Exhibit DJN3 - Monthly data in relation to the NI RHI Scheme

The following table summarises a snapshot of information available in Ofgem’s Register, as prepared in May 2017, for the period to end of April 2017.

We note that a single installation, may on occasion be put forward by an applicant as an application on more than one occasion (for example, if there is a change in circumstances prior to the initial application being submitted). Further, there are still a small number of applications where Ofgem have yet to determine accreditation or rejection of an application, including those where further evidence has been requested but is still outstanding.

Quantities for the amount paid have been provided, based on payments processed and for which Ofgem had instructed funds to be provided into the owner’s bank account, at the time of preparing this data set. The eligible heat output column, provides the associated eligible heat output (in units of thermal energy, kWh) associated with those payments. Further cumulation of figures would be available on request as required.

<table>
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<th>Month</th>
<th>Applications submitted online (including preliminary applications)</th>
<th>Applications Submitted - sum of Installation Capacity (kW)</th>
<th>Approved Full Applications</th>
<th>Applications - Rejected, Withdrawn or Cancelled</th>
<th>Total Amount Paid (£)</th>
<th>Eligible Heat Output for which payments have been made (kW)</th>
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**Total Amount Excluded:** £ 1,135,988,008
27/15 - Call Ken with Glym

Purchase order to Glym - check with Sales.
Let Tari know.

NT RHI applicants (eg) for Ten or high or GST!!

more than one builder

Heating system definition - not defined in NT scheme
* heating definition needed (technical) **
this rule hydraulically linked to one system

Air 2

Extension of 0.35 to 200kW should have

Distinct heating to be used (shift)

Does this fit in MEC consideration?

Domestic / Non Domestic application check

Declaration based approach - would work

Right code increase over time e.g. for houses

Single phased heat with office

Data saved back from Glym this week

Next meeting - Regular meeting going forward

On a monthly basis

Last week meeting each week.
The email thread below and attachment refers.

I had attempted to contact Jon Parker in HMT but I received a bounce back on my emails and the phone number I have is also dead. I am attempting to locate an appropriate contact in HMT but this is not forthcoming as yet, hence this alternative approach to DECC in the first instance.

If you are the wrong person to assist with the query perhaps you could re-direct me.

Apologies for the unannounced approach but we are keen to get some clarity around the Northern Ireland RHI budget going forward.

Many thanks in advance.

Regards

Seamus

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Web: www.detini.gov.uk

Good afternoon Jon

Apologies at the outset for this email out of the blue on foot of the old correspondence below but we are trying to establish the position with the Northern Ireland RHI budget going forward from 2015/16. I’m not sure if you are still involved in this work area but if not perhaps you could redirect me to the appropriate person. In addition I am also attaching a copy of correspondence from Gregory Barker MP to our Minister in January 2014 confirming that the Northern Ireland RHI budget would come from the £430m figure agreed for the GB RHI scheme.

We are keen to establish clarity around the budget and perhaps an initial step following this email would be to set up a teleconference over the coming period to talk through the issues?

Both Stuart and myself have both recently joined DETI and therefore were not involved in the early discussions. The Northern Ireland RHI has been in operation now since November 2012 for the non – domestic sector and was extended to the domestic sector in December 2014 and RHI uptake has been good and is increasing.

Best Regards

Seamus
From: Wightman, Stuart  
Sent: 25 March 2015 14:10  
To: Thompson, Sandra  
Cc: Dolaghan, Paul; Hughes, Seamus; Mills, John (DETI)  
Subject: RHI Budget - Northern Ireland

Sandra

Please see email exchange below and attachment concerning the Northern Ireland RHI budget. We made contact with HMT for advice but have been directed to DFP. We are seeking some clarification around the future NI RHI budget. As you are aware, the level of uptake of the Non-domestic scheme has increased significantly over the last few months and we’re expecting uptake to remain high with over 200 new applications for biomass heating systems from the poultry industry (linked to Moy Park’s expansion) expected over the coming 12 months. With RHI payments for accredited non-domestic heating installations committed for 20 years, it is important we manage our budget carefully. In addition, with the introduction of the full domestic RHI scheme in December 2014, we now have the added pressure of annual domestic tariff payments.

We were originally allocated £25M for the 4 years from 11/12 to 14/15 (£2M-11/12, £4M-12/13, £7M-13/14, £12M-14/15) and to end 2014/15 we will have spent £7.88M. However with the increase in uptake recently, the rolling estimated monthly RHI spend has risen to around £928k which we are assuming will increase by an additional £64k for new accreditations each month (£60k non-dom / £4k dom). Based on these figures our projected total monthly RHI spend will have reached £1.68M by March 2016 and £2.496M by March 2017. **The corresponding projected annual spends will be £16M in 15/16 and £25.5M in 16/17.** I’m therefore keen to identify the total RHI budget going forward to ascertain if any tariff reductions will be needed. We’ll be making amendments to the Non-Domestic RHI Regulations later this year which provides an opportunity to introduce future tariffs reductions if necessary. We basically need to know what our maximum budget is going forward so we can try to manage future scheme uptake/tariffs to manage costs.

It is worth highlighting that our current projections might be a little conservative with the numbers of applications we’re expecting from the poultry industry during 16/17. If we allowed to carry over the remaining £17.12M (we haven’t spent) this might cover our payments for 15/16 but I would be much happier if I knew we also had our 15/16 allocation on top of this. This would enable us to continue to accept new applications during 15/16 safe in the knowledge that we will not overspend. We would also like some clarity around our likely budget from 16/17 onwards however I realise that this probably won’t be possible until sometime after the Parliamentary elections.

In summary, our queries around the RHI budget are:

1. Can the unspent balance of £17.12M from the original £25M be carried forward into 2015/16;  
2. Have we received a budget allocation for 2015/16 which based on our current understanding would be 3% of the DECC allocation (£430M) which would equate to £12.9M.  
3. Can any clarity be provided on the maximum annual budget available from 16/17 onwards or is this determined by our own AME profile.

Urgent clarification on the above matters from DETI Finance Branch and DFP would be appreciated so we
Hi Nadia

I’m not sure who the appropriate person is in Ofgem but Stuart thought it would be worthwhile making you aware of potential RHI applications from Moypark growers for biomass boilers. Indications are that there will be a significant number of applications coming forward before the end of 2015, and indeed beyond that as Moypark seeks to move all growers towards biomass heating.

Regards

Seamus

Seamus Hughes
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Department of Enterprise, Trade & Investment
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Web: www.detini.gov.uk

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

From: Wightman, Stuart
Sent: 14 April 2015 12:29
To: Hughes, Seamus
Subject: RE: Moypark - Poultry shed Biomass update

Thanks Seamus, I suggest we pass this info onto Ofgem.

Thx, St

From: Hughes, Seamus
Sent: 14 April 2015 12:15
To: Wightman, Stuart
Cc: Sinton, Dan
Subject: Moypark - Poultry shed Biomass update

Stuart

I spoke to David Mark in Moypark for an update on the poultry shed biomass heating project. He tells me that Moypark has a total of 782 poultry sheds and to date 360 of these, (36%) have converted to biomass with the expectation that they will achieve 60% by the end of this year, (a further 109 sheds). In addition, they are planning to build 45 new poultry sheds before the end of the 2015 and all of these will be on biomass.

I would presume that as things currently stand these are all likely to be 99kW boilers.

Regards
Seamus

Seamus Hughes
Energy Efficiency Branch
Department of Enterprise, Trade & Investment
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Belfast, BT4 2JP
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TextRelay: 18001 028 9052 9532
Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?
Grid Connections/ ETI Committee Review
- Grid connection response now issued to ETI Committee.
- ETI Committee wish to discuss on 28 April

Review of Small Scale ROC levels
- Biomass sustainability consultation response issued and noted by the Committee.
- Notification to EU completed – 3 month standstill period commenced.

RO/ NIRO Closure Order / grace periods
- Grace period & transition grace consultation closed 15 April. Couple of late responses agreed (NIE & NIRIG) to be here by end week.
- Energy Amendment Order tabled for debate 11 May. NIRO Amendment order (for small scale PV) drafted and still with DSO for final checking.
- Closure Order drafted but not cleared by DSO. Subject to outcome of consultation. Aiming to get to DSO early May for clearance. Needs to be laid by early June.
- SL1 for closure order to be with HoD by early May.
- Working through consolidated order – SL1 to be with HoD by June.

Small Scale FIT
- DECC has agreed to NI being included in SS FIT review.
- Agreed text included in grace period consultation
- DECC has commissioned a consultant to gather data of existing small scale projects.

Community Energy
- Drafting of DETI aspects of Action Plan complete – almost ready to circulate to other Departments for completion before seeking comment from HoD.
- Community benefits register – fields agreed. IT work agreed in principle but to be actioned depending on IT branch / NI Direct workload – anticipate up and running in April – official launch date to be agreed /aligned with Plan.

Other
- DFP Rating – DETI Minister has written to DFP counterpart requesting a meeting – no date has yet been arranged.
- Planning – SPPS Executive paper being tabled again on 16 April.
- Offshore decommissioning – briefing paper being drafted for HoD on key issues - need 30 minute meeting with HoD to agree way forward in next few weeks.

ENERGY EFFICIENCY (STUART)

RHI Phase 1
- Carbon Trust loan issue now resolved Data sharing Protocol agreed with Ofgem
  Uptake under the scheme has increased over the last few months with NI application numbers at 5% of total GB figures in January. Current estimates show that around 3.1% of total heat is provided by renewable technologies.
- Rolling monthly expenditure is close to £1m. Currently working with DETI Finance to try and obtain some clarity around future RHI budgets. Due to recent increases in uptake of Non-domestic Scheme, consideration is now being given to including future tariff reductions for the most popular biomass tariff as part of the Phase 2 proposals.
- RHI schemes to be audited by DETI Internal Audit during 2015/16.
| **SH** | Well what basically happened, we still get and would have done at that stage weekly application reports from Ofgem and we would have been keeping an eye on the number of applications that came in weekly and from about I suppose maybe April / May of '15 it started that the numbers were going up and we realised.... |
| **CK** | In terms of applications? |
| **SH** | In terms of applications so we realised OK we need to maybe look at this there’s something, we’re seeing something happening here and that clearly brought things into focus in terms... and around that same time then we had the issue with the money, the clarification of it, was it AME money, was it AME... and all of that fed into the mix and sort of it became clear that we needed to move on to run the risk of having budgetary issues and we needed to move to do something about it. |
| **CK** | How did the AME, we’ll deal with that first, the AME issue raise its head? |
| **SH** | The AME issues raised its head Clare very late in the day to be frank, it was well into 2015 because we were of the view from day 1 that it was AME money, it was demand led money, you had a scheme here and we didn’t really know if many people were going to take it up so like free bus passes or any of the other AME type projects... |
| **CK** | Yeah |
| **SH** | We were under no, we had no concerns there was anything and basically in the early days the view would have been we’ll if we need more money some people are going to have to ask for it from treasury to be able to get it and then it became clear that wasn’t necessarily the case and that there was an issue. |
| **CK** | And do remember know how that became clear or how someone picked up on that? |
| **SH** | I think what happened was the email was found in the system. |
| **CK** | Just for the purposes of the tape it’s now 2.30 and Ian McConnell from PwC has joined the interview. So Seamus we were just covering off the AME and how that had been brought to your attention and how you wanted to actually share how that had been brought to your attention. |
| **SH** | Yeah well I think it came it was possibly Stuart to find the email or somebody brought to his attention and then I would have been aware of it by him |
| **CK** | Yeah OK |
| **SH** | Because as I say I think it was only found by accident |
| **CK** | And can you remember roughly so March 2015 and the application numbers were showing as spike |
| **SH** | Yeah well they started to rise I suppose really from April, there was a rise probably in March over the previous months but it was really when they started to show consistent rises through April / May time |
| **CK** | OK |
| **SH** | And we realised, yes there is something happening here |
Review of Small Scale ROC levels
- Notification to EU completed on biomass on 3 month standstill period - standstill period ends early July.

RO/ NIRO Closure Order / grace periods
- Submission on small scale grace period options with HoD – but agree more general submission will issue first.
- Closure Order drafted as far as possible but not cleared by DSO. Cannot be completed until Ministerial decision on grace periods. Needs to be laid in June.
- SL1 for closure order to be with HoD in June.

Small Scale FIT
- Teleconference on NI’s inclusion scheduled for 14 May.
- DECC meeting on SS FiT review with other DAs 4 June – Scotland and Wales travelling to London to attend – might be worth NI (Michael H) attending as well.

Community Energy
- Draft Action Plan completed – to be circulated next week with 3 weeks to respond. Final draft will be with HoD in June.

Other
- Planning – SPPS Executive paper being tabled again on 14 May.
- Offshore decommissioning – submission being drafted for Minister to write to NIO (again) and Crown Estate in an effort to move this forward.

ENERGY EFFICIENCY(STUART)

RHI Phase 1
- Uptake of Scheme has increased over recent months with NI applications at 5% of total GB figures in January. Current estimates show that @ 3.1% of total heat is provided by renewable technologies.
- Rolling monthly expenditure is around £1.2m. Consideration being given to future tariff reductions for most popular biomass tariff as part of Phase 2 proposals.
- RHI schemes to be audited by DETI Internal Audit during 2015/16.
- RHI 14/15 ‘Energywise’ campaign completed. GAU contract with Navigator Blue ends in August 2015. Consideration is being given to incorporating future Energywise needs into HEaT initiative.

RHI Phase 2 (Domestic)
- Over 200 applications received to date, rising quickly after slow start.
- Application data is being captured electronically and saved in TRIM.
- Legal advice confirms that households that received NISEP grants should have these deducted from RHI payments - procedures for doing so are being put in place.
- Work ongoing to update database with additional data needed for RHI tariff payments for potential 1,200 RHPP applications transferring to the RHI scheme, (856 to date).
- Work ongoing to develop effective administration procedures, develop IT systems and complete risk analysis for scheme.
- Trading Standards - Greenhouse Renewables. Case ongoing with solicitor now questioning costs of inspections.
• Issue has arisen over how annual RHI payments are calculated. EPCs in NI are produced using an older (2009) version of the software than GB (2012) and don’t report the heat information needed for deeming RHI payments. Discussions ongoing with DFP on this issue.

RHI Phase 2 (Non-Domestic)

• Work ongoing to review and finalise the Phase 2 policy proposals.
• Proposals passed to Ofgem to provide cost estimate and to prepare short feasibility study for updating their systems and procedures to accommodate the proposed changes. £100k profiled in 2015/16 for development costs associated with this work.
• Work started on State Aid Notification for additional technologies and tariffs proposed under Phase 2.
• Work will soon start to prepare draft amendment Regulations for Phase 2 proposals.

Energy Efficiency Directive

• Previous Minister had agreed in principle that DETI lead on EnergyWise (formerly ‘HEaT’) project. Meeting to be arranged to brief new Minister / SpAd
• EnergyWise Scheme now a DETI project with Chris Stewart the SRO. Work underway to finalise business case for pilot scheme to be introduced later this year, and also to complete other project documentation – PID, Risk Register etc.
• DETI/DSD/OFMDFM have agreed to share SIB costs for next 6 months until scheme is launched. £50k has been profiled for this.
• Eugene Rooney and Trevor Cooper have been briefed on proposals.
• Regulator has issued consultation on reallocation of NISEP costs amongst customer groups and one year extension (if necessary) until HEaT is in place.
• Consideration being given PSO funding EnergyWise scheme and whether legislation needed. Meetings with Regulator/DSO have taken place DSO advice awaited.
• Work underway to identify existing and proposed schemes that could contribute energy savings for EED Article 7 purposes beyond 2016 when NISEP ends – draft energy savings reporting templates for Affordable Warmth and Social Housing schemes sent to DSD and NIHE for comment.
• UK Project Board established to commission and oversee Article 14(1) Comprehensive Assessment – NI contribution £8k for 15/16.
• Article 18 energy labels work – now completed and recommends using the EnergyWise website to promote existing trade bodies and schemes to public.
• UK Project Board established to take forward implementation of the Heat Network (Metering and Billing) Regulations 2014 (Articles 9-11 EED). Regulations amended to extend notification deadline for communal/district heating suppliers from 30 April to 31 Dec 2015.

2015/16 Budgets

• DECC budget £430m for 2015/16 - DETI share of this would be @ £10-12m, but no confirmation has been forthcoming. Seeking clarity on future RHI budgets for 2015/16 onwards and if we can continue to spend out of the original £25M.
• Uptake of Non-domestic RHI Scheme has increased dramatically with 470 applications received in 2014/15 compared to 130 in previous 12 months. Monthly payments have risen to over £1.1m with over £22m annual expenditure forecast for 2015/16. Current AME profile assumes £11m expenditure in 2015/16 which would mean funding would run out mid September. E-mail sent to Trevor Cooper seeking clarification of RHI budget and whether a revised AME profile (£22m for 2015/16) can be submitted.
I, Paul McGinn, will say as follows: -

Legal Advice provided in June 2015

From information received by the Inquiry it appears that Seamus Hughes of DETI wrote to you on 12 June 2015 requesting legal advice in relation to the possible amendment of the RHI Scheme (see DSO-05022). The document at DSO-05060 to DSO-05063 appears to be your written advices in response to this request, dated 25 June 2015. From evidence received by the Inquiry however, it would appear that Seamus Hughes spoke to you twice by telephone on 17 June 2015, during which you gave him verbal legal advice in relation to the amendment of the RHI Scheme (see document DFE-349922/3). As to these circumstances and insofar as you can now recall:

1. Please describe whether, prior to his letter dated 12 June 2015, Seamus Hughes communicated with you (or, to your knowledge or belief, any member of your staff) either orally or in writing, during which he referred to the possible amendment of the RHI Scheme. If so, please provide details (including when, how and with whom he communicated; what possible amendments he referred to; and what advice was given).

Sometime in May 2015, I was invited to a meeting in Adelaide House at which members of the Energy Division of the Department for Enterprise, Trade and Investment (DETI) now Department for the Economy (DFE) (referred to
hereafter as “the Department”) were present. As far as I can recall senior members of the Finance Division of the Department were also present. To the best of my recollection Energy Division attendees included John Mills, Stuart Wightman and Seamus Hughes, and Finance Division attendees included Eugene Rooney and Trevor Cooper. Unfortunately my recollection of the identities of those present is not as clear as I would have liked and I have not been able to trace any documentation relating to the meeting. So, I cannot be certain either of the date or of the attendees. The purpose of the meeting was to discuss the fact that the RHI budget had been exceeded; there was no discussion as to the classification of the RHI Scheme funding (i.e. DEL or AME) nor was there any discussion of a risk sharing arrangement. At the meeting I was asked about the possibility of suspending the RHI Scheme administratively (i.e. other than through legislative amendments). I did indicate a general scepticism about that possibility simply as a matter of principle but asked that the Department write formally to me to put the question so that I could consider it properly and respond in writing. At that stage I had not had a chance to look at the RHI Scheme in detail but it was a statutory Scheme where the requirements are mandatory. And even if the RHI Scheme had been discretionary in nature, just on general principles of administrative law, it would have been beyond the powers of the Department to simply administratively close it by deciding as a matter of policy to refuse to grant accreditations. I recall that I also referred to the fact that if amendments to the legislation were pursued this would require a number of months, given the fact that the legislation was subject to the draft affirmative resolution procedure before the Assembly. This, I believe, was the genesis of the letter of 12 June. As far as I can recall legislative amendments to the Scheme were not proposed at that meeting to deal with the budgetary issues. I also recall reference to very high use by some operators of small and medium biomass boilers to generate heat and that, accordingly, payment to the owners of those boilers was significantly greater than anticipated. But I cannot recall any other specific points or actions being raised.

2. Following the letter of 12 June 2015, but prior to the telephone conversations on 17 June 2015, did you and Seamus Hughes communicate in any way in
Review of Small Scale ROC levels

- Notification to EU completed on biomass on 3 month standstill period - standstill period ends early July.

RO/ NIRO Closure Order / grace periods

- Submission on small scale grace period options with HoD – but agree more general submission will issue first.
- Closure Order drafted as far as possible but not cleared by DSO. Cannot be completed until Ministerial decision on grace periods. Needs to be laid in June.
- SL1 for Closure Order to be with HoD in June.

Small Scale FIT

- DECC meeting on SS FiT review with other DAs 4 June – Scotland and Wales travelling to London to attend – might be worth NI (Michael H) attending as well.

Community Energy

- Draft Action Plan completed – to be circulated to other Departments. Response date 22 June. Will go to HoD during July for approval - aiming for publication in August.

Other

- Offshore decommissioning – submission drafted for Minister to write to NIO (again) and Crown Estate in an effort to move this forward. With HoD by end of week.

**ENERGY EFFICIENCY (STUART)**

RHI Phase 1

- Unprecedented increase in uptake of the Non-domestic Scheme has seen total applications more than triple (208 – 30 June 2014 to 651 on 22 May 2015).
- Now on track to achieve 4% target during 2015, however committed monthly non-domestic RHI payments have risen from £430k to £1.5m over the last 11 months. Forecast RHI expenditure in 2015/16 now expected to be £23.2m.
- Barnett consequential RHI budget for 2015/16 expected to be @ £13m. Working with Finance Branch to get urgent clarification on current/future RHI budgets.
- Tiered tariff to be introduced for most popular Biomass tariff in October 2015 as part of Phase 2.

RHI Phase 2 (Domestic)

- Over 200 applications received to date, rising quickly after slow start.
- Significant issue has arisen over how annual RHI payments are calculated. EPCs in NI are produced using an older (2009) version of the software than GB (2012) and don’t report the heat information needed for deeming RHI payments. Discussions ongoing with DFP on this issue.

RHI Phase 2 (Non-Domestic)

- Work ongoing to review and finalise Phase 2 policy proposals.
- Proposals passed to Ofgem to provide cost estimate and to prepare short feasibility study for updating their systems and procedures to accommodate proposed changes. £100k profiled in 2015/16 for development costs associated with this work.
- Work started on State Aid Notification for additional technologies and tariffs proposed under Phase 2.
- Work will soon start to prepare draft amendment Regulations for Phase 2 proposals.
Energy Efficiency Directive

- Previous Minister had agreed in principle that DETI lead on EnergyWise (formerly ‘HEaT’) project. Meeting to be arranged to brief new Minister / SpAd
- EnergyWise Scheme now a DETI project with Chris Stewart the SRO. Work underway to finalise business case for pilot scheme to be introduced later this year, and also to complete other project documentation – PID, Risk Register etc.
- DETI/DSD/OFMDFM have agreed to share SIB costs for next 6 months until scheme is launched. £50k has been profiled for this.
- Eugene Rooney / Trevor Cooper briefed on proposals.
- Development of OBC for Pilot Scheme is still ongoing.

2015/16 Budgets

- DECC budget £430m for 2015/16 - DETI share of this would be @ £10-12m, but no confirmation forthcoming. Work ongoing with DETI Finance to seek clarity on future RHI budgets for 2015/16 onwards and if we can continue to spend out of the original £25m.
- Revise RHI AME forecasts will be provided as part of current exercise to inform Chancellor’s July Budget
- £108.5k has been profiled for Ofgem for RHI Phase 2: £8.5k for a feasibility study and £100k has been profiled for development costs.

CO-ORDINATION (PAUL)

NI Assembly

- DETI Orals – scheduled for answer on Tuesday 2 June - await possible LTTs request for Topicals
- ETI Committee oral briefing on Electricity Review Part III scheduled for 2 June.

2015/16 Divisional Plan

- Divisional Plan update to 31 December with HoD for sign-off.
- Divisional Plan 2015/16 performance to 31 March with HoBs for updating.
- Risk commentary/ratings finalised on 2015/16 Divisional Plan – final draft to go to HoD for sign-off.

Finance

- June monitoring return submitted which included bid to cover additional SO post for Energy Efficiency Branch.
- Awaiting urgent feedback from Finance /DFP re: AME budget

Staffing General

- End-Year Reviews – staff interviews / reports - vast majority have been actioned.
- 2015/16 PPA’s to be finalised / agreed asap.
- Currently two SOs down in form of [Redacted]. Resources Group met on 13 May – no progress to report.
- Voluntary Exit Scheme – await further updates on position/progress.

Other

- Office safety risk assessments need to be completed – slight delay in progressing due to focus on NICS Website consolidation exercise currently being undertaken.

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Mr Aiken: OK.

Mr Cooper: So, you know, there was a recognition of the fact that, obviously, we couldn’t stop it because of this primary legislation point.

Dr MacLean: Was that a bolt out of the blue, then, for you, because that is a complete reversal of —?

Mr Cooper: No, it wasn’t a bolt out of the blue at that stage; it was a bolt out of the blue because I’d been talking to Stuart Wightman prior to this meeting, you know, throughout the previous week or so, or before. So, yes, it was a bolt out of the blue.

Mr Aiken: Now, what Dr McCormick says flowed out of this meeting in terms of setting the direction, and this is his first statement at paragraph 2.12 at WIT-10514. He said it: “was to act to ensure value for money” —

and VFM was mentioned on his note —

“accompanied by appropriate control on costs as these would be essential to secure DFP approval.”

So, two issues are being brought together there, it seems, by him: in order to get the reapproval, there’s going to have to be evidence of the proper management of the budget.

Is that your recollection of where the discussion sat coming out of the 3rd of June?

Mr Cooper: There was. Absolutely. You know, the big problems were all discussed, including that. Now, even at that stage, I think because of the primary legislation point, there was a recognition that all of this would take time — a long time, and too long.

Mr Aiken: OK. Now, I want to draw your attention to —. The note seems to be —. If you take us back to it, please, at 10588 — WIT-10588. The reference to:

“primary legislation to change”.

Mr Cooper: Uh-huh.

Mr Aiken: The idea of ceasing commitments, suspending the scheme, closing the scheme don’t appear to be on the page. The discussion about primary legislation appears to be in the
Shane
Would welcome your comments on this.
IN my view there is a fair bit of naievety around the issues. Whilst staff changes happened the Division still affirms in its assurance statements that dfp approval is in place for spend within its remit.
The number of assurances around reviews of scheme and tariff have been glossed over. The VFM position is a statement not with no real factual position around why it could be considered vfm.
There is no self awareness that teh reason they may be delivering greater renewables than gb counterparts is the simple fact that they may be overcompensating so its not actually overperforming indeed potentially quite the contrary.
Nothing on how they are going to constrain spend /what options are being considered.
Happy to discuss.
Trevor
RENEWABLE HEAT INCENTIVE – BUSINESS CASE ADDENDUM

BACKGROUND

In its Programme for Government (PfG), the Executive has a target of achieving 4% renewable heat by 2015. This is an interim milestone to achieving 10% renewable heat by 2020 in line with the Executive endorsed Strategic Energy Framework (SEF). In pursuit of these targets, the interim Renewable Heat Premium Payment (RHPP) and the Non-domestic RHI schemes were introduced in May and November 2012 respectively. The full Domestic RHI Scheme was introduced in December 2014 to replace the RHPP.

The Business case for the Non-domestic RHI and RHPP schemes was approved by DFP in April 2012 on the basis that:

1. **Whilst the scheme is envisaged to be open to new installations until 2020, approval is given for the period 1 July 2012 to 31 March 2015, representing the period for which HMT funding has been secured. Any decision to continue the scheme beyond 2015 would require further/separate DFP approval;**

2. **As outlined in Section 7.53 of the Business Case, arrangements are put in place for scheduled reviews to allow the progress of the scheme to be monitored, assessed and if necessary, changes implemented. It is noted that the first review is scheduled to start in 2014 and that the reviews will be carried out by DETI.**

NEED TO SECURE FURTHER DFP APPROVAL FOR NON-DOMESTIC SCHEME

**DFP approval is required to extend the Non-domestic RHI scheme by one year to cover 2015/16.**

In 2014 there were a number of key staff changes in DETI Energy Division. Firstly a new Director at the start of the year and secondly, the renewable heat team (Grade 7 and DP) were replaced at the end of June. Unfortunately there was a gap of around 6 weeks between previous renewable heat staff leaving and new staff taking up post. On joining DETI, the priority for the new Heat Team was to take forward development and implementation of the Domestic RHI Scheme which was the Minister’s priority. The ‘hand-over’ material focussed on development of the Domestic RHI Scheme with no mention of the need for DFP approval to continue the Non-domestic Scheme beyond March 2015. And with the scheme up and running for only 2 years there was no reason to suggest that further approval was needed. The need for DFP approval was recently flagged by DETI Finance officials. Had the need for DFP approval been known sooner it would have been taken forward at the time by the Heat Team as a matter of urgency.

The original DFP approval for the Non-domestic RHI Scheme was for the period 1 July 2012 to 31 March 2015 which represented the period for which £25m of AME funding had been secured from HMT. A letter from the DECC Minister to the DETI Minister in January 2014
confirmed that DECC had been allocated £430m for the RHI in 2015/16 and that NI could expect to receive the Barnett’s consequential of this which would be around £12.8m.

With the extension of the SR period from 2011-2015 by one year to 2016 and the confirmation of the NI RHI allocation for 2015/16, would it be possible to secure a one year extension to the original DFP approval for the RHI.

CONTINUED VALUE FOR MONEY

The Non-domestic RHI scheme still provides value for money in terms of the level of Government intervention (funding) needed to achieve the Executive’s targets of 4% renewable heat by 2015 and 10% renewable heat by 2015. With current levels of uptake, it is expected that the Executive’s PfG target of 4% renewable heat will be achieved by October 2015. We are currently developing proposals to introduce a tiered/reduced tariff for the most popular biomass tariff for new applications received from 1 October.

Even though DECC have been reducing their RHI tariffs for the last few years, most of the GB tariffs remain higher than the NI RHI scheme as shown on the Table below. However, the NI scheme is still outperforming the GB in terms of levels of uptake and heat generation. NI application numbers are currently running at 5% of GB numbers. The total estimated annual renewable heat generated through installations on the GB scheme (April 2015) is 3,225 GWh. The total estimated heat generation through the NI scheme is around 300 GWh. This is over 9% of the GB figure – 3 times the Barnett’s percentage.

<table>
<thead>
<tr>
<th>Technology</th>
<th>NI Scheme</th>
<th>GB Scheme (from 1/4/15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biomethane all scales, biogas combustion</td>
<td>All Scales</td>
<td>On the first 40,000 MWh of eligible biomethane Tier1 7.62</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Next 40,000 MWh of eligible biomethane Tier 2 4.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Remaining MWh of eligible biomethane Tier 3 3.45</td>
</tr>
<tr>
<td>Biogas Combustion</td>
<td>Less than 200kWth 3.3</td>
<td>Less than 200kWth 7.62</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>200kWth and above &amp; less than 600kWth 5.99</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>600kWth and above 2.24</td>
</tr>
<tr>
<td>Biomass</td>
<td>Less than 20kWth 6.7</td>
<td>Less than 200kWth Tier 1: 5.87</td>
</tr>
<tr>
<td></td>
<td>20kWth up to 100kWth 6.4</td>
<td>Tier 2: 1.56</td>
</tr>
<tr>
<td></td>
<td>100kWth and above, less than 1000kWth 1.5</td>
<td>200kWth and above, less Tier 1: 5.18</td>
</tr>
<tr>
<td>Technology</td>
<td>Tier 1</td>
<td>Tier 2</td>
</tr>
<tr>
<td>----------------------------------</td>
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<tr>
<td>Solid Biomass CHP</td>
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<tr>
<td>Ground Source / Water Source Heat Pumps</td>
<td>Less than 20kWth</td>
<td>20kWth and above, less than 100kWth</td>
</tr>
<tr>
<td>Solar Thermal</td>
<td></td>
<td></td>
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<tr>
<td>Deep Geothermal</td>
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</tbody>
</table>

**REVIEW OF THE RHI (RHI PHASE 2)**


This included proposals to introduce a full Domestic RHI Scheme, extend the Non-domestic Scheme to new technologies and a review of tariffs. Due to the low levels of uptake of both schemes at the time and the availability of staff resources, the priority in 2014 was to implement the Domestic RHI Scheme and increase public awareness of both schemes through marketing / public awareness. Completion of the Phase 2 review for the Non-domestic Scheme was deferred to 2015 until after the Domestic RHI Scheme was fully implemented and an effective marketing campaign had been completed. In addition, oil prices had reduced considerably towards the end of 2014, so it was considered prudent to wait until these prices had stabilised before considering tariff changes (low oil prices mean there is less incentive for consumers to renewable heating). Otherwise, with the low uptake and low oil prices, it is likely that tariffs would have been increased.

In light of the current budget pressures, the rest of the RHI Phase 2 proposals have been deferred until later this year and will be considered as part of a wider Business Case Review of the RHI including the administration arrangements with Ofgem.

**COST CONTROL (TARIFF REVIEWS)**

A review of the existing Non-domestic tariffs is ongoing with proposals to introduce a number of tariff changes later in the year. This includes introducing a tiered tariff for the most popular non-domestic biomass tariff from 1 October 2015. New applicants will only receive the current 6.4p tariff for their first 1,314 hours after which a reduced 1.5p tariff applies. Officials are also exploring other possible legislative cost control options measures including future annual tariff reductions.
RHI BUDGET ALLOCATION

DFP approval is required for an increased RHI AME profile submitted as part of the recent AME exercise to inform the Chancellor’s July Budget.

Both RHI schemes are demand led. It is therefore difficult to predict future uptake / spend. For this reason HMT agreed to fund the RHI through AME. £25m of AME was initially allocated to the NI RHI for the 4 year 2011-15 period. In the absence of any robust evidence on likely uptake/spend, this initial allocation was based on 2.98% of the DECC allocation. However the scheme underperformed in terms of achieving our renewable heat target with an under spend of around £14m over the first 4 years. Our focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address these under spends. This included introducing the full Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign.

Despite the drop in oil prices over the winter months, we have successfully increased uptake of the Non-domestic RHI scheme over the last 12 months. Total non-domestic RHI applications have increased from 200 to 700 during this period and we’re now on course to meet the PfG 2015 target of 4% renewable heat by October. However this increase in uptake has seen committed monthly non-domestic payments rise from £430k to over £1.3m over the same period. Forecast expenditure in 2015/16 is now twice our previous AME 2015/16 forecast (made in November 2014) although total expenditure during the 2011/12 - 2015/16 period is still expected to be within the allocated NI budget of £37.8m (£25m + £12.8m).

We have submitted our revised RHI AME forecast as part of the current exercise to inform the Chancellor’s July budget. We need to ensure HMT approve the NI RHI AME forecast and don’t simply allocate NI 2.98% of DECC’s budget. Application numbers for the NI scheme are currently running at 5% of the GB scheme so the 2.98% allocation isn’t appropriate going forward.

FUTURE RHI AME FORECASTING

The previous AME 2015/16 forecast (made in Nov 2014) which was based on a smaller sample of 300 applications had assumed an average monthly increase in payments of £60k. This had been the average increase in the 6 months previous as highlighted in the table above. A £60k increase would have left committed RHI expenditure within profile. There was nothing to suggest that the increase in non-domestic application numbers during the last quarter of 2014 would be sustained through to 2015, so no action was taken. However, following a further increase in application numbers during the first quarter of 2015 which seen the average monthly increase rise to £105k, we have been reviewing how we forecast future non-domestic RHI payments. This review is what has led to our revised forecast for 2015/16 and the late accrual and overspend in 2014/15.
Rather than simply including fixed increases of £60k/month, forecast increases in future RHI payments are now based on historic payment data (i.e. average hours x tariff x installation capacity) and recent application numbers (i.e. 50/month). Previously, there wasn't enough payment history to use for forecasting. The majority of the applications are from the poultry industry for 99kw biomass boilers so we’re now also seeing much more consistent operating hours and monthly payments. We will continue to refine our forecasting system as information improves. However, there will always be an element of unpredictability about future RHI payments. Estimated quarterly payments must be accrued for all accredited systems until such time as the individual businesses submit their meter readings online to Ofgem. This can take many months. There can also be quite a variation on payment depending on the type of business and of course the weather. Uptake will also vary from month to month. This is why DECC produce 3 different forecasts (low/medium/high).

The Domestic RHI scheme on the other hand is much easier to predict with fixed upfront payments and annual payments determined by the EPC for the property. However, the Domestic RHI Scheme currently only accounts for 13% of total RHI expenditure.
<table>
<thead>
<tr>
<th>Date</th>
<th>Key changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autumn 2013</td>
<td>• Introduction of tariff digression</td>
</tr>
<tr>
<td></td>
<td>• Simplified metering arrangements</td>
</tr>
<tr>
<td></td>
<td>• Air quality standards introduced for biomass</td>
</tr>
<tr>
<td>Spring 2014</td>
<td>• Support introduced for air to water heat pumps</td>
</tr>
<tr>
<td></td>
<td>• Biogas limits extended beyond 200kW</td>
</tr>
<tr>
<td></td>
<td>• Energy from waste extended to include industrial and commercial waste</td>
</tr>
<tr>
<td></td>
<td>• Ability to repay grants/other public support extended to all applicants</td>
</tr>
<tr>
<td></td>
<td>• GB Domestic RHI introduced</td>
</tr>
<tr>
<td></td>
<td>• Changes to tariff calculation method linked to expenditure</td>
</tr>
<tr>
<td>Early 2015</td>
<td>• Revised tariff for biomethane injection to grid</td>
</tr>
<tr>
<td></td>
<td>• Biomass sustainability requirements introduced,(introduced in legislation</td>
</tr>
<tr>
<td></td>
<td>February) mandatory from October 2015</td>
</tr>
</tbody>
</table>

1 Key changes only, other minor changes not listed
On 5 June I briefed David Beck and Claire Hughes who are members of the Departmental Audit Committee on the emerging position on the Scheme (Annex 20).

On 8 June I spoke to Clare Kane of NIAO in relation to the late adjustment to the Department’s 2014-15 accounts and the ongoing irregular expenditure in 2015-16 (Annex 21).

In late May/early June following discussion with Eugene Rooney and Chris Stewart, Finance Branch, Accountability and Casework Branch and Energy Division engaged around the Energy Division Assurance Statement to 31 March 2015, with the statement being reworded to reflect ongoing engagement between the Department and DFP in regard to managing the Scheme (Annex 22).

During the first half of June I took the views of Shane Murphy of the Departments Analytical Services Unit around how the business case might be progressed. At that point we considered that the best approach could be to do a quick review of the whole Scheme including a detailed review of tariffs payable under each technology. I also raised the issue of overcompensation with Stuart Wightman on the basis that it could be that demand was being driven by overcompensation as opposed to the success of Energy Divisions efforts to promote the Scheme. At this time I was given an assurance that applicants could not generate a profit from the Scheme. (Annex 23)

On 12 June I met with DFP and discussed RHI and engagement with Treasury. The DFP view expressed was that it fell to DETI to make the case to DECC for a greater share of the UK budget prior to any DFP engagement with Treasury. On 17 June I emailed Michelle Scott of DFP to confirm that DETI would engage with DECC but that there was a need also for DFP to engage with Treasury in relation to the position on the Scheme. (Annex 24 and 25)

On 17 June I attended a meeting with Andrew McCormick, Eugene Rooney, John Mills and Stuart Wightman around the approach to the business case. At that meeting I raised concerns around the issue of overcompensation and that it was likely that we would be in breach of State Aid approvals in regard to compensation payable under the Scheme. The suggestion of a quick review of the whole Scheme including all tariffs was also put forward by Shane Murphy but discounted. I believe this was on the basis that the Permanent Secretary wanted amendments made as quickly as possible and the legal advice was that any changes beyond the introduction of tiering would take a long time to do. On that basis it was decided that a focused business case should be prepared looking at overall value for money and seeking retrospective approval for expenditure from 1 April and prospective approval going forward, with a fuller review of the Scheme to follow on thereafter.
At some point in the period July to November, I do not recollect when, Andrew McCormick discussed with me whether Internal Audit should review energy divisions failure to seek reapproval for the Scheme. A review was not intitlated at that time as the apparent reason was the virtually complete turnover in staff within Energy Division.

On 10 September I met with Stuart Wightman in relation to the draft business case being prepared by Energy Division and on 30 September I and Bernie Brankin met with DFP to discuss the position around accruals and budget (Annex 34).

On 9 October Michelle Scott of DFP confirmed to me that for 2016-17 and beyond the future funding requirement forecast to be provided to HMT on that day should only include commitments on tariffs on technology forecast to be installed by 31 March 2016. I communicated this to the Senior Team within DETI at this time. The view expressed to me by DFP was that the similar demand problems seemed to be experienced in England and it may be that the Scheme could be closed after 31 March 2016 with commitments up to that date being met. My understanding is that this was the first point in time that DFP had engaged with Treasury in regard to the Scheme in 2015 (Annexes 35 and 36).

On 21 October I was a member of the casework committee that considered the business case to introduce tariffs and seek retrospective and prospective approval for the case.

On 27 October, the case having been approved by the casework committee, I submitted the case formally for DFP consideration. Following engagement between Energy Division, Finance Division and DFP on queries in relation to the case on 29 October DFP granted approval for payments arising for new installations between 29 October and 31 March 2016. The approval to the end of March would align with the signals given to me by DFP around the possible closure after March 2016 and commitments up to this date being met. The approval also stated that the approval would be revisited following the Spending Review announcement. (Annexes 37 and 38)

Following the unprecedented spike in applications to the Scheme in the October period the potential for abuse of the Scheme came into focus. In mid November I discussed the spike with Michael Woods, Head of Internal Audit. On foot of the discussion with Michael Woods I asked Stuart Wightman to clarify the position around initial and ongoing eligibility (Annex 39). At this time I believe that I raised the issue of audit of the Scheme with Eugene Rooney
GOVERNANCE STATEMENT

Introduction

1. This Governance Statement reflects the Department of Enterprise, Trade and Investment’s governance, risk management and internal control arrangements as they have operated during the 2014-15 financial year. It also provides details of future actions planned by the Department to mitigate risks and to address any internal control weaknesses that have been identified.

The DETI Governance Framework

2. Corporate Governance refers to the way in which organisations are directed and controlled. DETI’s governance framework, which ensures the effectiveness of the direction and control of the Department, is set out in the following paragraphs.

Individual Responsibilities

The DETI Minister

3. The DETI Minister leads the Department and is responsible and accountable to the Northern Ireland Assembly for the policies, programmes and actions of the Department.

The Accounting Officer

4. The Permanent Secretary is the principal Accounting Officer for the Department and may be called to account in the Northern Ireland Assembly for the stewardship of the resources under the Department’s control. As Accounting Officer, the Permanent Secretary is personally responsible for ensuring that the Department, and any subsidiary to it or organisation sponsored by it, operates effectively and to a high standard of probity.

Organisation and Structures

5. The five key organisational structures which support the delivery of corporate governance in the Department are the:

   • Departmental Board;
   • Departmental Audit Committee;
   • Casework Committee;
   • Senior Management Team meetings; and
   • Quarterly Oversight and Liaison meetings with arm’s length bodies.

The Departmental Board

6. The Departmental Board manages the Department within the strategic framework set by the Minister. It supports the Permanent Secretary by providing collective leadership and taking ownership of the Department’s performance. The Board operates within the guidelines set out in the April 2013 DFP publication “Corporate governance in Central Government Departments: Code of Good Practice NI 2013”.

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7. The Board is chaired by the Permanent Secretary of the Department. The Deputy Secretaries for Policy Group and Management Services Group are members, as are the Heads of Division with responsibility for Human Resources and Finance. There are also two Independent Board Members (IBMs), David Beck and Claire Hughes. David Beck was an IBM for the whole of 2014/15, with Claire Hughes being appointed with effect from 1 January 2015.

8. The Board operates as a collegiate forum under the leadership of the Permanent Secretary to manage the running of the Department. It is not involved in policy making, as policy is determined by the Minister. The Board does, however, discuss policy in the context of setting and directing the strategic planning that ensures delivery of Ministerial policy decisions and the operational management of the implementation of those decisions. The Board operates in an advisory and consultative capacity, offering guidance when sought. Day-to-day operational matters are the responsibility of the Deputy Secretaries and Heads of Division.

9. The objective of the Board is to provide collective leadership in the Department and to:

- take forward the Department’s agreed strategic aims and objectives;
- ensure sound financial management is in place and oversee the strategic allocation and monitoring of finance and human resources to achieve strategic objectives;
- monitor the Department’s performance against it’s objectives;
- set the Department’s standards and values;
- maintain a transparent system of prudent and effective controls (including internal controls);
- assess and manage risk; and
- lead and oversee organisational development, encouraging innovation and, where appropriate enterprise, to enhance the Department's capacity to discharge its functions efficiently and effectively.

10. In order to achieve these objectives, a formal schedule of matters for consideration by the Board is maintained.

**Corporate and Business Planning**

11. Within the policy and resources framework set by the Minister and the Executive, the Departmental Board sets the strategic and annual direction of the Department through the corporate and business planning process. A Corporate Plan, which aligns with the Executive’s Programme for Government and Budget, is normally prepared every three years. More detailed Business Plans are prepared on an annual basis. The detailed stages of the corporate and business planning processes are built into the Departmental Board work programme.

**Secretariat**

12. The Board is supported by a secretariat, located within Central Management Branch, which is responsible for maintenance of a register of interests. An agenda and papers are circulated one week in advance of each meeting and a record of meetings is circulated to Board members and posted on the Department’s web site once approved at the subsequent board
meeting. Central Management Branch also provides new Board members with an induction pack and programme.

**Board Performance and Effectiveness**

13. During the 2014-15 year, the Departmental Board met a total of 10 times. Details of the attendance of board members during the year was as follows:

<table>
<thead>
<tr>
<th>Board Member</th>
<th>Number of Meetings Attended</th>
<th>Out of a Possible</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Sterling (until 1 July 2014)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Andrew McCormick (from 1 July 2014)</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>David Beck</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Claire Hughes (from 1 January 2015)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>David Thomson (until 30 June 2014)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Chris Stewart (from 1 August 2014)</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Eugene Rooney</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Trevor Cooper</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Wendy Johnston</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

14. During the 2014-15 year, issues considered by the board included:

- the draft DETI Corporate / Business Plan for 2015-16 and draft Operating Plans for non departmental public bodies;
- the Department’s annual Budget submission and issues arising therefrom;
- management accounting information relating to the actual use of financial resources as well as periodic in-year forecasts of the expected outturn against financial budgets of resource and capital expenditure and of income;
- human resource issues, including staff engagement, managing attendance, and the voluntary exit scheme;
- human resource management systems and processes (insofar as those are not prescribed at NICS level);
- legislative priorities (subject to ministerial determination);
- progress in relation to business plan outputs and outcomes (performance targets);
- six monthly Assurance Statements;
- the identification and management of risk incorporating a programme of presentations by risk owners;
- feedback from Departmental Audit Committee meetings;
- feedback from Oversight and Liaison meetings;
- information security;
- Freedom of Information;
- overview of assurance work undertaken by Internal Audit Service;
- the Governance Statement 2013-14;
- Direct Award Contracts;
- publication of DETI’s gifts and hospitality register; and
- Business Continuity Planning.
15. At its meeting in June 2014, the Departmental Board noted a report produced following a review of its effectiveness in 2013-14. The Board is content with its performance and the role it plays in the effective governance of the Department including monitoring progress of the actions set out in Corporate and Operating Plans. The Board agreed, at its November 2014 meeting, to undertake a self assessment of its effectiveness using a questionnaire based on Cabinet Office guidance produced for departments in Great Britain, once a new IBM had been appointed and had been in post for a number of months. The self-assessment will take place in the first half of 2015-16.

*The Departmental Audit Committee*

16. The Departmental Board is supported in its role by the Departmental Audit Committee. The Committee is chaired by David Beck, IBM who attended the four meetings held in 2014-15. The other members of the Committee are Bill McGinnis and Anthony Harbinson, both of whom are independent of the executive structure of the Department. Bill McGinnis attended all of the four meetings held in 2014-15 while Anthony Harbinson attended three of the four meetings. Claire Hughes was appointed to the Departmental Audit Committee on 1 January 2015. No meetings of the Departmental Audit Committee in the period from the date of Claire Hughes’ appointment to 31 March 2015.

17. The role of the Departmental Audit Committee is to support the Departmental Board and the Accounting Officer by advising on:

(i) The strategic processes for risk, control and governance and the Governance Statement;
(ii) The accounting policies, the accounts, and the annual report of the organisation, including the processes for review of the accounts prior to submission for audit, levels of error identified, and management’s letter of representation to the external auditors;
(iii) The planned activity and results of both internal and external audit;
(iv) Adequacy of management response to issues identified by audit activity, including external audit’s Report to those Charged with Governance;
(v) Assurances relating to the corporate governance requirements for the organisation; and
(vi) Anti fraud policies, whistle blowing processes, and arrangements for special investigations.

18. Each NDPB and cross border body provides the Departmental Audit Committee with a paper in advance of each meeting setting out corporate governance and accountability issues in their organisations.

19. The Departmental Audit Committee also periodically reviews its own effectiveness and reports the results of that review to the Board.

*Departmental Audit Committee Reports*

20. Following each meeting of the Departmental Audit Committee, the Departmental Board is provided with the draft minutes of the meeting supplemented by a verbal report and a written synopsis from the Departmental Audit Committee Chairman.
21. The Chairman of the Departmental Audit Committee also provides an annual report to the Departmental Board which summarises the Committee’s work for the year. The 2014-15 report included:

(i) Details of meetings and provision of minutes and reports to the Departmental Board;
(ii) Details of membership and attendance;
(iii) Proposals for the timing of the next formal review of the effectiveness of the Committee;
(iv) A summary of work undertaken during the 2014-15 year;
(v) The Committee’s views on the quality of assurances it considered during the year;
(vi) The Committee’s views on risk management;
(vii) The Committee’s opinion on the quality of internal and external audit arrangements;
(viii) The Committee’s views on the issues which merit inclusion in the Governance Statement; and
(ix) The Committee’s overall conclusion.

22. The Committee was content with the quality of assurances it received, the management of risk and the quality of internal and external audit.

Other Organisational Structures

23. Other organisational structures that contribute to sound corporate governance in the Department are the Casework Committee, the Senior Management Team and the Quarterly Oversight and Liaison Meetings with Arms Length Bodies. None of these is a sub-committee of the Departmental Board.

Casework Committee

24. The DETI Casework Committee meets as required to consider and approve DETI projects involving expenditure above £500,000. All members of the Departmental Board and DETI Senior Management Team are eligible to participate on the Casework Committee. However, the Head of a Division from which an expenditure proposal emanates is debarred from sitting on the Casework Committee which considers the proposed expenditure.

25. The Casework Committee is chaired by an officer of at least Deputy Secretary level, and requires a minimum of three members to be quorate.

26. Casework Committees are also in place to consider significant expenditure proposals emanating from Invest NI and Tourism NI and the Departmental Board receives regular updates on the progress of Casework across the Department.

Senior Management Team Meeting

27. The Senior Management Team meets regularly to discuss ongoing operational issues, including forthcoming Executive and Assembly business. It is chaired by the Permanent Secretary and membership comprises the Deputy Secretaries responsible for Policy Group and Management Services Group, Heads of Divisions and Grade 6 Heads of Business Units.
The Head of Central Management Branch, the Principal Information Officer and the Minister’s Private Secretary are also in attendance.

**Quarterly Oversight and Liaison Meetings with Arms Length Bodies**

28. The Department sponsors four Non Departmental Public Bodies: Invest NI; Tourism NI; the Consumer Council for Northern Ireland and the Health and Safety Executive for Northern Ireland. Oversight and Liaison meetings with Non Departmental Public Bodies, which Independant Board Members may attend as observers, are normally held on a quarterly basis. The agendas for these meetings contain standing items which include performance monitoring, budgetary and finance matters, risk management and corporate governance. The minutes of Oversight and Liaison meetings are brought to the Departmental Board as “take note” items unless specific issues arise which require Board intervention. If such issues arise they are tabled as a separate agenda item.

29. The Department sponsors two cross border bodies: InterTradeIreland and Tourism Ireland Limited. Quarterly meetings also take place with these bodies. The issues covered by the agendas for these meetings are similar to the issues covered in the NDPB Oversight and Liaison meetings.

30. In addition, Departmental representatives attend the audit committees of NDPBs and cross border bodies.

**Risk Management**

31. The Department’s approach is to assign risks to those best placed to manage them, whilst maintaining clear accountability. The Department manages risk at Corporate and Divisional levels.

32. Corporate Risks are managed collectively by the Departmental Board. The Corporate Risk Register is reviewed by the Departmental Board at each meeting along with significant Corporate Risks emanating from NPDBs. On a quarterly basis, the Departmental Board receives a report detailing Divisional Risks which are assessed as having a high or medium impact and a high likelihood of occurrence. The Departmental Board considers the degree of risk it is prepared to accept for the Department’s Corporate Risks (its risk appetite).

33. Corporate risks being managed at 31 March 2015 related to:

- The delivery of commitments contained in the Programme for Government, the Corporate Plan and the Operating Plan;
- The formulation of appropriate strategies and policies for economic development in Northern Ireland;
- Corporate Governance;
- Financial Management;
- The management of financial assistance provided in connection with the administration of the Presbyterian Mutual Society;
- Information Management;
- Implementation of legislation, including EU Directives; and
- The disqualification of company directors.
34. Action is being taken to mitigate the above risks. There is a statutory deadline within which the Insolvency Service is required to take forward cases involving the potential disqualification of company directors. In relation to this risk around the potential disqualification of company directors, which was first identified as a corporate risk during 2013-14, the Departmental Board and the Departmental Audit Committee continued to monitor progress on the implementation of mitigating actions. During the year presentations on the action taken and planned to manage the risk were made to the Departmental Board by the Head of the Insolvency Service. As a result of actions taken to mitigate the risk, the assessment of its impact and likelihood was reduced in May 2015.

Six Monthly Assurance Statements

35. Each Deputy Secretary and NDPB Chief Executive is required to provide six monthly Assurance Statements to the Permanent Secretary as Departmental Accounting Officer. These six monthly statements confirm the efficacy of the systems of internal control in their areas of responsibility and, where appropriate, draw the attention of the Permanent Secretary to any significant internal control issues.

Data Security

36. The Department is in the final stages of compiling the annual Security Risk Management Overview (SRMO). This is an exercise which reports to the Head of the NICS and includes a single return for DETI and all its NDPBs. The report contains an independent assurance statement from the Head of Internal Audit and will be endorsed by the Permanent Secretary as Accounting Officer. No issues have emerged.

37. The DETI Information Security Policy compendium is updated and disseminated during the year. One new policy was added in April 2014 relating to the new Government Classification Scheme. Prior to the addition of the policy each member of staff was provided with an e learning package covering the new scheme. The Department also carried out its annual Information Security Survey, expanded this year to include a request for information from business areas concerning the use of any third party suppliers and a further request for details regarding any data sharing agreements in place in the Department. This exercise provides a further assurance to the Accounting Officer that information is being securely handled and effectively managed across all business areas. Information Security continues to be a regular item at Departmental Board meetings and Heads of Branches are required to review information security compliance in their six monthly internal assurance statement checklists.

Business Continuity Management

38. The Department has in place a Business Continuity Management (BCM) process, whereby each Branch and Departmental building has its own dedicated and managed Business Continuity Plan (BCP). Plans are updated, reviewed and tested on a regular basis. All branch and building BCPs are monitored and reported on at four monthly cross-divisional Plan Holder Committee meetings. This Group met three times in 2014-15 and a desk based exercise to test the Netherleigh BCP was undertaken in March 2015. A similar committee operates covering the DETI buildings outside of Netherleigh, as well as the Department’s Arms Length Bodies (this committee meets twice a year). The BCM process is subject to annual review by Internal Audit Service.
39. The Staff Contact Text Messaging Service (SMS) was used over the Christmas period to inform staff that the heating in Netherleigh had broken down and that staff should not report to Netherleigh. This resulted in a further increase in the number of staff registering for the service. More recently a power outage affecting large parts of County Down and Belfast triggered the operation of Netherleigh’s emergency generator and disruption to services was negligible.

Internal Audit

40. The Department has an Internal Audit Service, which operates to HM Treasury’s Public Sector Internal Audit Standards. Internal Audit Service constructs its annual audit plan on the basis of the Internal Audit Strategy covering the period 2011-12 to 2014-15 and also takes into account the objectives and risks faced by DETI including emerging risks.

41. The Internal Audit plan for 2014-15 was endorsed by the Departmental Audit Committee. A mid-year review of the plan resulted in it being revised to reflect changing priorities of management, changing circumstances and emerging issues. The revised plan was endorsed by the Departmental Audit Committee at its meeting on 25 September 2014.

42. Internal Audit Service submits regular reports which include the Head of Internal Audit’s independent opinion on the adequacy and effectiveness of the Department’s system of internal control together with recommendations for improvement. Internal Audit Service has provided an overall satisfactory opinion with regard to the adequacy of the Department’s risk management, control and governance processes for the 2014-15 year.

Compliance with the Corporate Governance Code

43. The Departmental Board has carried out an assessment of its compliance with the April 2013 DFP publication “Corporate governance in Central Government Departments: Code of Good Practice NI 2013”. The Departmental Board is content that it is compliant with both the spirit and the principles of the Code and has agreed that the framework within which it operates should be reviewed during the 2015-16 year.

Quality of Data Used by the Departmental Board

44. The Departmental Board uses information based on a number of data sources. In relation to performance targets, the Board draws assurance from the fact that a number of the data sources used are also utilised for the publication of Official Statistics or National Statistics. Data relating to financial information and absenteeism is derived from NICS wide systems such as Account NI and HR Connect. The Departmental Board takes assurance on the quality of this data from the internal controls in place in the Department and the scrutiny of the Account NI and HR Connect systems by DFP’s Internal Audit Service and the supply of information on absenteeism to departments by the Northern Ireland Statistics and Research Agency (NISRA).

45. During 2014-15, Internal Audit Service undertook an exercise to provide assurance to the Department that data relating to Invest NI’s performance reporting in 2013-14 was accurately stated and free from any errors or omission. Based on validation work undertaken on a sample of targets selected, Internal Audit Service is satisfied with the accuracy of performance data reported by Invest NI.
Ministerial Directions
46. No Ministerial Directions were issued during the 2014-15 financial year.

Public Accounts Committee Issues
47. On 18 March 2015, the Department provided evidence to the Assembly’s Public Accounts Committee on an NIAO report “Cross-border broadband initiative: the Bytel project” The Public Accounts Committee’s report is due to be published on 1 July 2015. The Department will give careful consideration to the recommendations contained in the report and will respond to the Committee in the form of a Memorandum of Reply and clawback of grant funding is being sought.

Other Governance Issues
48. Sensitive investigative information redacted by the RHI Inquiry

49. Approval was received from DFP in relation to payments of those grants to North / South Bodies during the 2013/14 year which did not have the requisite approvals prior to payment. This issue did not arise in 2014/15.

50. The Non-Domestic Renewable Heat Incentive Scheme is a UK-wide scheme which is designed to promote heat generation from renewable heat sources through provision of support for applications coming forward which meet the criteria. The Department is currently working to address governance and financial requirement issues arising with the scheme.


Conclusion
52. DETI has a rigorous system of accountability on which I rely, as Permanent Secretary and Accounting Officer, to form an opinion on the probity and use of public funds, as detailed in Managing Public Money Northern Ireland.

53. Having considered the accountability framework within the Department and between the Department and its arm’s length bodies, and in conjunction with assurances given to me by the Departmental Audit Committee, I am content that the Department has operated a sound system of internal governance during the period 2014-15.

DR ANDREW MCCORMICK
Accounting Officer
24 June 2015
Trevor

I was discussing with Terry this morning who raised a concern of the potential risk that inclusion of a reference in the published Governance Statement before we have in place any of the actions discussed on Wed could generate increased interest in applications to the scheme and exacerbate the difficulty. It would argue for silence at this point for wider interest. You might need to reflect on that risk in your consideration with NIAO.

Eugene

Trevor

We discussed the need for a short reference to RHI in the Governance Statement for the 2014/15 Accounts to be shared with NIAO in advance of your meeting tomorrow. I attach an alternative suggestion. I am sharing more widely in case colleagues wish to suggest any alternatives.

Eugene
The Department has identified an issue in regard to conditions set by the Department of Finance and Personnel (DFP) on expenditure in 2015-16 under the Non-Domestic Renewable Heat Incentive Scheme. The Department is working to resolve the issue in consultation with DFP.

The Non-Domestic Renewable Heat Incentive Scheme is a UK-wide scheme which is designed to promote heat generation from renewable heat sources through provision of support for applications coming forward which meet the criteria. The Department is currently working with the Department of Finance and Personnel to address an issue arising with the requirements for delivery of the scheme in 2015-16.
But do we not need to be going public very very soon re the changes that are needed anyway?

Sent from my BlackBerry 10 smartphone.

Trevor
I was discussing with Terry this morning who raised a concern of the potential risk that inclusion of a reference in the published Governance Statement before we have in place any of the actions discussed on Wed could generate increased interest in applications to the scheme and exacerbate the difficulty. It would argue for silence at this point for wider interest. You might need to reflect on that risk in your consideration with NIAO.

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Eugene
Many thanks

Sent from my BlackBerry 10 smartphone.

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Yes – I have discussed with Trevor and we are going with our line from yesterday – the NIAO team has just arrived in Trevor’s office.

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But do we not need to be going public very very soon re the changes that are needed anyway?

Sent from my BlackBerry 10 smartphone.

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Trevor

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Eugene
MINUTES OF DEPARTMENTAL AUDIT COMMITTEE HELD ON 24 JUNE 2015 AT DETI, NETHERLEIGH

Present: David Beck (Chairman)
Bill McGinnis (Audit Committee Member)
Claire Hughes (Audit Committee Member)

In attendance: Andrew McCormick (DETI)
Eugene Rooney (DETI)
Trevor Cooper (DETI)
David Conliffe (DETI)
Iain McFarlane (DETI)
Michael Woods (DETI)
Terry Coyne (DETI)
Colette Kane (NIAO)
Kristina Lucas (NIAO)

Minutes: Lee-Anne Hutchinson (DETI)

Apologies: Anthony Harbinson (Audit Committee Member)

PRELIMINARY

1. The Chairman welcomed members and attendees to the Departmental Audit Committee. The Chairman stated that the purpose of the meeting was to consider the Department’s Resource Accounts for 2014-15. He confirmed that the meeting would be of a relatively short duration as a number of issues had been discussed in depth at the previous meeting on 1 June.

2. The Chairman welcomed Kristina Lucas from the Northern Ireland Audit Office (NIAO) to her first meeting of the Departmental Audit Committee. The Chairman confirmed that Bill McGinnis was attending his last meeting as a Committee member and thanked Bill for his contribution to the Departmental Committee and his support to the Department over the years. Andrew McCormick also thanked Bill for his contribution and support. Bill expressed his thanks to the Chairman and his fellow Committee members for their support over the years, and expressed his gratitude to officials who attended Committee meetings and supported the work of the Committee.

3. The Chairman confirmed that the Committee had held separate meetings with NIAO and Internal Audit prior to the meeting, both of which had been positive.
POTENTIAL CONFLICTS OF INTEREST

4. Audit Committee members confirmed that there were no changes to the interests that they had previously declared.

DRAFT DETI REPORT TO THOSE CHARGED WITH GOVERNANCE

5. Colette Kane confirmed that NIAO had provided DETI with the draft Report to Those Charged with Governance (RTTCWG) on 22 June as scheduled. Colette confirmed that NIAO’s audit of the Resource Accounts was nearly complete and although there were a few outstanding issues to be finalised during NIAO’s review process, no significant issues were expected. Colette confirmed that the RTTCWG, was still a draft document and may be subject to amendment following NIAO’s final review of the accounts.

6. Colette outlined the content of the RTTCWG. She drew the Committee’s attention to the two Emphasis of Matter issues in the C&AG’s audit certificate. These relate to:

   - The carrying value in the Department’s accounts of the £175 million loan provided to the Presbyterian Mutual Society (PMS). NIAO has now examined documentation in support of the loan’s carrying value; and

   - The uncertainties around the valuation of the provision for future liabilities of Harland & Wolff plc. NIAO has considered the actuarial review produced in 2013-14.

7. Colette informed the Committee that no significant issues, weaknesses or irregularities had been identified to date by NIAO. She confirmed that NIAO still had to review further the updated Governance Statement.

8. Colette confirmed that the accounts produced for audit and the Department’s accounting policies were of a high quality. There were no irregularity or propriety issues and the remuneration report was completed correctly in accordance with DFP guidance.

9. David Conliffe joined the meeting at this point.

10. Colette confirmed that the RTTCWG would contain four recommendations relating to:

    - The availability of the PMS annual audited accounts and assurances from the department’s insolvency advisors. Trevor Cooper accepted that these accounts and assurances should have been available earlier. He noted that they had now been received and provided to NIAO. Colette confirmed this and
informed the Committee that the priority rating of the recommendation would be reduced from Priority 1 to Priority 2;

- The alignment of the carrying value of provisions for future H&W claims in DETI’s accounts and the accounts of H&W plc; the reasonableness of settlements in employer’s liability cases; and the use of a third party to pay settlement costs (Priority 2). Trevor Cooper confirmed that all three H&W plc Directors and the Company Secretary were present at the Audit Committee and they would consider the recommendation;

- A CFER due from Invest NI which has been in DETI’s accounts in receivables and payables for three years (Priority 2). Colette recommended that the balance be reviewed and any necessary adjustments made; and

- Evidence to support a challenge by DETI to the quantum of the fees of the PMS joint supervisors (Priority 2). Bill McGinnis queried the level of advice required by DETI on PMS. Trevor Cooper informed the Committee that the complexity of the PMS administration, in particular the need to engage on a large number of loans due and manage a large property portfolio, necessitated the provision of extensive advice. Eugene Rooney confirmed this and pointed to the complex loan book and property portfolio which required continuous management.

11. Colette confirmed that NIAO had discussed with DETI officials whether a disclosure should be made as a result of uncertainties over future budgets. Trevor Cooper confirmed that DETI had run revised cashflows which indicated that on current assumptions DETI’s position looked to be manageable.

12. Colette concluded by noting that there were no data handling incidents during the year and that no issues had arisen in 2014-15 in relation to the approval of business plans for North South Bodies after grant had been paid. She confirmed that the letter of representation (on the Agenda at Item 6) is a standard letter for signature by the Accounting Officer and highlighted any specific representations sought.

CORPORATE RISK REGISTER

13. Terry Coyne confirmed that the Corporate Risk Register had been reviewed by the Departmental Board at its meeting on 23 June.

14. Terry informed that Committee that issues associated with the Non-Domestic Renewable Heat Incentive referred to in the Corporate Risk Register would be discussed later in the meeting. Terry confirmed that amendments to risks made since the Committee’s last meeting on 1 June
were routine in nature but that there had been some slippage in target dates.

15. Terry drew the Committee’s attention to work planned by European Support Unit on raising awareness throughout departments and NPDBs of the rules relating to Industrial State Aid. He went on to refer to the revision of the target date for the engagement of external support by the Insolvency Service, which had now been moved back to September 2015.

16. Terry concluded by informing the Committee that arm’s length bodies, with the exception of Invest NI and HSENI, continued to raise future funding requirements as a risk.

DETI ANNUAL ACCOUNTS INCLUDING GOVERNANCE STATEMENT

17. Trevor Cooper outlined all significant changes made to the Governance Statement since the Committee’s last meeting on 1 June, which were highlighted by way of tracked changes in the papers. He informed the Committee that more detail had been provided around the risk relating to disqualification of directors and that a reference had been included in relation to the action being taken to claw back grant paid to Bytel Networks Ltd.

18. Trevor Cooper informed the Committee that references had been included in the Governance Statement to payments of grants to North/South bodies in 2013-14 (no issues arose in 2014-15), and to two emphasis of matter issues in the C&AG’s audit certificate: the H&W provision and the PMS loan.

19. Trevor Cooper concluded by referring to financial and governance issues that had emerged in connection with the Non-Domestic Renewable Heat Incentive (RHI) Scheme. Trevor informed the Committee that the Non-Domestic RHI Scheme has been launched in November 2012, with expenditure on new commitments beyond March 2015 being subject to re-approval. Expenditure in the period covered by the 2014-15 accounts is covered by existing DFP approvals. DETI is, however, currently engaging with DFP in relation to approval for expenditure in 2015-16, and in relation to updated forecast Annually Managed Expenditure (AME) Budget requirements over and above the forecast AME Budget requirements provided by the Department to DFP in December 2014. Whilst expenditure in the 2014-15 period covered in the accounts falls within existing DFP approvals, the Department has decided to include a reference to the Non-Domestic RHI Scheme in the draft Governance Statement on the basis that it is currently engaging with DFP on re-approval of the Scheme and on expenditure arising from new offers in 2015-16. In response to a question from Bill McGinnis, Eugene Rooney and Trevor Cooper confirmed that the Scheme had legislative cover in
Northern Ireland for its operation. An update will be provided to the next meeting of the Departmental Audit Committee.

20. The Committee endorsed the Governance Statement which is included in the annual Resource Accounts, subject, as noted at paragraph 7, to any further amendments which were not anticipated to be significant.

21. David Conliffe informed the Committee that NIAO had recommended a number of narrative changes and additional disclosures to the accounts. David confirmed that an additional accrual of £2.1m in relation to the Non-Domestic Renewable Heat Incentive has been included in the accounts. He went on to confirm, in response to a question raised at the Committee’s 1 June meeting, that the table on page 9 of the accounts, which contains details of directors, senior managers and employees, was correct and had been prepared in accordance with FReM guidance. He explained that the term “directors” encompassed the Minister, the Permanent Secretary, Deputy Secretaries and Departmental Board Members. David also confirmed that pension information was now included in the accounts. David undertook to provide the Departmental Audit Committee with any further amendments.

22. David referred to the Analysis of Net Resource Outturn by Function table at page 64 of the accounts and confirmed that outturn compared to estimate had been adjusted to reflect virement obtained from DFP. He informed the Committee that commitments arising from the Renewable Heat Incentive Scheme had been disclosed in Note 9.3 at page 88 of the accounts, and that the 2013-14 comparator figure had been restated. David concluded by referring to a foreign exchange risk inherent in transactions with the EU and confirming that a £50,000 loan to the Northern Ireland Science Park had been disclosed at Note 11, page 89. In response to a request from the Chairman, David undertook to explore the possibility of incorporating version control into the 2015-16 accounts but did point to potential difficulties as a result of the accounts being a mixture of Word documents and Excel spreadsheets.

Action 1: David Conliffe to consider incorporating version control into the 2015-16 accounts.

Action 2: An update on Non Domestic Renewable Heat Incentive is to be provided to the next meeting of the Departmental Audit Committee.

Action 3: David Conliffe to provide the Departmental Audit Committee with any further amendments to the Resource Accounts.

LETTER OF REPRESENTATION - ADVICE ON ACCOUNTS

23. David Conliffe outlined the contents of his draft minute to the Accounting Officer in relation to the signing of the 2014-15 Resource Accounts and the
Letter of Representation to NIAO. The Chairman confirmed that he and Committee members were content with the content of the Letter of Representation.

24. The Committee endorsed the Accounts and recommended that they be signed by the Accounting Officer.

25. Eugene Rooney left the meeting at this point.

ANY OTHER BUSINESS

26. The Chairman expressed thanks on behalf of the Committee to the work that all those associated with the preparation of the Resource Accounts had undertaken.

27. The Chairman concluded by once again thanking Bill McGinnis for the contribution that he had made to the Departmental Audit Committee since his appointment and wished Bill every success in the future. The sentiment was endorsed by those present.
From: Trevor Cooper
Date: 1 July 2015
To: Michelle Scott

NON-DOMESTIC RENEWABLE HEAT INCENTIVE (RHI) - APPROVALS

1. Following on from our stocktake meeting on 3 June and our meeting on 12 June, which provided DETI an opportunity to specifically update you on the Non-Domestic RHI, this letter highlights three challenges where we would value your assistance.

Background

2. The RHI is the Government's key mechanism for driving uptake of renewable heat to deliver the UK's contribution to the EU renewables target with the aspiration of generating 15% of energy from renewable sources by 2020. The Executive has decided that NI's contribution should be to achieve 4% renewable heat by 2015, as set out in the PFG, and 10% by 2020 as set out in the Strategic Energy Framework. This target contributes to the Executive's carbon reduction target of 35% reduction in GHG by 2025.

The non-domestic RHI scheme was introduced in NI in November 2012. A domestic RHI scheme was introduced in December 2014.

Ofgem is responsible for the administration of the Non-domestic RHI scheme on behalf of DETI, providing information to those thinking of applying for the RHI, renewing applications, receiving and examining meter data and making payments to participants.

The scheme provides a 20 year payment to successful applicants to incentivise the move away from fossil fuels such as gas and, predominantly in NI, oil to renewables technologies such as solar, ground source heat pumps and biomass. Without subsidisation there would be no move away from fossil fuels as the sustainable technologies are more expensive. In NI the overwhelming majority of renewable heating installations supported under both the Non-Domestic and Domestic RHI have been for biomass.

Approvals

3. The current basis for DFP approval for the non-domestic scheme was a business case which was agreed in April 2012. This included a commitment that any decision to continue the scheme beyond 2015 would require further/separate DFP approval. There was also a requirement to review the scheme starting in 2014.
4. Regrettably the necessary DFP approval for additional commitments under the Non-Domestic Scheme beyond 31 March 2015 has not been sought. The Department undertook work on a review of the Non-Domestic RHI with proposals being subject to public consultation in October 2013. Following this consultation, the Department focussed on implementation of the Domestic RHI Scheme, and proposed actions on the Non-Domestic RHI were delayed to accommodate this.

5. Given the position on approvals, we have been urgently assessing options to prevent ongoing, irregular funding. This concerns committed expenditure for new applications approved from 1 April. Committed expenditure (over 20 years) for applications approved prior to 1 April 2015 is covered by the Business Case approval. Unfortunately any room for manoeuvre is limited. The basis for the scheme is statutory and it is not possible to cease, suspend or otherwise delay applications. This has been confirmed (verbally) by DSO (we await written confirmation). Effecting legislative change requires affirmative resolution of the NI Assembly so will take at least 3 months to complete, and we are urgently taking work forward in this regard.

6. The Department is also, urgently taking forward work to provide supplementary information in support of the original business case that will seek to regularise the position in relation to the Scheme expenditure (both RHI payments and administration costs) both prospectively and retrospectively. This will include an assessment of the scheme’s continuous and continuing provision of value for money in achieving the Executive’s sustainable energy objectives.

Budgets

7. From late 2014 uptake for the non-domestic scheme has taken off and forecast expenditure on the Non-Domestic and Domestic elements together in 2015/16 is estimated to be £23m – roughly double the previous forecast made in November 2014. In light of the increase in scheme uptake, the previous 15/16 forecast of £11.64m (November 2014) is no longer appropriate and further funding is needed to meet unavoidable commitments – an increased AME in line forecast for this total was recently submitted to inform the Chancellor’s July Budget. This rapid increase is due to the NI poultry industry adopting biomass heating technologies for its chicken houses. This increased uptake assists delivery of Executive targets, supporting the agrifood sector and providing environmental benefits. Nonetheless additional controls are being considered (see below) to ensure that the scheme delivers the best value for money option and appropriate budgetary control on an ongoing basis.

As we agreed at our meeting, we are in the process of writing formally to DECC as a means of getting further clarity on the exact nature of the funding agreement for expenditure on both the Non-Domestic and Domestic RHI. I will revert to you as soon as possible on this and this should give us greater clarity on the Resource/Capital split as well as the individual and overall funding mechanisms for each of the Domestic and Non-Domestic elements.
Future Controls

8. The speed with which uptake of one particular technology (Biomass) has taken off has led us to consider measures to control future expenditure and maximise value for money. These measures include:

- The introduction of a tiered tariff for new biomass installations where the tariff significantly reduces after 1,314 hours of usage;
- Consideration of introducing a digression mechanism for tariffs for new renewable heating installations such that if scheme uptake exceeds triggers based on factors such as application numbers or budgetary estimates, there will be an automatic reduction in the tariff available; and
- Consideration of a straight tariff reduction for the most popular biomass tariff.

Together, these measures will ensure more sensitive budgetary control in the short and long term; mitigate over-reliance on one technology; strengthen value for money assessment and continue to incentivise the growth in renewable heat to attain the Executive’s 10% target.

Conclusion

9. This note sets out the actions we are taking to regularise the position on the non-domestic RHI. I will follow on as soon as possible with feedback from DECC on the budget position with a formal submission that will seek to regularise expenditure incurred prior to any legislation changes and that would be incurred up to the point at which we can legislate further change, and then a business case that will cover the changes that we propose be introduced in legislation.

10. As discussed in our stocktake meeting, I will write separately to you regarding assurance in respect of approvals for other projects and Programmes within Energy Division.

TREVOR COOPER
Head of Finance Division

cc: Andrew McCormick
Chris Stewart
Eugene Rooney
John Mills
Bernie Brankin
Stuart Wightman
Angela Millar, DFP
John / Trevor / Shane

Please see attached draft Supplementary Business Case which I've prepared. To inform our discussion. This is very much work in progress so can be amended as necessary.

Thanks

Stuart
1. INTRODUCTION

1.1 In its Programme for Government (PfG) the Executive has a target of achieving 4% renewable heat by 2015. This is an interim milestone to achieving 10% renewable heat by 2020 in line with the Executive endorsed Strategic Energy Framework (SEF). In pursuit of these targets, the interim Renewable Heat Premium Payment (RHPP) and the Non Domestic Renewable Heat Incentive (ND RHI) schemes were introduced in May and November 2012 respectively. The full Domestic RHI Scheme was introduced in December 2014 to replace the RHPP. The proposed tariffs for both RHI schemes were developed on behalf of DETI through an external consultancy exercise carried out by Ricardo-AEA. Copies of these reports are attached at Annexes B & C.

1.2 This Supplementary Business Case seeks DFP approval to continue the ND RHI scheme for the 5 year period 1 April 2015 to 31 March 2020. This would align with the approval for the Domestic RHI Scheme. It also seeks approval to continue to use the Office of Gas and Electricity Markets (Ofgem) to administer the scheme and to widening the scheme out to new technologies in the future. This paper is structured as follows:

2 Background Page 2
3 Value for Money Assessment Page 5
4 Scheme Performance and Affordability Page 8
5 Planned Tariff Changes – Biomass Tariffs Page 14
6 Phase 2 Non Domestic RHI Proposals Page 18
7 Scheme Administration Page 22
8 Recommendations / Conclusions Page 24
9 Annexes Page

A - Original CEPA Report (2011)
B - Non-domestic Business Case (2012)
D – Phase 2 Consultation Document
E - DSO Advice on Scheme Suspension
F – VFM Analysis (Before and After Tariff changes)
G – DARD Paper on Poultry Shed Heating Requirements
BACKGROUND

The Northern Ireland Renewable Heat Incentive (RHI)

2.1 The EU Renewable Energy Directive (2009/28/EC) set a binding target that 20% of the EU’s energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020 and Northern Ireland is expected to contribute to this share. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption are required for the UK to meet its requirements.

2.2 Heating energy accounts for around half of all total energy consumed within Northern Ireland with over 98% of our heating fuels coming from imported fossil fuels. Renewable heat is simply heat produced from renewable sources such as solar radiation, biomass materials, heat pumps, geothermal energy and waste materials. The Executive’s 2010 Strategic Energy Framework (SEF) includes a target of 10% renewable heat by 2020 against a 2010 base of 1.7%.

2.3 In order to achieve the UK renewable heat target, DECC introduced a GB Renewable Heat Incentive for the non-domestic market in November 2011. Northern Ireland (NI) was not included within that scheme because of the differences in the two heat markets. In GB the natural gas market is prevalent and accounts for 68.8% of heating demand with oil only accounting for 10%. This is very different from the NI situation where refined oil products account for over 70% of the overall heat demand.

2.4 A separate assessment on the level of incentive (tariff) for the NI RHI was completed (Annex A) to inform the final business case (Annex B). This was approved by DfP in April 2012 and the NI ND RHI scheme introduced in November 2012. A revised assessment was also completed in 2013 to inform the Phase 2 Review of the RHI (Annex C).

2.5 £860million was made available from central Government funding to support the introduction of a Renewable Heat Incentive (RHI) in GB over the period 2011-2015. £25million of funding was made available by HMT for a NI RHI over the same period. A further allocation of £11.6m was made available for 2015/16 in line with the Department’s AME forecast submitted in November 2014. However due to a significant increase in uptake of the NI RHI scheme over the past 9 months, an increased 2015/16 budget requirement of £23m was submitted in June 2015 as part of a 6 year AME forecast to inform the Chancellor’s July 2015 Budget.

2.6 The NI RHI supports the uptake of renewable heat technologies (biomass, heat pumps, solar thermal, geothermal, etc) by providing regular incentive payments over the lifetime of the technology for actual heat energy generated. The level of tariff is dependent on
the size and type of technology and is calculated to cover capital costs, operating costs and non-financial ‘hassle’ costs over the lifetime of the technology. To date, the NI RHI schemes have increased renewable heating to around 3½% and the Executive’s interim target of 4% is expected to be achieved before the end of 2015. The RHI is expected to continue to increase the level of renewable heat in line with the longer term targets set by the EU and by the Executive.

**Previous DFP Approval**

2.7 The interim domestic Renewable Heat Premium Payment (RHPP) and the ND RHI schemes were introduced in May and November 2012 respectively. The full Domestic RHI Scheme was introduced in December 2014 to replace the RHPP. The proposed tariffs for the ND RHI and RHPP schemes were developed on behalf of DETI through an assessment carried out by Ricardo-AEA (Annex A). This assessment informed the business case for both schemes (Annex B). This was approved by DFP in April 2012 on the basis that:

- **Whilst the scheme is envisaged to be open to new installations until 2020, approval is given for the period 1 July 2012 to 31 March 2015, representing the period for which HMT funding has been secured. Any decision to continue the scheme beyond 2015 would require further/separate DFP approval;**

- **As outlined in Section 7.53 of the Business Case, arrangements are put in place for scheduled reviews to allow the progress of the scheme to be monitored, assessed and if necessary, changes implemented. It is noted that the first review is scheduled to start in 2014 and that the reviews will be carried out by DETI.**

2.8 With low levels of uptake and under spends with both RHI schemes, the Department undertook a Phase 2 Review of the RHI in 2013 to improve scheme performance. This included proposals to:

- extend the Non Domestic scheme to further renewable heating technologies;
- introduce a full Domestic RHI Scheme with annual tariff payments (to replace the RHPP scheme);
- introduce biomass sustainability and emission standards; and
- introduce annual cost control measures.

The proposals were subject to public consultation in October 2013 (Annex D) and informed by a further detailed assessment carried out by Ricardo-AEA (Annex C).

2.9 Following the public consultation, the Department prioritised implementation of the domestic scheme over the non domestic phase 2 proposals. This involved securing EU State Aid and DFP approval and putting in the place the necessary Domestic RHI legislation.
Need for Further DFP Approval

2.10 Regrettably, with the focus on implementing the domestic scheme, the need to secure further DFP approval to continue the ND RHI scheme beyond 31 March 2015 was overlooked and not sought. DETI Energy officials had wrongly assumed that like the domestic scheme, approval for the Non-domestic scheme had been secured until scheme closure in March 2020.

2.11 Given this position on approvals for the ND RHI Scheme, the Department has been urgently assessing options to prevent ongoing, irregular funding. This concerns committed expenditure for new non domestic applications approved from 1 April 2015. Committed expenditure (over 20 years) for applications approved prior to 1 April 2015 is covered by the original Business Case approval in 2012.

2.12 Unfortunately any room for manoeuvre is limited. The basis for the scheme is statutory and it is not possible to cease, suspend or otherwise delay applications. This has been confirmed by DSO (Annex E). Effecting legislative change requires affirmative resolution of the NI Assembly and will take at least 3 months to complete. The Department is urgently taking work forward legislative proposals to reduce tariffs for new biomass installations (which make up 97% of all applications). This is covered in more detail in Section 5.

2.13 The Department is seeking DFP approval to regularise the position in relation to the ND RHI Scheme expenditure (both RHI payments and administration costs) both retrospectively from 1 April 2015 and prospectively to 31 March 2020 on the basis of the scheme’s continuous and continuing provision of value for money. Section 3 includes an assessment of the ND RHI scheme’s continuous and continuing provision of value for money has been completed and request.
3. VALUE FOR MONEY (VFM) ASSESSMENT

VFM Assessment of Scheme Expenditure up to 31 March 2015

3.1 A cost benefit analysis of the renewable heat incentive was undertaken in the original business case for the scheme by the consultants CEPA and Ricardo-AEA (Annex A). They developed an economic model which assessed the expected uptake of renewable heat together with the displacement of oil and gas that this implied. Carbon and oil savings were calculated with carbon savings being monetised. The analysis found that the NPV for the scheme was £-242m assessed against a do nothing approach.

3.2 CEPA and Ricardo-AEA also undertook an assessment of the development of Phase 2 of the Renewable Heat Incentive in 2013 (Annex C) which included development of the Domestic RHI Scheme and a number of new technologies/tariffs for the Non-domestic scheme. Quantifiable benefits identified again related to carbon emissions which were valued using DECC’s methodology. Quantifiable costs are made up of the subsidy payments plus an allowance for administration costs. The consultants’ conclusion was that none of the options had a positive NPV purely on a quantitative basis. They did conclude that the net effect of renewable heat on employment would be positive but did not attempt to quantify this. While concluding that the costs appear to outweigh the benefits for all options they calculated the cost-effectiveness of the options.

3.3 It was concluded that introducing a seven year tariff for the Domestic RHI together with a number of new Non Domestic tariffs / technologies (e.g. CHP, District Heating, large biomass, etc) was the most cost-effective option. The full Domestic RHI Scheme was introduced in December 2015. Some of the Phase 2 Non Domestic proposals are to be taken forward in 2016. These are covered in Section 6.

VFM Assessment of Scheme Expenditure from 1 April 2015

3.4 To assess the Non Domestic RHI scheme’s continuous and continuing provision of value for money in achieving the Executive’s sustainable energy objectives, we have calculated the costs and benefits of new installations accredited onto the scheme since March 2015. The costs of the scheme relate to the actual payments made or anticipated to be made for the projects assisted. The benefits relate to the carbon savings using the DECC methodology as before. For the first time we have attempted to quantify the employment benefits.

3.5 Estimated annual RHI payments have been calculated by taking the estimated monthly payment for each individual application and factoring up to an annual basis. Three months of actual data was used. This was doubled to give an estimate of scheme expenditure for the six month period from March to September 2015. Tariff reductions will are proposed from October 2015. Total committed annual expenditure for the six
months of new applications is estimated to be £7.64m. This expenditure is then forecast to be paid for 20 years.

3.6 The benefits of the carbon savings were calculated using DECC’s central forecast of carbon values for appraisal in the non-traded sector. These carbon values were applied to the total estimated tonnes of carbon equivalent saved by the RHI to get an annual cost saving. Taking the costs and carbon benefits would result in the scheme for the six months of applications having a net present cost of £56.79m.

3.7 The previous consultants’ studies did mention positive employment benefits but did not attempt to quantify them. In a separate piece of analysis for DETI in relation to the costs and benefits of the Executive’s 40% renewable electricity target, consultants Ricardo-AEA estimated the job-years created by different renewable technologies and the gross value added to the NI economy that this employment would bring. We have used the same methodology to estimate the benefits of the RHI scheme to NI. Using the estimate of 74.5 job-years per MW of biomass installed and an average GVA per job of £51,092, it is estimated that the six month tranche of RHI installations generates an annual benefit of £5.44m1.

3.8 The overall NPV of the six months tranche of RHI support, taking into account the subsidy costs together with the environmental and employment benefits is £2m. This is shown in the table below. The detailed analysis is attached at Annex F.

<table>
<thead>
<tr>
<th>Cost / Benefit Description</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of RHI for projects Apr-Sept</td>
<td>-£160.53</td>
</tr>
<tr>
<td>Carbon reduction benefits (£)</td>
<td>£53.95</td>
</tr>
<tr>
<td>Estimated Jobs GVA (£)</td>
<td>£114.17</td>
</tr>
<tr>
<td>Net</td>
<td>£7.59</td>
</tr>
<tr>
<td>NPV (£m)</td>
<td>£2.02</td>
</tr>
</tbody>
</table>

3.9 Previous studies have shown that the RHI has a net present cost to the economy and the most cost-effective tariff scheme was chosen for both sectors (Non Domestic / Domestic) to attempt to meet the 10% target for renewable heat delivered in 2020. The analysis for the six months tranche of assistance also shows a negative NPV. However when the employment benefits are quantified the CBA becomes marginally positive.

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1 Source of figures: ‘Ricardo AEA review of the Costs and Benefits of the Northern Ireland Executive’s 40% Renewable Electricity Target’- Report for DETI, May 2015. With 74.5 job-years per MW, biomass is one of the highest energy employers. For example, Solar PV is estimated to create 16.7 job-years per MW. The higher biomass jobs figure is likely to be explained by ongoing cultivation of fuel and greater O&M needs. Ricardo has calculated the GVA figures as a weighted average of employment type associated with renewables based on economic data published by NISRA. As a sense check GVA figures used in analysis by DETI economics branch fall within Ricardo’s range and imply that Ricardo’s GVA figures may be conservative.
3.10 It should be noted that the estimate of employment benefits is very much reliant on assumptions taken with regard to the Northern Ireland electricity sector and further analysis would be needed to confirm these assumptions for the heat sector. Care should therefore be taken in quantifying the employment benefits because of this degree of uncertainty and whether additionality of jobs has been fully tested. Nevertheless it can be concluded that the job creation will be positive to the economy and has the potential of making the RHI scheme positive as a whole.

The Department is seeks DFP approval to regularise the position in relation to ND RHI Scheme expenditure (both RHI payments and administration costs) both retrospectively from 1 April 2015 and prospectively to 31 March 2020 on the basis that the scheme’s continuous and continuing provision of value for money has been demonstrated.
4. SCHEME PERFORMANCE AND AFFORDABILITY

4.1 Both RHI schemes are demand led. It is therefore difficult to predict and manage future uptake and expenditure. For this reason HMT agreed to fund the RHI through Annual Managed Expenditure (AME). £25m of AME was initially allocated to the NI RHI for the 4 year 2011-15 period. This initial allocation was based on the Barnett’s formula with NI receiving 2.98% of the DECC allocation of £860m.

4.2 A delay in securing EU State Aid approval meant that the ND RHI scheme couldn’t be introduced until November 2012. This delay together with low levels of uptake generated an under spend of around £14m during the first 4 years. This is much needed investment that the NI economy has effectively lost out on, particularly given our current economic climate. The Department’s focus over the past 12 months has therefore been on trying to improve the performance of the RHI to achieve the Executive’s PfG target of 4% renewable heat in 2015 and ensure that the renewable heating sector and the wider NI economy benefits from this investment. This included introducing the full Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign during 2014/15.

4.3 Table 4.3 shows how the ND RHI has performed over its first 4 years in terms of application numbers, expenditure and the amount of renewable heat incentivised. Despite the drop in oil prices over the winter months, there has been a significant increase in scheme uptake over the last 12 months.

Table 4.3 – Scheme Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Application Nos</th>
<th>Committed RHI Expenditure</th>
<th>Incentivised Renewable Heat (GWhr)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monthly</td>
<td>Annual</td>
<td>Commitment Monthly Expenditure (at year start)</td>
</tr>
<tr>
<td>2012/13*</td>
<td>3</td>
<td>9</td>
<td>£0</td>
</tr>
<tr>
<td>2013/14</td>
<td>10</td>
<td>119</td>
<td>£18,612</td>
</tr>
<tr>
<td>2014/15</td>
<td>36</td>
<td>435</td>
<td>£266,772</td>
</tr>
<tr>
<td>2015/16**</td>
<td>53</td>
<td>318</td>
<td>£1,160,148</td>
</tr>
<tr>
<td>(Apr-Sep)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015/16**</td>
<td>40</td>
<td>240</td>
<td>£42,960</td>
</tr>
<tr>
<td>(Oct-Mar)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Based on only 3 months in 2012/13.

**Includes base levels of 300GWh (1.7%) in 2010 and 33GWh incentivised through Domestic RHI / RHPP by 25/7/15.

***Estimated figures for quarters 1 & 2 of 2015/16 are based on actual application numbers from April to June.
4.4 The total number of applications has increased from 200 to over 750 during the last 12 months. Over 50 applications are now being received every month. If these uptake levels are retained, the PfG 4% target will be achieved before the end of the calendar year. This recent increase in applications has been driven by a move in the NI poultry sector away from LPG to biomass heating systems for its broiler houses. Table 4.4 shows the technology mix of applications received to date.

<table>
<thead>
<tr>
<th>Technology</th>
<th>Banding</th>
<th>Tariff / kwh</th>
<th>Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground Source Heat Pump</td>
<td>&lt; 20 kw</td>
<td>9.0p</td>
<td>3 (0.4%)</td>
</tr>
<tr>
<td></td>
<td>20 – 99 kw</td>
<td>4.6p</td>
<td>3 (0.4%)</td>
</tr>
<tr>
<td></td>
<td>&gt; 100 kw</td>
<td>1.3p</td>
<td>0</td>
</tr>
<tr>
<td>Solar Thermal</td>
<td>&lt; 200 kw</td>
<td>9.1p</td>
<td>3 (0.4%)</td>
</tr>
<tr>
<td>Biomass</td>
<td>&lt; 20 kw</td>
<td>6.7p</td>
<td>3 (0.4%)</td>
</tr>
<tr>
<td></td>
<td>21 – 99 kw</td>
<td>6.4p</td>
<td>725 (96.7%)</td>
</tr>
<tr>
<td></td>
<td>&gt; 100 kw</td>
<td>1.5p</td>
<td>13 (1.7%)</td>
</tr>
<tr>
<td>Biomethane Combustion &amp; Injection</td>
<td>All sizes</td>
<td>3.3p</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>750</td>
</tr>
</tbody>
</table>

4.5 Biomass heating systems in the 21-99 kw banding make up 725 (or 97%) of all applications received to date. Over 75% of current biomass applications are for 99kw installations for the poultry sector. Conversion to biomass heating under the NI RHI not only provides the poultry industry with a cost effective, low carbon alternative to gas, but more importantly keeps chicken litter drier, reducing ammonia levels, boosting bird growth and improving bird welfare.

4.6 The ND RHI scheme clearly has an important role to play in the future performance of the poultry industry which forms an essential part of the NI economy in terms of jobs and investment. However, it is important that the ND RHI scheme not only remains affordable and provides the right level of incentive but also that an appropriate mix of renewable heating technologies is incentivised for security of supply purposes.

4.7 With only nine (1.2%) applications received for technologies other than biomass, there is clearly a need to try and increase uptake of the other technologies. Section 6 outlines the Phase 2 proposals to extend the ND RHI to a number of new technologies and tariffs including increasing the tariff for biomethane to encourage applications. Section 5 covers the Department’s proposals to reduce incentives for new biomass installations.

**Scheme Affordability**

4.8 The recent increase in uptake has seen committed monthly ND RHI payments rise from £430k to over £1.4m over the last 12 months. Forecast expenditure for both RHI schemes in 2015/16 is now £23m. This is nearly twice the Department’s previous AME 2015/16 forecast (made in November 2014) although with previous underspends total
scheme expenditure during the 2011/12 - 2015/16 period is still expected to be within the 5 year budget allocation of £37.8m (£25m + £12.8m).

4.9 The initial 4 year AME allocation of £25m (£2m/£4m/£7m/£12m) was profiled to reach £12m by 2014/15. The original 2012 business case (Annex B) assumed that the 10% renewable heat target could be achieved by 2020 by continuing to increase the annual allocation by £5m to reach a maximum of £42m in 2020/21. However, the revised CEPA / Ricardo-AEA assessment completed in 2013 (Annex C) concluded that the 1,000 GWh of renewable needed to achieve the 10% target in 2020 could not be achieved within a £42m constraint in 2020/21.

4.10 To achieve 1,000 GWh within these assumed allocations, the average heat costs (tariffs) for both RHI schemes would have to be 4.2 p/KWh or less for all technologies. Experience with both the GB and NI RHI schemes has shown that rates of 4.2p/KWh or less would not provide the investment returns necessary (i.e. 12%) to attract investors into a new industry and generate sufficient levels of uptake to meet UK and EU targets. Apart from the sharp increase in biomass applications over the last 12 months, uptake of the ND RHI scheme for other technologies has been low even with rates significantly higher than 4.2p/KWh. A fine balance therefore exists between providing an incentive/tariff that is high enough to attract applications and uptake but is low enough to be affordable and provide value for money. Section 3 provides an assessment of the ND RHI scheme’s continuous and continuing provision of value for money.

4.11 In light of the recent increase in ND RHI uptake and expenditure, a revised AME forecast was submitted to DFP in June 2015 to inform the Chancellor’s July 2015 budget. Table 4.11 compares this recent forecast against the profile assumed in the original 2012 RHI business case. It also includes a profile based on the Barnett’s consequential (2.98%) of DECC’s most recent forecasts for the GB RHI.

<table>
<thead>
<tr>
<th>Table 4.11 – RHI AME Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast</td>
</tr>
<tr>
<td>Domestic Capital</td>
</tr>
<tr>
<td>Domestic Resource</td>
</tr>
<tr>
<td>Non Domestic Resource</td>
</tr>
<tr>
<td>Assumed Business Case Profile (2012)</td>
</tr>
<tr>
<td>Barnett’s % of GB RHI Forecast</td>
</tr>
</tbody>
</table>

4.12 The June 2015 forecast factors in the Department’s proposed reductions to ND RHI incentives for biomass from the autumn 2015 and assumes that new application numbers and associated expenditure will reduce as a result. But the June forecast is
still significantly higher than the AME profile assumed in the original business case. Forecast expenditure in 2020/21 is now £54.7m compared to the £42m originally assumed in the business case. This reflects the fact that the current tariffs for both the domestic and non domestic schemes have had to be higher than 4.2p kw/h to try and attract uptake and stimulate a new market.

4.13 Although forecast expenditure in 2020/21 is over £11m lower than the DECC based figure of £65.9m, it is significantly higher in earlier years. This highlights the need for future AME allocations for the NI RHI to be determined by need and not constrained by DECC’s forecasts/profile through the Barnett’s formula. Application numbers for the NI RHI scheme are currently running at 6% of the GB scheme so despite the difference in population and size the Barnett’s 2.98% allocation isn’t appropriate going forward.

4.14 As highlighted in Section 2, the GB RHI and NI RHI are different schemes targeting significantly different heating markets. With oil accounting for 70% of the NI heating market (unlike GB where natural gas is prevalent), there is much more scope for incentivising both households and businesses to switch to renewable heating technologies. Not only does oil tend to be more expensive than gas, the rural nature of NI makes it more suitable for renewable technologies such as biomass and Combined Heat and Power (CHP). In addition, the poultry sector in NI, currently the largest convert to renewable heating (biomass), with 800 broiler houses is four times the size of that in England (with 200 houses). Moy Park’s current expansion will see the number of NI poultry houses (and biomass applications) increase even further.

4.15 Table 4.15 provides an estimated projection of the levels of renewable heat that might be incentivised through the ND RHI scheme and afforded within the most recent expenditure forecast after changes are made to the biomass tariff in the autumn. It doesn’t factor in any increases in uptake or expenditure associated with the Phase 2 proposals for the scheme. These are set out in Section 6.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ave Applications</th>
<th>Committed ND RHI Expenditure</th>
<th>Incentivised Renewable Heat (GWhr)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monthly</td>
<td>Annual</td>
<td>Financial Year Total</td>
</tr>
<tr>
<td>2015/16</td>
<td>46.5</td>
<td>558</td>
<td>£1,160,148</td>
</tr>
<tr>
<td>2016/17</td>
<td>30</td>
<td>360</td>
<td>£2,075,532</td>
</tr>
<tr>
<td>2017/18</td>
<td>20</td>
<td>240</td>
<td>£2,462,172</td>
</tr>
<tr>
<td>2018/19</td>
<td>15</td>
<td>180</td>
<td>£2,719,932</td>
</tr>
<tr>
<td>2019/20</td>
<td>10</td>
<td>120</td>
<td>£2,913,252</td>
</tr>
<tr>
<td>2020/21</td>
<td>N/A</td>
<td>N/A</td>
<td>£3,042,132</td>
</tr>
</tbody>
</table>

Future Domestic RHI Contribution (2015-2020)  
167  951  7.69%

NIRO (CHP) Contribution (2010-2020)  
50  1,001  7.99%

*Includes base levels of 300GWh (or 1.7%) in 2010 and 33GWh of heat already incentivised through Domestic RHI / RHPP
4.16 With the Department’s increased expenditure forecast, it estimated that 8% renewable heat can be achieved by 2020. In the longer term, oil prices are expected to increase again which will in theory make the current RHI tariffs more attractive and possibly enable them to be reduced to deliver increased uptake without increasing scheme expenditure. However, this is unlikely to be enough to achieve the 10% target. This is why the Department completed a Phase 2 review of the RHI. Section 6 sets out the Phase 2 proposals for the Non Domestic Scheme which include:

- introducing a number of new tariffs and technologies including Combined Heat and Power (CHP) and Air Source Heat Pumps;
- increasing the tariffs for poor performing technologies such as biogas injection/combustion to stimulate interest; and
- introducing a system of annual cost control (including the ability to adjust tariffs in year without legislation).

4.17 Even with the Phase 2 proposals, it will clearly be a challenge to achieve 10% renewable heat within the current AME forecast. It is likely that higher tariffs and increased expenditure will be needed to deliver the necessary levels of uptake. However, this cannot be assessed until the Phase 2 proposals are fully implemented.

Expenditure Forecasts

4.18 The biggest challenge with forecasting future ND RHI expenditure is that uptake levels and individual payments fluctuate month by month. Estimated ND RHI quarterly payments must be accrued for all accredited systems until such time as the individual businesses submit their meter readings online to Ofgem. This can take many months. There can also be quite a variation on the payment amount depending on the type of business and of course the weather. This is what happened with the large increase in biomass applications from the poultry industry. Forecast payments for new applications had been based on the average operating hours of previously accredited installations which had typically been around 2000 hours / year generating a payment of around £12,700. The poultry installations subsequently proved to have average operating hours of 4800 and annual payments of up to £30,000.

4.19 Similar variations can arise when forecasting increased ND RHI expenditure for new applications. The current forecast assumes £100k of additional monthly expenditure based on receiving 50 applications. If more or less applications are received in any given month, this can have a significant impact on financial year expenditure particularly if it occurs early in the year. For example, if expenditure associated with new applications proves to be £150k (i.e. £50k more) in April, this increases the annual expenditure by £600k (i.e. 12 x £60k).
4.20 Tariff changes can also generate over/under spends. If new tariffs are too low, poor uptake will lead to underspends. If tariffs are too high, there could be overspends. Tariff changes require legislation which can take 6 months or more to implement whilst over/under spends continue to grow. To address this and provide much more flexible inyear budgetary controls, the Department plans to introduce an annual system of degression where tariffs can be changed to address low or high levels of uptake. More information on these proposals is covered in Section 6.

4.21 All these difficulties around forecasting are why DECC produce 3 different forecasts (low / medium / high) for the GB RHI scheme. The Domestic RHI scheme on the other hand is much easier to predict with fixed upfront payments and annual payments determined by the Energy Performance Certificate (EPC) for the property. However, the Domestic RHI Scheme currently only accounts for 13% of total RHI expenditure. To manage the difficulties around ND RHI forecasting, rather than seeking approval for a specific expenditure profile which will no doubt continue to increase or reduce to reflect inyear changes to scheme uptake, it would be much more practical to forecast an expenditure range like DECC based on the future cost of incentivising renewable heat.

Table 4.22 – Proposed Forecast Range for Non Domestic RHI Expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Current ND RHI Exp Forecast (June 2015)</th>
<th>Proposed Forecast Range</th>
<th>Incentivised Renewable Heat (GWhr)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low (1p/KWh)</td>
<td>Medium (2.5p/KWh)</td>
</tr>
<tr>
<td>2015/16</td>
<td>£21,071,364</td>
<td>£21,071,364</td>
<td>£21,071,364</td>
</tr>
<tr>
<td>2016/17</td>
<td>£27,419,544</td>
<td>£25,881,384</td>
<td>£27,343,884</td>
</tr>
<tr>
<td>2017/18</td>
<td>£31,221,504</td>
<td>£27,681,384</td>
<td>£31,843,884</td>
</tr>
<tr>
<td>2018/19</td>
<td>£33,895,764</td>
<td>£29,427,217</td>
<td>£36,208,467</td>
</tr>
<tr>
<td>2019/20</td>
<td>£35,796,744</td>
<td>£31,073,051</td>
<td>£40,323,051</td>
</tr>
<tr>
<td>2020/21</td>
<td>£36,505,584</td>
<td>£31,806,384</td>
<td>£42,156,384</td>
</tr>
<tr>
<td></td>
<td>Future Domestic RHI Contribution</td>
<td></td>
<td>167</td>
</tr>
<tr>
<td></td>
<td>NIRO (CHP) Contribution</td>
<td></td>
<td>50</td>
</tr>
</tbody>
</table>

*Includes base levels of 300GWh renewable heat in 2010 and 33GWh of heat already incentivised through Domestic RHI / RHPP

4.22 Table 4.22 provides three different forecasts of the levels of future ND RHI expenditure needed to achieve the 10% target based on incentivising at rates of 4p/KWh, 2½ p/KWh & 1½ p/KWh. The Department’s current ND RHI expenditure forecast falls in between the low and medium range.

The Department is seeking DFP approval for future Non Domestic RHI scheme expenditure within the range set out in Table 3.22 above. The Department will continue to submit regular AME forecasts within this range as part of in year monitoring rounds.
5. **BUDGET MANAGEMENT / COST CONTROL**

**Background**

5.1 The need for additional cost control measures has arisen primarily as a result of high uptake of ND RHI biomass from the poultry industry over the past 12 months which has seen committed monthly payments rise from £430k to over £1.4m. The Department currently forecasts £23m of expenditure for both RHI schemes in 2015/16. This is almost twice the previous forecast made in November 2015 which had been based on historic application and payment levels.

5.2 In addition to average application numbers increasing from under 30 to over 50/month, more significant was the increase in average payment. The poultry industry requires constant utilisation of its heating, which results in much longer operating hours than other sectors and therefore attracts much higher RHI payments.

5.3 The ND RHI Scheme’s continuous and continuing value for money is demonstrated in Section 3. However, the recent increase in biomass applications demonstrates that the tariffs now need reduced to reflect a drop in technology costs. However, making changes to tariffs requires legislation which can take up to 6 months to complete depending on the complexity.

5.4 To address this recent surge in applications and committed expenditure, the Department is currently drafting legislation to reduce biomass tariffs for future applicants. Subject to Ministerial and Assembly clearance, it is hoped these initial changes can be implemented in October 2015. In the longer term, the Department also plans to introduce an annual system of degression where tariffs will automatically change if in-year expenditure or application triggers are reached.

**Current Incentives (Rate of Return) for Biomass**

5.5 Since 2012, the ND RHI scheme has received 749 applications. Of these the vast majority, (740), are for biomass technology and 555 of these (or 75% of the biomass applications), are for 99kW boilers mostly in the poultry sector. To inform the tariff changes, the Department therefore asked the Department of Agriculture and Rural Development (DARD) to complete an assessment of the heating needs of a typical poultry house (Annex G).

5.6 All the original biomass tariffs were based on providing a Rate of Return of 12% where the initial capital outlay for installing the renewable heating system would be paid back within 7-8 years. The DARD report shows that 388,000kWh of biomass heat is the upper limit of the expected annual heat requirement for a typical poultry shed. Taking the 99kW boiler as the main provider of heat in most situations and 90% efficiency, this equates to some 4,355 annual hours of operation (388000 / (99x0.9)). The DARD report
shows that a maximum incentive of 1.5p/kWh is now required over a comparable LPG heating system to cover the difference in fuel and running costs.

If fuel/running costs (1.5p/kWh) are deducted from the current tariff of 6.4p/kWh, this leaves a tariff of 4.9p/kWh for determining the Rate of Return. If we assume 90% boiler efficiency the maximum estimated annual payment for a typical poultry house is:-

\[ 388,000 \times 90\% \times 0.049 = £17,111 \]

5.7 The capital cost of a typical 99kW biomass heating system is £50,000. The current RHI tariffs are therefore currently delivering payback in around 3 years (or 33%). However, it must be emphasised that the Rate of Return for other sectors with different boiler sizes or lower operating hours will much less. For example, the Rate of Return for a 99kW boiler with 2,000 annual hours (typical for other sectors) is just under 6 years (or 17%).

5.8 Given that the expected payback for capital investments of this nature would be 7 – 8 years (or 12%), the position above reflects the reduction over time in biomass technology costs. This situation plus the issue of affordability going forward requires the biomass RHI tariffs to be reduced whilst still maintaining a sufficient incentive to ensure uptake of the technology.

Proposed Changes to Biomass Tariff

5.9 The current tariff banding, (20-99kW), has resulted in a large number of applications for 99kW boilers. It is proposed to widen this banding up to 199kW, (as is the position in GB), to reduce the number of smaller inefficient boilers and encourage larger more efficient installations. A two tier tariff system will also be introduced. The standard tariff will apply to the first 1314 peak hours (15% of total possible hours). This is in line with the position introduced by DECC for the GB scheme. Hours over and above these peak hours will be paid at the reduced tariff rate of 1.5p/kWh. The rationale for the introduction of the tiered tariff is that the RHI uplift for the peak hours is towards the capital repayment, whilst the 1.5p/kWh is towards running costs.

5.10 Using the example as quoted above the revised annual figures would be:-

\[ \text{Tier 1: } 1314 \times 99 \times 90\% \times 0.049 = £5,737 \text{ (contribution towards return on capital)} \]
\[ \text{Tier 2: } 4,355 \times 99 \times 90\% \times 0.015 = £5,820 \text{ (contribution towards running costs)} \]
\[ \text{Total Annual Payment = £11,557} \]

This example shows that capital payback (at £5,737/yr) would be achieved in 8.7 years (or 11.5%). The Rate of Return will be the same for all boilers if the same size if the operating hours are 1314 or higher.

5.11 Evidence from the poultry industry would suggest that 99kW biomass boilers don’t meet all the heating requirements of a poultry house during certain stages of chicken
development or during periods of colder weather. LPG is used to meet the additional heating requirements during these periods. Extending the 6.4p/kWh tariff to biomass plants up to 199kW in size is therefore likely to incentivise the poultry industry to install boilers significantly larger than 99kW to meet all its heating needs and remove the need for LPG. Using 388,000 kWh as the maximum heat requirement of a typical poultry house and assuming 90% boiler efficiency, the annual incentives for a 150kW and 199 kW are shown below:

<table>
<thead>
<tr>
<th>Boiler Size</th>
<th>150 kW</th>
<th>199 kW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Capital Cost</td>
<td>£75,000</td>
<td>£90,000</td>
</tr>
<tr>
<td>Annual Operating Hours</td>
<td>388,000 / (150 x 90%) = 2,874 hours</td>
<td>388,000 / (199 x 90%) = 2,166 hours</td>
</tr>
<tr>
<td>Tier 1 Payment (capital return)</td>
<td>1314 x 150 x 90% x 0.049 = £8,692</td>
<td>1314 x 199 x 90% x 0.049 = £11,531</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>11.6% (8.6 years)</td>
<td>12.8% (7.8 years)</td>
</tr>
<tr>
<td>Tier 2 Payment (towards running costs)</td>
<td>(2874-1314) x 150 x 90% x 0.015 = £3,159</td>
<td>(2166-1314) x 199 x 90% x 0.015 = £2,289</td>
</tr>
<tr>
<td>Total Annual Payment</td>
<td>£11,851</td>
<td>£13,820</td>
</tr>
</tbody>
</table>

5.12 The proposals to extend the 6.4p/kWh biomass tariff banding up to and including 199 kW boilers and to introduce a tiered tariff of 1.5p/kWh will provide a reduced Rate of Return of between 11.6% (8.6 years) and 12.8% for new applications from the poultry industry depending on boiler size. This brings the ND RHI tariffs back into line with the 12% Rate of Return included in the EU State Aid approval.

5.13 The introduction of the tiered tariff will reduce the risk of ‘gaming’ and installations being operated over and above the required kilowatt hours just to generate RHI income. However, the Department also proposes to introduce an annual cap on eligible kilowatt hours above which no further incentives will be paid. DARD has determined the maximum annual heat requirement for a typical poultry house to be 388,000 kWh.

5.14 Allowing for 12,000 kWh of additional heat for exceptionally cold years, the Department proposes to introduce an cap of 400,000 kWh (or 2,233 hours for 199kW boiler). As shown below, the maximum possible annual payment under this cap would be £14,001.

Tier 1: 1314 x 199 x 90% x 0.049 = £11,531

Tier 2: (2233-1314) x 199 x 90% x 0.015 = £2,470 (costs)

Total Annual Payment = £14,001
Future Proposals for Annual Degression / Tariff Reduction

Proposal – Automatic System of Tariff Degression (both RHI Schemes)

5.15 [DN: to set out proposals for degression]

Proposal – Enhance Preliminary Accreditation

5.16 [DN: to set out proposals for preliminary accreditation]

The Department is seeking .....
6. PHASE 2 PROPOSALS FOR NON DOMESTIC RHI

6.1 In July 2013 the Department consulted on proposals for Phase 2 of the NI RHI. A copy of the Consultation Document is attached (Annex D). This included extending the RHI to the domestic sector, increasing the list of eligible technologies in the non domestic scheme, introducing biomass sustainability and emissions standards and introducing an annual system of cost control (as set out in Section 4). The Phase 2 proposals were informed by a detailed assessment completed by Consultants CEPA and Ricardo-AEA (Annex C).

6.2 The full Domestic RHI Scheme was introduced in December 2014 but the other phase 2 proposals have yet to be taken forward. The Department plans to introduce some of the ND RHI Phase 2 proposals during the next 12 months subject to EU State Aid approval and funding availability. These are summarised below.

Proposal - Biomass and Bioliquid Combined Heat & Power (CHP)

6.3 Biomass and bioliquid CHP is currently incentivised under the Northern Ireland Renewables Obligation (NIRO) with an additional 0.5 Renewable Obligation Certificate (ROC) uplift. From October 2015 the 0.5 ROC uplift will be withdrawn and CHP projects accredited after this date would be eligible for the relevant electricity only ROC level together with the appropriate RHI tariff. This position is largely consistent with GB

6.4 In developing an appropriate CHP tariff under the non domestic RHI, an investment lifetime of 10 years and a plant lifetime of 20 years has been assumed. A tariff of 3.5p/kWh for new biomass and bioliquids CHP systems is proposed. A second tariff will also be introduced for existing fossil fuel CHP systems that wish to convert to renewable CHP. For existing CHP fossil fuel sites converting to renewable fuelled CHP the proposed tariff is 1.7p/kWh.

6.5 The Department expects heat from CHP sites to provide a significant contribution towards the development of the renewable heat market and the achievement of the renewable heat target. The new CHP tariff(s) will be introduced in October 2015 to coincide with the change in the NIRO ROC regime. More information on how proposed CHP tariffs are calculated is set out the attached CEPA Ricardo-AEA assessment (p48).

Proposal – Large Biomass (over 1MW)

6.6 Biomass installations over 1MW were not included in the ND RHI in 2012. Evidence available at the time suggested that these types of installations were already cost-effective over the 20 year time period. Whilst it was accepted that a biomass installation over 1MW size was considerably more expensive than an equivalent oil system in terms of capital outlay, the differential in assumed fuel price outweighed the capital costs, given the fuel intensity of these systems, therefore rendering a tariff unnecessary.
However, this position was reassessed as part of phase 2 and the revised assumptions have led to a proposed tariff of 0.6p/kWh for 20 years.

6.7 This proposed tariff is linked to RPI, similar to all other tariffs. More information on how the large Biomass tariff was calculated is set out in the attached CEPA Ricardo-AEA assessment (p48).

Proposal – Air Source Heat Pumps (ASHP)

6.8 Air source heat pumps were initially excluded from the ND RHI due to a lack of detailed evidence on the costs and performance of the technology and issues surrounding the accurate measurement of heat output. Air to water heat pumps have the potential to displace existing fossil fuel heating systems by providing buildings with space heating and hot water heating by utilizing heat from the outside air transferring this directly to a liquid. These systems are often used alongside under-floor heating but can also integrate with conventional radiator systems.

6.9 The Department has assessed the costs of these systems and developed a proposed tariff of 2.5 pence per kWh that would be available for systems less than 100kW\text{th} in size. A larger banding for this technology may be considered in due course. More information on how the ASHP tariff was calculated is set out in the attached CEPA Ricardo-AEA assessment (p8,9,75).

Proposal – Deep Geothermal

6.10 Under Phase 1 of the RHI deep geothermal installations were eligible through the tariffs set for large ground source heat pumps. At the time of the July 2011 consultation, DETI sought evidence on the potential deployment of deep geothermal energy in Northern Ireland and the existing barriers both financial and non-financial. Early analysis work demonstrated that a tariff range between 1.6p-4.6p could be appropriate depending on the assumptions on the heat being displaced. It was agreed however that further analysis was required and specific support for deep geothermal would be included as part of Phase 2.

6.11 In developing support or incentive measures for deep geothermal, DETI considered two potential options. The first of which was the introduction of a specific tariff for deep geothermal energy. To design the tariff the counterfactual position was re-assessed in line with evidence from stakeholders and experience of recent geothermal developments, this involved new assumptions relating to the likelihood of a geothermal energy developer selling heat to a third party or ESCO rather than taking the heat to individual consumers. This proposed tariff for deep geothermal heating is 3.7 pence per kWh for a maximum of 20 years. More information on how the deep geothermal tariff was calculated is set out in the attached CEPA Ricardo-AEA assessment (p48,88).
6.12 A second option considered for deep geothermal was to provide support on a competitive basis, whereby potential developers would submit proposals to DETI on a case-by-case basis and DETI would award support, either on the basis of capital grant or a set incentive level, depending on the financial need of the project. However, there are currently no plans to proceed with this option.

Proposal – Bioliquids (Heat Only)

6.13 As well as considering supporting bioliquids boilers in the domestic sector and bioliquids CHP in the non-domestic sector, DETI also proposes to introduce support for bioliquids boilers (heat only) under the non-domestic RHI. Bioliquids have been incentivised under the NIRO for renewable electricity generation for sometime and DETI is aware that such bioliquids could also have the potential to contribute to renewable heating targets.

6.14 Two tariffs are proposed depending on the scale of the boiler in place, under 100kW_th the proposed tariff is 2.6 pence kWh and above 100kW_th a tariff of 2.1 pence per kWh is proposed. No tariff above 1MW_th is proposed as it is assumed that projects of this scale would be CHP systems and could therefore avail of those relevant tariffs. DETI will, however, consider extending the cap on support for heat only bioliquids to beyond 1MW_th if there is sufficient evidence those projects could be developed in Northern Ireland. More information on how the Bioliquids tariff were calculated is set out in the attached CEPA Ricardo-AEA assessment (pages 6, 8,9,32,34,47,59,127 & 128).

Proposal – District Heating

6.15 A 2010 study in the development of the Northern Ireland renewable heat market demonstrated that 31 per cent of Northern Ireland’s heat demand lies in areas that could be suitable for district or community heating schemes, where one heat source supplies heating for a number of different buildings. These projects often have additional capital costs because of the need for pipe work to transport heat from the heat source to the buildings connected to the network. As part of this second phase of the RHI, DETI has considered whether renewable district heating required a specific ‘uplift’ tariff under the RHI to account for the additional costs incurred.

6.16 A tariff range for the uplift of 4p/kWh to 14p/kWh was developed, highlighting the differences in the scenarios and the variables within each potential district heating. At this stage, DETI are considering introducing an uplift tariff of 7p/kWh for community heating or district heating schemes. This would apply to the first 1314 peak load hours, after which the tariff would reduce to the standard biomass tariff. More information on how the District Heating tariff was calculated is set out in the attached CEPA Ricardo-AEA assessment (p50, 63, 107).
Proposal – Increased Tariff for Biomethane Injection

6.17 Currently biomethane injection is incentivised at a tariff of 3.2 pence and there has been no uptake of projects since the RHI was introduced in November 2012. This suggests that the current rate is not sufficient to stimulate growth in this area. Although not included in the phase 2 consultation evidence has come forward from the sector to suggest that an increased incentive such as that in the GB RHI is required to “kick start” projects here and anecdotal evidence would suggest that there are a number of projects that are ready to go if the right incentive was in place. The proposal therefore is to increase the tariff for biomethane to the GB tiered tariff limits to test the readiness of the market.

- Tier 1 first 40,000 MWh 7.5 pence
- Tier 2 next 40,000 MWh 4.4 pence
- Tier 3 remaining MWh 3.4 pence

6.18 The Department plans to consult on this proposal as it was not part of the original Phase 2 Consultation in 2013.

Phase 2 Proposals – Next Steps

6.19 The proposed phase 2 measures to introduce new technologies/tariffs to broaden the appeal of the RHI will be taken forward in 2016, (including possible further consultation on some aspects), subject to the approval of this business case and state aid approval for the new technologies.

The Department is seeking DFP approval to implement the Phase 2 RHI proposals set out above subject to public consultation and EU State Aid approval.
7. SCHEME ADMINISTRATION

7.1 Under Section 114 of the Energy Act 2011\(^2\), the Department can directly administer the RHI or outsource this function to either NIAUR\(^3\) or Ofgem\(^4\). The Domestic RHI scheme is currently administered inhouse within the Department’s Energy Division.

7.2 The ND RHI on the other hand is administered by Ofgem which has effectively administered the scheme since 2012. Ofgem has considerable experience in managing large scale renewable energy grant schemes and in addition to the NI ND RHI currently administers: the Renewable Obligation in GB and the NIRO; the Feed-in-tariff in GB; and the GB commercial and domestic RHI schemes.

Value for Money

7.3 The Domestic RHI scheme calculates annual tariff payments based on a property’s heating requirements set out in its Energy Performance Certificate (EPC), only a percentage of properties need to be checked for audit purposes. The ND RHI Scheme on the other hand requires that all accredited non domestic RHI installations must be metered and all new installations checked on site before approval. Neither the Department nor NIAUR have the resource or expertise available to effectively carry out these functions. To outsource the scheme’s administration to another private or public sector organisation (other than Ofgem or NIAUR) would require primary legislation which could take up to 12 months to put in place.

7.4 In addition, Ofgem operates an online application and metering facility where owners of accredited plants record their quarterly metered readings. Developing a similar web based IT system specifically for the NI ND RHI scheme wouldn’t be a cost effective use of public funding.

7.5 A copy of the Department’s Administration Agreement with Ofgem is attached at Annex G. The agreement means that the Department is charged 3% of Ofgem’s total administration costs for the GB and NI non domestic schemes. This is despite the fact that NI application numbers are currently running at 6% of the GB total. Any GB specific costs ( legal, IT, etc) are removed before the NI costs are calculated. Similarly, any NI specific costs for things like scheme changes are added at the end and not charged to DECC for the GB scheme. Table 7.6 summarises Ofgem’s administration costs over the last 3 years.

7.6 In 2015/16, Ofgem is expected to process over £23m of RHI payments for the NI scheme at a cost of £218k (or 1.1%). Administration costs for government grant schemes are typically between 8-10% of total grant expenditure. The Department therefore clearly benefits from the economies of scale of effectively being treated as a small addition to the GB Scheme,

\(^3\) Northern Ireland Authority for Utility Regulation  
\(^4\) Office of Gas and Electricity Markets
7.7 Similarly, the Department also benefits from administrative changes already made by Ofgem for the GB Scheme. Whenever DECC make changes to the GB Scheme such as tariff changes, new technologies, etc, Ofgem have to upgrade their IT systems and processes. They charge DECC development costs for this work. Once these changes are made for the GB scheme, similar changes can be introduced for the NI scheme for much less cost. For example, to implement the administrative changes (IT, staff, etc) needed for the Phase 2 proposals set out in Section 5, Ofgem’s development costs will be between £80k - £100k. DECC paid over £300k for similar changes for the GB scheme.

Future Administration Costs

7.8 Ofgem’s actual administration costs for the NI RHI scheme will continue to be based on 3% of the actual costs for administering both GB and NI schemes. An estimate of Ofgem’s annual administration costs for the next 5 years is set out in Table 7.8. There may also be some additional annual costs for any changes the Department makes to the NI scheme that are not fully automated and require manual processes.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Scheme Expenditure</th>
<th>Annual Administration Costs</th>
<th>Development Costs (for DETI changes)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
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7.9 Development costs have been included in 2015/16 and 2016/17 to allow for implementation of the Phase 2 proposals and system if tariff degression. Development costs are included in 2018/19 for possible future changes.

The Department is seeking DFP approval to continue to using Ofgem to administer the ND RHI Scheme for the period 1 April 2015 to 31 March 2021 on the basis that the NI administration costs will continue to be based on 3% of total administration costs for both the GB and NI Non Domestic RHI Schemes.
8. RECOMMENDATIONS

8.1 The recent
9. ANNEXES

A. Original CEPA Report (2011)
B. Non-domestic Business Case (2012)
C. Revised CEPA Report (2013)
D. Phase 2 Consultation Document
E. DSO Advice on Scheme Suspension
F. VFM Analysis (Before and After Tariff changes)
G. DARD Paper on Poultry Shed Heating Requirements
Mr Cooper: Uh-huh.

Mr Aiken: So, that’s in this very first iteration on the 27th of July.

If we move through to DFE-147538, please, work is laid out on the rates of return. Now, members of the panel, this is the 27th of July. On the 18th of July we’ve had the CAFRE paper from Mr Ellis, which gives you the figures for the poultry house, as far as Mr Ellis is concerned, at 388,000 kilowatt-hours per annum, which you can see, based on a: “90% efficiency”, is said to be the “4,355 annual hours of operation”.

And the statement is there in paragraph 5.6 of a: “Rate of Return of 12%”.

That’s originally what the scheme was supposed to provide.

And then, if we move over the page at 5.7, we can see — just maximise that, please — various calculations being done and ultimately being said: “The current RHI tariffs are … delivering payback in around 3 years (or 33%)” and how it should be seven or eight years in order to give you 12%.

And then, in paragraph 5.9, the proposal for tiering, which is said to be in line with the position introduced by DECC, and having set out the calculations, and I’m not getting into whether they’re right or not, this example shows capital payback would be achieved in 8·7 years or 11·5%.

And, so, the work is being done to try and — whether it’s accurate or not’s another thing, but the proposition is being put forward that, “We’ve been paying too much — 33%. We want to get that back. We need to do this. If we do this, it’ll come back to 11·8% or broadly 12%, so, this is what we’ve got to do.”

Then, at paragraph 5.12, please, in addition to — they’re going to move the band out to
1. 199 kilowatt-hours, or kilowatt boilers, and the tiering will apply to that also. And it then is
2. stated:
3. “This brings the ... tariffs back into line with the 12% Rate of Return included in the EU State Aid approval.”
4. So there are a number of messages that come out of this first draft of the 27\textsuperscript{th} of July:
5. positive NPV, even for the irregular period; we have an indication that we’ve been
6. overpaying; 33% returns; the steps that we can take to bring it back into 12% — that 12%
7. was what was intended — and that that would be in line with state aid approval.
8. So there are a number of messages being conveyed here, but I want to draw attention to
9. the next one, in paragraph 5.13. This is the 27\textsuperscript{th} of July:
10. “The introduction of the tiered tariff will reduce the risk of ‘gaming’ and installations being operated over
11. and above the required kilowatt hours just to generate RHI income.”
12. Now, back on the 11\textsuperscript{th} of June, you identified to Mr Murphy overcompensation. A step
13. beyond overcompensation is the perverse incentive.
14. \textbf{Mr Cooper:} Uh-huh.
15. \textbf{Mr Aiken:} You have — maybe a bit of confusion over the timing of it yesterday — but
16. you’ve said in your statements, and Mr Murphy has backed you up, that, at a point, you
17. raised with Mr Wightman, “Could you make money from these things?”, and Mr Murphy
18. says you got an assurance that you couldn’t. And you explain, in your first witness
19. statement, what the assurance was that you were given, which was to do with oil prices. It
20. seems you were satisfied by that, even it turns out to have been wrong.
21. But what I want to ask you is this: you’re the finance director — . And I’m not just limiting
22. this to you; you share this with Mr Murphy on the 27\textsuperscript{th} of July. This is, as far as I can see, the
23. first time that the Department certainly puts down in one of its formal documents the idea
24. that people might be getting, might be using, the RHI just to generate income.
25. \textbf{Mr Cooper:} Uh-huh.
Mr Aiken: What happened, that you’re aware of, to lead to that being included? That’s the first thing. Now, it’s just described as a risk, but where did it come from?

Mr Cooper: I’ve honestly no idea. I have no idea.

Mr Aiken: That’s fine. The second question, which I’m more interested in then, is: you’re, amongst others, a senior civil servant, finance director, reading this. Does that not set an alarm bell off?

Mr Cooper: It should have, but it didn’t.

Mr Aiken: Can I say, in fairness to you —

Mr Cooper: It should have.

Mr Aiken: — this passage seems to have been —. It’s there in this draft, it remains there in every draft thereafter, and nowhere in any of the exchanges that are available — at least, that I have seen, Mr Cooper, and I’m not just confining them to you — is there any discussion about whether this risk is a real risk, whether this explains why we’re over budget, on top of the overcompensation point that you raised on the 11th of June, whether it is part of the context of a conversation you say you had where you asked Mr Wightman, “Can you generate money just from running these things?”, and you get an assurance that you can’t, which may beg the question, if that’s right: what on earth is this doing in the addendum business case?

Mr Cooper: [Long pause.] Yes, I —.

Mr Aiken: Well, can I ask you this, Mr Cooper: is it actually the case that, by the 27th of July, everyone in DETI involved with RHI, in fact, knew that there was, at the very least —

Mr Cooper: No.

Mr Aiken: — let me get the question out [Laughter] that there was, at the very least, a risk that the Northern Ireland non-domestic RHI was facilitating people —

Mr Cooper: No.