3	Draft Policy Proposals	<ul style="list-style-type: none"> • Prepare draft policy proposals • Prepare Draft Consultation Document • Secure Ministerial and/or Executive Approval • Brief Assembly Committee 	1-2 months
4	Public Consultation	<ul style="list-style-type: none"> • Publish Consultation & EU Commission Pre-Notification • Complete 8-12 week statutory consultation • Brief Stakeholders (including Assembly Committee) 	3 months
5	Prepare Final Policy Proposals	<ul style="list-style-type: none"> • Review Consultation Responses & prepare Consultation Report • Prepare Final policy proposals • Secure long term budget confirmation from DFP • Secure Ministerial / Executive / Assembly Committee (SL1) Approval • Publish Final Policy & Consultation Report • Prepare Draft Business Case for policy proposals and for Scheme extension • Prepare draft State Aid Notification paper 	3-6 months
6	Secure Scheme Approvals (& draft legislation)	<ul style="list-style-type: none"> • Arrange DETI Casework Committee • Secure DETI Casework Approval • Secure Ministerial / Executive approvals • Submit Business Case to DoF • Notify EU Commission • Secure DFP and EU Commission approvals. • Prepare Draft Legislation (in conjunction with DSO) 	2-3 months
7	Progress Legislation through NI Assembly	<ul style="list-style-type: none"> • Secure DSO Approval • Lay Draft Regulations and Schedule Motion Debate • Secure Committee Approval (including Examiner Report) • Prepare Ministerial Briefing • Complete Motion Debate • Publish Final Legislation 	1 month
	All Tasks		16-24 months

Draft Timetable for Tariff Review

Task		Description	Duration
1	Commission Independent Review	<ul style="list-style-type: none"> • Prepare Scope / TOR for Review • Prepare Business Case for using Consultants • Secure Resource Budget • Secure Senior Management / Ministerial / DFP Approvals • Advertise for Tenders / Appraise Tenders • Secure Approvals & Award Contract 	2-3 months (shorter if delivering in-house)
2	Complete Review	<ul style="list-style-type: none"> • Complete Review • Prepare Draft Report • Agree Draft Report 	1-2 months
3	Draft Policy Proposals	<ul style="list-style-type: none"> • Prepare draft policy proposals • Prepare Draft Consultation Document • Secure Ministerial and/or Executive Approval • Brief Assembly Committee 	1-2 months
4	Public Consultation	<ul style="list-style-type: none"> • Publish Consultation & EU Commission Pre-Notification • Complete 8-12 week statutory consultation • Brief Stakeholders (including Assembly Committee) 	3 months
5	Prepare Final Policy Proposals	<ul style="list-style-type: none"> • Review Consultation Responses & prepare Consultation Report • Prepare Final policy proposals • Secure Ministerial / Executive / Assembly Committee (SL1) Approval • Publish Final Policy & Consultation Report • Prepare Draft Business Case for tariff • Prepare draft State Aid Notification paper 	1-2 months
6	Secure Approvals (& draft legislation)	<ul style="list-style-type: none"> • Arrange DETI Casework Committee if required • Secure DETI Casework Approval if required • Secure Ministerial / Executive approvals • Submit Business Case to DoF if required • Notify EU Commission • Secure DoF and EU Commission approvals. • Prepare Draft Legislation (in conjunction with DSO) 	2-3 months
7	Progress Legislation through NI Assembly	<ul style="list-style-type: none"> • Secure DSO Approval • Lay Draft Regulations and Schedule Motion Debate • Secure Committee Approval (including Examiner Report) • Prepare Ministerial Briefing • Complete Motion Debate • Publish Final Legislation 	1 month
	All Tasks		11-16 months