



Alex Chisholm
Permanent Secretary
Department for Business, Energy, and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

By post and email: permanentsecretary@beis.gov.uk

3 July 2017

Dear Sir / Madam

Re: The Independent Public Inquiry into the Non Domestic Renewable Heat Incentive (RHI) Scheme
Request for a Written Statement and Documents from the Department

I am writing to you in my capacity as Solicitor to the Independent Public Inquiry into the Northern Ireland Non Domestic Renewable Heat Incentive (RHI) Scheme (known as 'the RHI Inquiry') which has been set up under the Inquiries Act 2005 to consider matters related to the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012.

I enclose a copy of the RHI Inquiry's Terms of Reference for your information. Further information regarding the Inquiry can be accessed on its website: <https://www.rhiinquiry.org/>.

You may be aware that the RHI Inquiry is currently investigating the matters set out in its Terms of Reference. This involves the Inquiry obtaining relevant documentation, and witness statements, from various individuals, organisations, and government

departments.

As part of this exercise, the Inquiry is investigating the creation and operation of the Non Domestic Renewable Heat Incentive Scheme ('the NI RHI Scheme'). The Inquiry's work in this regard involves a consideration of various aspects of the NI RHI Scheme including its funding, the tariffs payable under it, the costs controls (if any) within it, its administration by GEMA / OFGEM, the potential for over-compensation (and related State Aid issues), and the potential for abuse of the Scheme. This work brings into focus, among other things, the analogous RHI Scheme in Great Britain ('the GB RHI Scheme'), the salient differences between the NI and GB RHI Schemes, the level of communication between those government officials with responsibility for the GB RHI Scheme and their counterparts in Northern Ireland, and the lessons that were, or ought to have been, learned from the creation and operation of the GB RHI Scheme (which, as you know, was operational approximately 1 year prior to the NI RHI Scheme).

In the circumstances, the Inquiry believes that it would be of considerable assistance to it if the Department for Business, Energy, and Industrial Strategy, ('the Department) could provide:

1. a written statement addressing the issues set out in the Schedule enclosed with this letter;
2. copies of any documents that are relevant to those issues.

Given the tight time-frame within which the RHI Inquiry must operate, the Chairman of the Inquiry would be grateful if you would provide the information sought as soon as ever possible.

Finally, I would be grateful if you could acknowledge receipt of this correspondence and the enclosed notice by email to Patrick.Butler@rhiinquiry.org.

Please do not hesitate to contact me to discuss any matter arising.

Yours faithfully

A handwritten signature in black ink that reads "Patrick Butler". The signature is written in a cursive style with a long horizontal stroke at the end.

Patrick Butler
Solicitor to the RHI Inquiry
02890408928

SCHEDULE*The Department*

1. Summarise, for the period covering the design, creation, implementation, and operation of the incentive scheme provided for under the Renewable Heat Incentive Scheme Regulations 2011 ('the GB RHI Scheme'), the following:
 - a. The approximate size of the Department for Energy and Climate Change, now the Department for Business, Energy, and Industrial Strategy, ('the Department') in terms of the number of persons employed within it;
 - b. The approximate size of the Department's annual budget;
 - c. The approximate size of the resources (in addition to budget) for which the Department was responsible, and/or which it managed, annually;
 - d. The approximate size of that part of the Department with responsibility for renewable energy;
 - e. The approximate size of that part of the Department with responsibility for the design, creation, implementation, and operation of the GB RHI Scheme;
 - f. The approximate number of the Department's staff (in terms of persons, man hours, whole time equivalents, or otherwise) who were deployed in respect of the GB RHI Scheme annually.

The Energy Act 2008

2. Explain the reason(s) why Northern Ireland was excluded from the ambit of s.100 of the Energy Act 2008 (the power of the Secretary of State to make regulations establishing a RHI scheme), both at the time of enactment of the

2008 Act and at the time of the amendment of s.100 in 2011.

The Design and Creation of the GB RHI Scheme

3. Summarise the process leading to the creation of the GB RHI Scheme through the Renewable Heat Incentive Scheme Regulations 2011.

4. In particular, please address the following issues:
 - a. The extent to which the Department availed of and/or relied upon the assistance of internal or external experts such as economic consultants, experts in the renewable energy sector, or otherwise, in the design and creation of the GB RHI Scheme (including the names of such experts, their relevant area[s] of expertise, the issue[s] in respect of which they provided assistance, and their recommendations);

 - b. The different options, in terms of Scheme design, considered by the Department (e.g. one-off capital grant, periodic incentive payment, hybrid of the aforementioned two, etc.);

 - c. The reason(s) why the Department opted for a Scheme involving periodic incentive payments rather than a one-off capital grant;

 - d. The precise rationale for the inclusion of 'tiering' in respect of the small and medium biomass tariffs payable under the GB RHI Scheme including, in particular but without prejudice to the generality of the foregoing, clarification of the following:
 - i. whether such tiering was included in the Scheme so as to guard against the risk of over-compensation (caused by installations running at higher than anticipated load factors or otherwise);

 - ii. whether such tiering was included in the Scheme so as to guard against abuse in the form of the creation of unnecessary heat to

generate tariff income;

- iii. the approximate date when the Department (A) first considered tiering in the context of the GB RHI Scheme and (B) decided to include tiering in the said Scheme
- e. The regard (if any) had by the Department, when creating the GB RHI Scheme, to its experience in earlier green energy incentive schemes such as the Renewables Obligation and, in particular, to the fact that it had considered it necessary, through the Renewables Obligation Order 2009, to introduce express powers to carry out both periodic and emergency reviews in respect of that incentive scheme;
 - f. The approach taken by the Department to the question of whether or not to 'grandfather' returns and/or tariffs under the GB RHI Scheme, including details of any decision taken by the Department on this issue, the rationale for same, and how it was informed by and / or was consistent with the approach taken by the Department to the question of 'grandfathering' returns and/or tariffs in other green energy incentive schemes such as the Renewables Obligation;
 - g. The persons from whom the Department sought and obtained advice regarding the content and drafting of the Renewable Heat Incentive Scheme Regulations 2011;
 - h. The persons who drafted the Renewable Heat Incentive Scheme Regulations 2011;
 - i. Whether, within the Department, the creation of the GB RHI Scheme was treated as, or as forming part of, a project subject to 'Project Management' systems and principles (such as, for example, 'PRINCE 2') and, if it was, provide details of same.

State Aid Approval for the GB RHI Scheme

5. Specify, by reference to precise dates if possible, the period during which the UK's State Aid approval application to the European Commission ('the Commission') in respect of the GB RHI Scheme was extant.
6. Clarify whether the Commission, during the GB RHI Scheme State Aid approval process, ever indicated to the UK that approval was unlikely to be forthcoming or that changes would be required to the Scheme in order for it to gain approval, and, if the Commission did so indicate, provide details of each such instance including the date of same and the reasoning for the position adopted in each case.
7. Without prejudice to the generality of the foregoing request, set out the reason(s) why the Commission was initially minded to refuse State Aid approval for the Department's proposed large biomass tariff and summarise how the UK and the Commission ultimately were able to reach agreement on a revised tariff in order to secure State Aid approval.
8. Explain (if known):
 - a. The relevance (if any) to the State Aid approval process of the fact that the proposed GB RHI Scheme involved periodic support payments ('tariffs') to accredited renewable heat installations rather than an initial capital grant;
 - b. The regard (if any) had by the Commission to any expert economic or other analyses, reports, studies, appraisals or other similar documents submitted by or on behalf of the UK in support of its application for approval of the GB RHI Scheme;
 - c. The regard (if any) had by the Commission to the fact that the GB RHI Scheme incorporated tiering of tariffs in respect of small and medium commercial biomass installations;

- d. The regard (if any) had by the Commission to the fact that the proposed small commercial biomass tier 1 tariff payable under the GB RHI Scheme (in pence per kilowatt hour – ‘p/kWh’) would exceed both the cost of the relevant fuel and the cost of production of a unit of the relevant heat (both in p/kWh), and the measures (if any) adopted in the GB RHI Scheme to ensure that this did not lead to over-compensation, incentivise waste, or lead to the generation of non-useful heat in the circumstances.
9. Explain (if known) the reasoning behind the decision to grant approval of the GB RHI Scheme and identify the document(s) within which such approval is contained.
10. Set out:
 - a. Any conditions upon which the said State Aid approval was based or to which the said State Aid approval was subject (e.g. that there would be no over-compensation);
 - b. Any assumptions upon which the said State Aid approval was based (e.g. that the load factor of eligible biomass installations would not generally or significantly exceed the percentage used in the calculation of the relevant tariff);
 - c. Any representations upon which the said State Aid approval was based (e.g. that the UK would monitor the operation of the Scheme and/or review the Scheme and/or notify the Commission if any key assumptions proved to be incorrect or if any conditions upon which approval was based were not satisfied).
11. Summarise the obligations placed upon the UK by the State Aid approval decision in respect of the GB RHI Scheme including the following:

- a. The obligation (if any) to ensure that any conditions upon which approval was based, or to which it was subject, were met and/or continued to be met;
- b. The obligation (if any) to ensure that any assumptions upon which approval was based were correct and/or continued to be correct;
- c. The obligation (if any) to ensure that any representations upon which approval was based were correct and/or continued to be correct;

and, if the Commission and/or European Law required the UK to take certain steps or classes of step so as ensure compliance with such obligations (such as periodic monitoring and review of the GB RHI Scheme or notification to the Commission of any significant breaches of such obligations or otherwise), please also provide details of same.

12. Summarise the steps taken by the UK, regardless of whether it was required to take them by the Commission or under Community Law, so as ensure compliance with the obligations to which reference is made in the preceding paragraph.

Funding for the GB RHI Scheme and Related Issues

13. Set out the precise source, category (such as, for example, 'Annually Managed Expenditure' or 'Departmental Expenditure Limit'), level, and terms of the funding for the GB RHI Scheme.
14. Clarify whether the Department, at any time, considered the possibility of the GB RHI Scheme being funded, either wholly or in part, by means of a levy upon energy consumers and/or commercial entities in the energy sector, and, if applicable, summarise the consideration given by the Department to the levy issue (including details of when it was considered and why a levy model was not adopted).

15. Clarify whether the type of aid provided under the GB RHI Scheme, in particular whether it was investment aid (capital support) or operating aid (ongoing support), had any bearing upon any of the following issues (and, if it did have a bearing upon them, provide full details of same):

- a. The precise source, category, level, and terms of the funding for the Scheme;
- b. The grant of State Aid approval for the Scheme.

16. Summarise the dealings (if any) between the Department and each of:

- a. Her Majesty's Treasury;
- b. DETI;
- c. Department of Finance and Personnel for Northern Ireland;

regarding –

- i. The source of the funding for the NI RHI Scheme (e.g. whether it was to be from HM Treasury or DECC);
- ii. The mode of calculating the funding available for the NI RHI Scheme (e.g. whether it was to be calculated by reference to the funding available for the GB RHI Scheme);
- iii. The precise source, category (such as, for example, 'Annually Managed Expenditure' or 'Departmental Expenditure Limit'), level, and terms of the funding for the NI RHI Scheme.

Risks, Monitoring, and Review of the GB RHI Scheme

17. State whether a Risk Register or other similar document was created in respect

of the GB RHI Scheme and, if applicable, provide the following additional information:

- a. Details of every risk identified in respect of the Scheme;
 - b. The approximate date by which each such risk was (i) identified and (ii) entered in any relevant Risk Register or other similar document;
 - c. The measure(s) identified for reducing or avoiding each risk;
 - d. The measure(s) actually adopted to reduce or avoid each risk including the approximate date of adoption of each measure;
 - e. The measure(s) adopted to ensure that every relevant employee was aware (i) of each relevant risk and (ii) of each measure identified or adopted for reducing or avoiding same.
18. Summarise the system (if any) that the Department had in place for monitoring the operation of the GB RHI Scheme.
19. Summarise the system (if any) that the Department had in place for reviewing the GB RHI Scheme.
20. Provide a summary of any actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues of which the Department became aware in respect of the GB RHI Scheme, whether by reason of the monitoring and/or review of the Scheme or otherwise, including details of when each such issue arose.
21. Provide a summary of every measure adopted by or on behalf of the Department to address any actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues of which it became aware in respect of the GB RHI Scheme, whether by reason of the monitoring and/or review of the Scheme or otherwise, including details of when each such measure was adopted.

22. Without prejudice to the generality of the foregoing request:

- a. Explain, in the context of the Renewable Heat Incentive Scheme (Amendment) Regulations 2012, the actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues that the Department intended to address by the introduction of a power to suspend the GB RHI Scheme to further entrants (including details of when the Department first became aware of the relevant risk, flaw, etc., as well as a chronology of the Department's actions thereafter in terms of taking advice, engaging in public consultation, having Regulations drafted, etc.);
- b. Explain, in the context of the Renewable Heat Incentive Scheme (Amendment) Regulations 2013, the actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues that the Department intended to address by the introduction of a 'degression' mechanism (including details of when the Department first became aware of the relevant risk, flaw, etc., as well as a chronology of the Department's actions thereafter in terms of taking advice, engaging in public consultation, having Regulations drafted, etc.);

23. Summarise the success of the measures to which reference is made in paragraphs 20 and 21 above, or any other such measures adopted by the Department (whether in the form of amendment to the GB RHI Scheme or otherwise), in addressing any actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues arising in respect of the Scheme.

24. Clarify whether any of the measures to which reference is made in paragraphs 20 and 21 above, or any other such measures adopted by the Department (whether in the form of amendment to the GB RHI Scheme or otherwise), were adopted in response to information provided to the Department by GEMA / OFGEM and, if they were so adopted, provide a summary of each such instance identifying the problem, trend, issue, etc. highlighted by GEMA /

OFGEM, the approximate date when same was highlighted, and the approximate date by which the relevant measure was taken.

25. Clarify, in respect of each of:

- a. the actual or potential risks, flaws, problems, loopholes, anomalies, spikes, or other issues to which reference is made in paragraphs 20 to 24 above;
- b. the measures to which reference is made in paragraphs 20 to 24 above;
 - i. whether, and if so when and through what means, the Department communicated details of same to DETI;
 - ii. (in the event that the Department did not communicate details of any particular risk, flaw, etc. or measure adopted to DETI) whether, and if so when and through what means, DETI would nonetheless have become aware of same.

26. Confirm whether the Department (or any other part of the UK Government, including GEMA / OFGEM) has commissioned any investigation, study, appraisal, evaluation, review, or similar exercise in respect of the GB RHI Scheme and its operation which, even if only in part, compares that Scheme to the NI RHI Scheme and/or addresses the question of whether the GB RHI Scheme is vulnerable to any of the problems that have emerged in the operation of the NI RHI Scheme. If any such work has been commissioned, please provide the following details:

- a. the date when each such piece of work was commissioned;
- b. the person or body to whom each such piece of work was entrusted;
- c. the brief, terms of reference, and/or instructions issued to each such person or body;

- d. the date when each such person or body produced its written report or similar document (including any preliminary or interim report) or the future date when any such document is expected to be produced;
- e. a summary of the outcome of each such investigation, study, appraisal, evaluation, review, or similar exercise.

GEMA / OFGEM

27. Explain in detail the role that GEMA / OFGEM undertook in relation to the operation of the GB RHI Scheme including, in particular, the following:

- a. Its administration function;
- b. Its monitoring function;
- c. Its reporting function;
- d. Its advisory function;
- e. Any other function(s) it undertook in respect of the Scheme (e.g. promotion of the Scheme).

28. Set out, in respect of the operation of the GB RHI Scheme, the following:

- a. The classes of information obtained and held by GEMA / OFGEM including, for example, numbers of applications, numbers of accreditations, size of each relevant boiler, precise business of each accredited applicant, usage levels, payments made, and inspections undertaken;
- b. Any classes of information not originally obtained and held by GEMA but which, during the currency of the Scheme, GEMA began to obtain and/or

hold and the precise reason(s) for such a change in practice;

- c. The classes of information ordinarily shared by GEMA / OFGEM with the Department on a periodic basis;
- d. Any classes of information not shared by GEMA / OFGEM with the Department and the reason(s) for this omission;
- e. The approximate level and frequency of communication between GEMA / OFGEM and the Department during, and concerning, the operation of the GB RHI Scheme;
- f. The names of the GEMA / OFGEM personnel with responsibility for its work in respect of the GB RHI Scheme.

Dealings with Persons or Bodies Involved in the NI RHI Scheme

29. Summarise the dealings (if any) which officials in the Department had with officials in the Northern Ireland Department for Enterprise Trade and Investment ('DETI', now the Department for the Economy) and/or officials in the Northern Ireland Department for Finance and Personnel ('DFP', now Department of Finance) and/or persons acting on behalf of DETI or DFP (e.g. expert consultants such as Cambridge Economic Policy Associates, Ricardo AEA, et al) regarding any of the following issues:

- a. The design and creation of the GB RHI Scheme;
- b. The implementation and operation of the GB RHI Scheme;
- c. The design and creation of the NI RHI Scheme;
- d. The implementation and operation of the NI RHI Scheme;
- e. (Without prejudice to the generality of the foregoing) the source, category, and terms of the funding for both Schemes;

- f. (Without prejudice to the generality of the foregoing) the possible risks associated with such RHI Schemes and the means of reducing or eliminating same;
- g. (Without prejudice to the generality of the foregoing) the possible lessons to be learned from the GB RHI Scheme (which came into operation approximately 1 year prior to the NI RHI Scheme and had a greater level of uptake);
- h. (Without prejudice to the generality of the foregoing) the issue of tiering of tariffs, particularly in respect of biomass heating technology, and the rationale for tiering;
- i. (Without prejudice to the generality of the foregoing) the content and drafting of the Regulations introducing each Scheme;
- j. (Without prejudice to the generality of the foregoing) the issue of suspension and review powers in respect of either Scheme;
- k. (Without prejudice to the generality of the foregoing) the issue of costs controls and other budgetary issues in respect of each Scheme.

General

30. Provide any further evidence within your knowledge or belief that is relevant to the matters which the RHI Inquiry is investigating as set out in the RHI Inquiry's Terms of Reference.



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RHI Inquiry
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8 Laganbank Road
Belfast
BT1 3LY

Patrick.Butler@rhiinquiry.org

28 July 2017

Dear Mr Butler,

Re: The Independent Public Inquiry into the Northern Ireland Non-Domestic Renewable Heat Incentive (RHI) Scheme

Thank you for your letter of 3 July providing the opportunity to input to the Northern Ireland Non-Domestic Renewable Heat Incentive Inquiry. This letter addresses the issues set out in your enclosed schedule, and provides copies of relevant documents at Annex A.

Rather than respond to each of your questions in turn, I have grouped them together under three areas:

- a) background to the set-up of the RHI scheme in Great Britain;
- b) an overview of the of how the scheme has evolved over time; and
- c) the Department's relationship with Ofgem e-Serve.

I have also attached, at Annex B, a more detailed timeline of how the GB RHI scheme has been amended to take into account new evidence and ensure it remains value for money.

Background to the Great Britain RHI scheme

Powers for the Renewable Heat Incentive in Great Britain (the GB scheme) were taken in the Energy Act 2008. The GB scheme was introduced in 2011 to support the transition from conventional forms of heating to renewable, low carbon sources of heat. Ofgem E-Serve administer the GB scheme on behalf of the Government.

Section 113 of the Energy Act 2011 contains provisions to enable the Northern Ireland Executive to make regulations to introduce and operate a Renewable Heat Incentive scheme in Northern Ireland.

When doing its initial work on the GB scheme, the then Department for Energy and Climate Change (DECC) commissioned research from a number of independent bodies on the design of a measure to bring forward renewable heat, starting from 2007. This considered international comparators at the time and used the best evidence available to form the basis of a consultation to gather further evidence. This work is publically available, and I include links at Annex A.

The size of the team working on the GB scheme in DECC and now the Department for Business, Energy and Industrial Strategy (BEIS) has varied with time. In 2008, at the very early stages of scheme design, the GB scheme was resourced with two Grade 6 policy officials and one Grade 7 policy official. The team was headed by a Senior Civil Servant (SCS) who was also responsible for the Renewables Obligation and Feed in Tariffs. By September 2011, the team working on the GB scheme itself was headed by one SCS with a team of 8. By December 2013, the size of the team had increased to 77 people, including 3 SCS and 6 Grade 6 policy officials heading teams responsible for operational delivery and policy development across both the Domestic and Non-Domestic parts of the GB scheme. At this time the GB scheme was included in the Government's Major Projects Portfolio (GMPP). The GB scheme exited the GMPP in February 2015, and as is appropriate for a policy transitioning into Business As Usual activities, the size of the team has since reduced.

Currently, the team has 20 staff responsible for operational delivery and policy development across the Domestic and Non-Domestic parts of the GB scheme, including 2 Grade 6 policy officials and 6 Grade 7 policy officials, and is headed by one SCS, who is also responsible for wider policy on heat in buildings.

For further details of the size of the department and its annual budget, I refer you to DECC's (and now BEIS's) publically available Annual Reports. Links to these are included at Annex A.

Development of the GB scheme

The 2009 Renewable Energy Strategy (RES) set out the indicative contributions from heat, transport and electricity that would be required to reach the legally binding EU Renewable Energy Directive target of 15% of UK energy coming from renewable sources by 2020. The RES set out an initial expectation that heat might contribute around a third of this effort through the transition toward 12% of UK heat demand (72TWh) coming from renewable sources by 2020.

When the GB scheme was introduced in 2011, it was the main policy instrument to support heat's contribution towards the UK's target for renewable energy. The budget for the GB scheme was set until 2014/15. At the end of this period, the Government decided on a further one-year spending period, covering the 2015/16 financial year.

During this first period of the GB scheme, DECC developed its understanding of the UK renewable heat market, the performance of the different technologies, and the barriers to take-up. A number of adjustments were made to the GB scheme rules as a result. In addition, the Domestic GB scheme was successfully launched in 2014.

The next major set of changes to the GB scheme were announced in the 2015 Spending Review. This Spending Review set the GB scheme's budget to 2020/21. At the same time,

Ministers also decided to rebalance the GB scheme's objectives more towards decarbonisation, while also improving value for money and cost control. This reform package was consulted on in 2016, and regulations to introduce the reforms had been tabled in Parliament prior to the 2017 election.

BEIS does not hold records of any discussion with the Northern Ireland Executive in relation to the design or operation of the Northern Ireland Renewable Heat Incentive in the period between the Energy Act 2011 being passed, and March 2016, when the Department of Enterprise, Trade and Investment confirmed the closure of the RHI scheme in Northern Ireland. There is no record of advice being provided on the Northern Ireland Renewable Heat Incentive scheme's compliance with EU law.

BEIS (and DECC) has engaged closely with the Welsh and Scottish Governments on all amendments to the GB scheme, and informed the Northern Ireland Executive in parallel. The consultation documents and Government Responses relating to GB scheme amendments are publically available, and links are attached at Annex A. The main changes made to the GB scheme are set out at Annex B.

BEIS (and DECC) has gained State Aid approval for each significant change to the GB scheme. Links to the publically available State Aid approval letters are attached at Annex A.

Relationship with Ofgem E-Serve

The relationship between BEIS and Ofgem E-Serve is managed centrally through a Memorandum of Understanding. Ofgem E-Serve administer a number of schemes on behalf of the department, including the GB scheme. The E-Serve Sponsor team within the department is responsible for monitoring and coordinating information and engagement on spending, KPIs, risks, scheme governance and on other issues such as fraud and the value for money of E-Serve's delivery. The Sponsor team also liaises with E-Serve on the production of reports on performance, budget-spend and IT projects, and is responsible for their dissemination within the department and the co-ordination of responses to E-Serve.

In addition, the team in BEIS responsible for the GB scheme maintains a close working relationship with Ofgem. The RHI Operations team in BEIS oversees Ofgem's delivery of the GB scheme, including financial regularity, the Biomass Suppliers List (a list of sustainable woody biomass fuels, managed by GemServe), approvals processes for other sustainable fuels, management of monthly transfer of payments to Ofgem, annual budgeting oversight, half-yearly and annual reviews, resolution of operational issues between Ofgem and BEIS, oversight of scheme performance and liaison with the BEIS Sponsor team on scheme performance and spend issues. The RHI Operations team is responsible for operational readiness for implementation of regulatory changes (for example, ensuring guidance is ready and consistency between GOV.UK and Ofgem websites) and facilitates the sign-off process for a special Project Board which test readiness before operational 'go live'.

The relationship between Ofgem and BEIS in relation to the GB scheme is formalised at working level by reciprocal governance arrangements: Ofgem chair a monthly RHI scheme board, which is attended by the BEIS RHI team; BEIS chair monthly RHI Project Boards and quarterly Operations Boards, which are attended by Ofgem. Outside of these meetings, the

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BEIS team has routine interactions with Ofgem, including the management of operational risks and issues.

Ofgem and BEIS both have risk and issue management processes for the GB scheme. The Ofgem risk register is reviewed on a monthly basis at the Ofgem RHI RHI scheme board, while the BEIS risk register is owned and reviewed by the monthly RHI Project Board. Risks may be escalated to the overarching BEIS Heat Programme Board. Additionally, BEIS manages a register of operational risks. This is reviewed on a monthly basis by Ofgem and BEIS operational leads and feeds into the BEIS RHI risk register. There is also a Joint Risk Appetite Statement, which is owned by both BEIS and Ofgem. This is reviewed annually.

Key monitoring information for the GB scheme includes the monthly Business Information Pack produced by Ofgem, risk registers and reporting cycles on non-compliance and fraud. Further monitoring of application data is being developed with Ofgem.

I trust this information is useful to you in carrying out the Northern Ireland RHI Inquiry. I understand that you have also asked questions of Ofgem, GEMA, HM Treasury and the European Commission, which it will be appropriate for those bodies to answer. I have not therefore provided answers on their behalf in this letter, although where information is in the public domain I have signposted to it in Annex A.

Yours faithfully,



Dan Osgood
Director, Heat & Business Energy

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E dan.osgood@beis.gov.uk

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Annex A**Relevant documents****1. External research that informed GB scheme design**

2008 NERA Phase 1 report – Qualitative Evaluation of Financial Instruments for Renewable Heat

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42968/1_20090501131446_e_NERARenewableHeatPhase1Complete080623.pdf

2008 NERA Phase 2 report – Quantitative Evaluation of Financial Instruments for Renewable Heat

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42960/1_20090501125320_e_NERARenewableHeatPhaseIIReportFinalrev.pdf

2010 NERA report – Design of the RHI

http://www.nera.com/content/dam/nera/publications/archive1/PUB_DECC_Feb2010.pdf

2013 Sweett Group report – Research on the costs and performance of heating and cooling technologies

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/204275/Research_on_the_costs_and_performance_of_heating_and_cooling_technologies_Sweett_Group.pdf

2. DECC and BEIS Annual reports and accounts

<https://www.gov.uk/government/collections/decc-annual-reports-and-accounts>

<https://www.gov.uk/government/publications/beis-annual-report-and-accounts-2016-to-2017>

3. Consultations and Government Responses on the GB RHI scheme

2010 – Renewable Heat Incentive: Consultation on the proposed RHI financial support scheme

<https://www.gov.uk/government/collections/decc-annual-reports-and-accounts>

2011 – Renewable Heat Incentive policy statement

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48041/1387-renewable-heat-incentive.pdf

2012 – Consultation and Government Response on RHI: Proposals for a Domestic Scheme

<https://www.gov.uk/government/consultations/renewable-heat-incentive-proposals-for-a-domestic-scheme>

2012 – Consultation and Government Response on RHI: expanding the Non-Domestic Scheme

<https://www.gov.uk/government/consultations/renewable-heat-incentive-expanding-the-non-domestic-scheme>

2012 – Consultation and Government Response on RHI: air to water heat pumps and energy from waste

<https://www.gov.uk/government/consultations/renewable-heat-incentive-air-to-water-heat-pumps-and-energy-from-waste--2>

2012 – Consultation and Government Response on RHI: Providing Certainty, Improving Performance

<https://www.gov.uk/government/consultations/renewable-heat-incentive-providing-certainty-and-improving-performance>

2013 – Non-Domestic RHI early tariff review

<https://www.gov.uk/government/consultations/non-domestic-rhi-early-tariff-review>

2014 – RHI biomethane injection to grid tariff review

<https://www.gov.uk/government/consultations/rhi-biomethane-injection-to-grid-tariff-review>

2016 – Consultation and Government Response on RHI: A reformed and refocused scheme

<https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme>

2017 – Consultation on RHI: support for biomass-Combined Heat and Power

<https://www.gov.uk/government/consultations/renewable-heat-incentive-support-for-biomass-combined-heat-and-power>

4. GB RHI statistics

Domestic RHI monthly and quarterly forecasts for estimated committed expenditure

<https://www.gov.uk/government/publications/domestic-rhi-mechanism-for-budget-management-estimated-commitments>

Non-Domestic RHI monthly and quarterly forecasts for estimated committed expenditure

<https://www.gov.uk/government/publications/rhi-mechanism-for-budget-management-estimated-commitments>

RHI statistics

<https://www.gov.uk/government/collections/renewable-heat-incentive-statistics>

5. GB RHI evaluations

<https://www.gov.uk/government/collections/renewable-heat-incentive-evaluation>

6. State Aid Approvals

2011 – State Aid case SA.32125 (RHI)

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 32125

2013 – State Aid case SA.37562 (Amendments to Non-Domestic scheme)

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 37562

2013 – State Aid case SA.35766 (Extension of RHI to the Domestic sector)

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 35766

2013 – State Aid case SA.36345 (RHI – Air Quality requirements)

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 36345

2016 – State Aid case SA.44622 (Modification of the RHI scheme)

http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 44622

Annex B**Main Scheme developments on the GB Non-domestic RHI (NDRHI):**

- The Non-domestic Renewable Heat Incentive Scheme in Great Britain (the NDRHI) was launched in November 2011 covering ground source heat pumps, air source heat pumps, biogas, biomass (including district heating and combined heat and power (CHP)), and solar thermal.
- In July 2012, the Government had launched an interim cost control mechanism, which was to suspend the scheme until the next financial year if estimated spend should breach the scheme's budget, with a view to introducing more sophisticated measures at a later date. The interim measure was never used.
- In September 2012, the Government consulted on expanding the NDRHI.
- In February 2013, Government announced the introduction of deggression as a mechanism to control the NDRHI budget.
- In January 2013, the Government confirmed its intention to review tariffs for the NDRHI in response to low-take up. A consultation was published in May 2013.
- In September 2013, the Government simplified metering requirements for the NDRHI by requiring the minimum number of meters necessary to calculate scheme payment. At the same time, air quality requirements were introduced, requiring all applicants with biomass boilers to submit an RHI emission certificate (<https://www.ofgem.gov.uk/publications-and-updates/getting-emissions-certificates-right-renewable-heat-incentive>) or a valid environmental permit with their application.
- In May 2014 the NDRHI was expanded to include air-water heat pumps and commercial and industrial energy from waste and tariffs were increased for biomass CHP, biomass boilers >1MW, deep geothermal, ground source heat pumps, solar-thermal and biogas combustion.
- In December 2014, the Government published final decisions relating to a review of the tariff for biomethane injection to grid, following consultation. This introduced a three-tier tariff structure, recognising the important role of large-scale biomethane plant in the NDRHI while ensuring value for money in the use of NDRHI budgets and compliance with State Aid conditions.
- As of 5 October 2015, fuel sources and supplies from must meet sustainability requirements. A Biomass Suppliers List (BSL) was produced and is available [here](https://biomass-suppliers-list.service.gov.uk/) (<https://biomass-suppliers-list.service.gov.uk/>). Suppliers on this list should meet the standards required which can be found [here](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/405252/biomass_info_sheet_general_docx_Feb15.pdf) (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/405252/biomass_info_sheet_general_docx_Feb15.pdf).
- In November 2015, the Government confirmed continued funding for the RHI for the next five years, rising from £430m in 2015-16 to £1.15bn in 2020-21 and committed to reforming the scheme.

GB Domestic RHI (DRHI)

- To cover the period before the launch of the Domestic Renewable Heat Incentive Scheme in Great Britain (the DRHI), the Government launched a short-term voucher scheme – the Renewable Heat Premium Payment (RHPP) - in August 2011. The RHPP was a grant scheme designed to partially cover the upfront costs of renewable technologies (solar thermal panels, heat pumps and biomass boilers). Three rounds of the RHPP took place in the period up to domestic RHI launch. The RHPP closed on 31 March 2014. To assist applications to the RHPP, the Government consistently made clear that domestic installations since July 2009 would be eligible (subject to final DRHI eligibility criteria). This was first announced in the July 2013 response to the consultation on launching a domestic scheme.
- In April 2014, the Government launched the DRHI.

Both GB RHI Schemes - 2016 Reforms onwards

- Scheduled reviews (2014 for the NDRHI and 2015 for the DRHI) – were both covered as part of Spending Review processes.
- In March 2016, the Government made [further amendments to eligibility](https://www.gov.uk/government/publications/renewable-heat-incentive-amendments-to-scheme-eligibility/renewable-heat-incentive-amendments-to-scheme-eligibility) (<https://www.gov.uk/government/publications/renewable-heat-incentive-amendments-to-scheme-eligibility/renewable-heat-incentive-amendments-to-scheme-eligibility>) for the NDRHI and DRHI. This included simplifications to the customer journey, such as removing the requirement for a Green Deal Assessment as an eligibility requirement for the DRHI.
- DECC took a decision at Spending Review 2015 to move from using RPI to CPI to set NDRHI and DRHI tariffs. This change was implemented in 2016, enabling the scheme to deliver more for less cost.
- In March 2016, the Government also consulted on major reforms to the NDRHI and DRHI.
- In July 2016, the Government changed the eligibility requirements for the biomass CHP tariff to address a risk of over-compensation on the NDRHI. The Government published a consultation on support for biomass CHP in February 2017.
- In December 2016, the Government published its response to the NDRHI and DRHI reform consultation. Implementation of these reforms has been delayed by the General Election. Work is ongoing to minimise the impact of the delay on the renewable heat industry and applicants to the NDRHI and DRHI.