INQUIRY INTO THE RENEWABLE HEAT INCENTIVE SCHEME

Supplementary Statement

DATE: 4 September 2018

Witness Statement of:Trevor Cooper

I, Trevor Cooper, will say as follows:

1. This Witness Statement supplements my previous statements dated 19 July 2017 and 31 August 2017.

2. The purpose of this statement is to seek to assist the Public Inquiry in providing further factual information, in particular around events relating to the Scheme in 2015.

Knowledge within DETI of overcompensation in relation to the Scheme

3. Stuart Wightman indicates in his statement that:

   "Although I started to take forward work on tiered tariffs in Spring 2015, it was not until the IAS Review of the Scheme in early 2016 that I became aware existing recipients were receiving excessive payments against the CEPA assumptions." (**WIT-17059**)

   The evidence of a lack of awareness that recipients were receiving excessive payments conflicts with the interaction between John Mills and Chris Stewart on 11 August 2015 (**Annex 1**) in response to a request from SPADs that DETI consider that tiering should be introduced at 3000 hours as opposed to the advice that tiering should apply from 1314 hours. This advice states that a tiered tariff at 3000 hours would provide a rate of return of 38.46% and also be well outside of state aid approval (although the degree of overcompensation may have been understated). So whilst John Mills and Stuart Wightman did not realise that recipients could actually make money from the Scheme, it is clear that both they, Andrew McCormick and Chris Stewart did know that returns were higher than under the original scheme parameters and state aid approvals.

Value for Money Position around Business Case Addendum of October 2015

4. Energy Division officials represented to Top Management, Finance Division, and Analytical Services Division in June 2015 that legal advice was such that the only action that could be taken by the Department in the short term (estimated to take three months) was to introduce tiering on existing tariffs. They further advised in June that the amendment of tariff levels and/or the introduction of cost controls would take between nine months and a year from that date. It was on the basis of this advice that Andrew McCormick confirmed, following a meeting on 17 June 2015, that urgent action should be taken on the only short term option available to reduce the budget call from the Scheme, and improve its value for money as quickly as possible. Follow up action was to be taken around the introduction of cost controls and tariff review and amendments across the Scheme to follow on as soon as practicable (i.e. nine to twelve months). The Department represented the changes as being value for money in total terms in the circumstances given the overall assessment of projected total benefits including "spin-off" benefits versus projected total costs. No other option was presented by Energy Division as being available in the short term to further improve value for money and there was no indication from Energy Division of the whistleblower's allegations of misuse of the Scheme.

5. John Mills has stated in his witness statement (WIT- 14557 and WIT-14558) that:-

Para 163

"The Departmental Statement refers to "warning signals" and the failure to spot what it identifies as the main problem – the tariff being too high. However, in constructing the business case addendum, it was concluded that the non-domestic RHI provided a positive net present value (ie its benefits exceeded its cost or, if you like, it had a positive effect economic impact for N.I.) (paragraphs 4.4. to 4.8 of the Business Case Addendum for the Renewable

Heat Incentive). This was marginal at the pre-tiered tariff rates but marked at post-tiered tariff rates."

Para 164

"The rate of return issue was analysed at paragraphs 4.13 to 4.16. It was concluded that the pre-tiered scheme was providing too high a return (33% as opposed to the originally envisaged 12%) but the introduction of tiering would redress the balance and restore this to something like 12%."

Para 165

"It may be the case that subsequent research has undermined the conclusions in the business case addendum. It was carried out pre-spike and pre-Treasury's decision to cease funding the RHI above certain levels, so views on the affordability of the scheme have changed radically since the business case addendum was constructed . However the business case received input and clearance from DETI finance, economists, senior management, casework committee and DFP. I do not claim to be a finance expert or an economist so accepted the advice of these expert inputs."

Para 166

"Whatever may be apparent with hindsight, the Business Case Addendum represented the consistent view at the time.."

6. Both Shane Murphy and myself recognised the overcompensation issue in mid June 2015 (although we did not have information at that time on the individual rates of return - **DfE 14565**). From June it was clear to all that Value for Money (VFM) in regard to the period following the lapse of the Scheme approval could not be based on a "best value for money" approach – but rather the only possible approach would be an analysis to determine whether that total costs were lower than total benefits from the Scheme, including spin-off benefits. This was clear to Energy Division, and indeed I also confirmed my view on state aid and the only approach that the Department might adopt around VFM to Michelle Scott of DFP in June 2015. Alan Smith, the Energy Division economist undertook the total

costs versus total benefits review, and concluded that the overall costs of the Scheme were outweighed by its overall benefits in the period from April 2015, and it was on this basis that discussions were entered into with DFP around retrospective approval. The fact that the analysis presented an overall positive value for money position in no way took away the imperative to improve the value for money delivered by the Scheme as soon as possible.

7. At para 164 John Mills quotes an analysis demonstrating a rate of return of 33% as the level pre tiering, with the introduction of tiering redressing the balance and restoring it to something like 12%. In relation to paras 164 and 165 he notes subsequent research undermining the conclusions in the business case addendum, and that it received input and clearance from DETI Finance, economists, Senior Management and DFP. He goes on to state that he does not claim to be a finance expert or economist so accepted the advice of these expert inputs. This is not the case. At paragraph 165 John Mills conflates affordability with value for money. At no time did he take on board the advice from the head of finance or the head of analytical services unit around potential overcompensation and indeed up to January 2016 saw the Scheme as being a good thing and that the issues regarding it were lack of budget.

8. The Business Case Addendum was the responsibility of Energy Division. It was prepared by Energy Division staff (Stuart Wightman and Alan Smith) who directly reported to John Mills. Neither Analytical Services Unit nor Finance Division provided analysis on the actual rates of return or rates of return set out within the business case. This was the responsibility of Energy Division and should have been performed by their experienced energy economist. It is now apparant that rather than involving Energy Division's experienced and dedicated economist (Alan Smith) in the preparation of the tariff analysis and setting, and in particular in the analysis of the returns available under individual technologies from the Scheme, the Head of Energy division left it to Stuart Wightman to undertake this analysis. This would have been unknown to Top Management and Shane Murphy, and was unknown to myself, up to or at the time the addendum was

presented by John Mills as being complete. This contrasts with the Head of Energy Division's statement that he relied on the advice of finance and economists.

Policy Group Assurance Statement May and June 2015, meetings of 3 and 17 June , and delay in progression of business case addendum

9. On 29 May 2015, Chris Stewart sent the routine six monthly assurance for Policy Group[1] statement to Andrew McCormick (**DFE-277238 to DFE-277239**). This included an explanation of the position on the RHI Scheme under the heading "Significant Internal Control Problems". The explanation included the following:

   "Despite repeated requests for information from Finance Division (and DFP) The (sic) Division has yet to receive any clarity around the maximum available RHI budget going forward."

10. The Inquiry has, to date, received an inaccurate portrayal of the receipt of this assurance statement, and my reaction to it, including the nature of an interaction that took place during a Senior Management meeting on 29 May 2015. John Mills has stated **(WIT -14552)** that :-

   "At the senior management meeting, I recall the conversation being along the lines of me saying that Finance Division wasnt taking the RHI budgetary issues seriously and Trevor Cooper, the Head of Finance Division, said that we had missed DFP approval to which I replied we needed to solve the problems, not score points about who had done what wrong. The outcome was Andrew McCormick arranged a meeting in June to discuss the issue."

11. At the Senior Management Team meeting which took place on the morning of 29 May there was indeed an exchange of views between myself and the Energy

[1] ie his Grade 3 command within DETI

Division Director. The Energy Director stated that Finance Division needed to secure additional budget in relation to the Scheme. I pointed out that the Scheme was already over budget and that whilst the Scheme had overspent, clearly there were more control issues with the Scheme than securing additional budget cover, so budget cover was not the sole nor possibly the main issue with the Scheme. At this stage I was unaware of the lapse in Scheme approval (**DFE-278081**), or of the content of the energy division assurance statement (**DFE-277236**), but was aware of the overspend against budget, the absence of tiering, and the growing increase in demand. I was also aware that Finance Branch had been working with Energy Division over the previous two weeks in regard to Energy Division's method of calculating its expenditure, including accrued expenditure, given the sudden shift in the forecasts provided by Energy Division who had suggested reduced forward budgetary requirements in 2015/16 no later than November 2014 (**WIT-02992).** This suggested that monitoring and oversight by Energy Division had not been fully robust. Andrew McCormick closed down the discussion in that meeting and called a special urgent discussion to address these issues more fully.

12. That meeting took place on 3 June 2015 (see **WIT-10588**). In the period between the Senior Management Meeting and the meeting on 3 June, I reviewed some of the original casework documentation (including the minutes of the Casework Meeting, and the DFP approval letter from 2012). It was this action that resulted in the recognition that Energy Division had also failed to secure approvals for the scheme post 31 March 2015 and that ongoing expenditure was therefore irregular. At the meeting of 3 June 2015, Top Management was apprised of the numerous issues at that point known about the Scheme including the overspend against budget, the failure by Energy Division to undertake a review of the Scheme, the absence of the tiering of tariffs in the Scheme from the outset, the absence of a mechanism to constrain or cease expenditure on the scheme without the introduction of primary legislation, and the very significant and ongoing growth in demand for the Scheme for which there was no budget cover.

13. On 12 June 2015, I sent an email to Shane Murphy raising concerns about the Scheme, and raising a question which is very central to the issues about the Scheme, namely the possibility of over-compensation (**DFE-146565**).

14. The meeting of 17 June 2015 which was called to formally make decisions on actions that the DETI should take to address the issues presenting from the Scheme was very important in regard to the events in 2015. At this meeting on 17 June 2015, attended by Andrew McCormick, Eugene Rooney, myself, John Mills, Shane Murphy and Stuart Wightman, Energy Division indicated that its legal advice was such that the only action that could be taken by the Department in the short term (estimated to take three months) was to introduce tiering on existing tariffs to dampen demand and improve VFM. The option to close the scheme was also discounted on the basis of Energy Division's legal advice. At that meeting Energy Division further advised that the amendment of tariff levels and the introduction of budget/cost controls, which were absent from the Scheme, would each take between nine months and a year from that date so there was no mechanism available in either the medium or short term to cease further additional commitment, or to reduce additional commitment other than action to tier existing tariffs. This meeting had been scheduled to formally agree actions to be taken by the Department going forward in response to the issues with the Scheme.

15. At paragraph 161 of John Mills witness statement (**WIT-14557**) he states in regard to the meeting of 17 June :-

"it was something of a briefing session and there was a good deal of, to my mind, wandering discussion. I wanted to introduce the tiered tariff as soon as possible. I saw this as solving most of the problem in the short term. I was frustrated with some of the other discussion and some of the other actions we were asked to take, like checking with the Whitehall Department of Energy and Climate Change whether we could obtain some of their RHI funding seemed like wild goose chases."

16. In spite of the apparent rapid change in the underlying demand, the absence of tiering, the absence of any review of the Scheme, and the lapse in Scheme approvals, Energy Division and Top Management appear not to have been questioning the true basis for the rising level of demand. Also, Energy Division had whistleblowing correspondence from Janette O'Hagan which should have been communicated to Top Management, Finance Division and Analytical Services Unit as a warning about the potential abuse of the Scheme.

17. At the meeting on 17 June I formally escalated my concerns around the potential overcompensation issue by explaining my view that payments under the Scheme could be in breach of State aid rules and suggested that this, coupled with the failure to undertake the planned review in the State aid notification, would surely be a legal basis on which the Department could take immediate action to suspend any further additional overgenerous financial commitment. Unfortunately the suggested course of action around state aid representing a potential basis to suspend the scheme was not adopted, even in parallel to the actions ultimately determined by Top Management.

18. Additionally Shane Murphy suggested at the meeting on 17 June that an urgent focussed review of the Scheme be undertaken that would include a review of tariffs across each technology. Such a review would undoubtedly have demonstrated that over and above providing a higher return than intended, the tariffs were actually providing an opportunity to earn a cash return which increased proportionately with usage and provided an incentive to abuse the Scheme. Again, it is unfortunate that this course of action was also not adopted. DfE has confirmed to me that of the other DfE witnesses present, both Shane Murphy and Eugene Rooney have confirmed that they agree that state aid was raised by me. The other DfE witness present, Andrew McCormick, has stated that he has no recollection of this.

19. It was on the basis of the acceptance of the legal advice given to Energy Division that Andrew McCormick did not adopt the advices from myself or Shane Murphy, but confirmed that urgent action should be taken immediately on the only

short term option presented by Energy Division as being available to reduce the budget call from the Scheme, and improve its value for money as quickly as possible with follow up action to be taken around the introduction of budget/cost controls and tariff review and amendments across the Scheme to follow on as soon as practicable (i.e. nine to twelve months).

20. Energy Division was also explicitly advised at the meeting by Shane Murphy, the Head of Analytical Services Unit, to discontinue promotion of the Scheme so that demand was not further increased.

21. The process of preparing the business case addendum was delayed materially, because the Head of Energy division instructed Stuart Wightman to work on the Energywise business case as opposed to prioritising the progression of work on the RHI business case addendum. This was confirmed to me by Stuart Wightman in a discussion around the progress that had been made on the addendum. I expressed my concerns at the seeming lack of progress, and Stuart Wightman indicated to me that he had sympathy with my position however stated that I was not his line manager and that John Mills had told him to take forward work on Energywise. This not only conflicted with Andrew McCormick's clear direction to take forward the work on RHI as a matter of urgency, but also was illogical in that the Energywise case (as it was envisaged then) had an assumption that it would draw on RHI funding – the case could therefore never have progressed prior to the approval of the RHI addendum and the resolution of all issues with the RHI case. It was only when I escalated concerns regarding the delay to Eugene Rooney, who then engaged with Chris Stewart, that some futher progress was made on moving the business case addendum forward.

22. It was only after the Assurance Statement had issued to Andrew McCormick, from Policy Group, and after the Senior Management meeting of 29 May that it became evident that it should be amended.

23. The amendment was made following on from the meetings on 3 June and 17 June and agreed by Chris Stewart in light of the information available at that time around control issues, in particular, around the overspend resulting in a need to

secure budget cover and the absence of approvals meaning that ongoing expenditure was irregular. The quality of monitoring and oversight were major factors in both of these issues. The reference was amended to read:

> *"Energy officials are working with Finance and DFP to ensure that the appropriate approvals, and revised funding requirements to facilitate the future operation of the Scheme at an affordable level of demand, are in place as soon as possible."* (**DFE-387703**)

24. The internal control issue was disclosed in the DETI Accounts for 2014-15 (**DFE-04640** to **DFE-04745**) as finalised in June 2015. Formal HM Treasury and DFP Guidance requires that Accounting Officers disclose all material issues of internal control in a formal statement as part of the Resource Accounts. The relevant reference reads as follows:

> *"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."* (**DFE-04691**)

25. This brief reference reflects the fact that the alleged abuse of the Scheme had not been communicated to other relevant parties outside of Energy Division. The reference to "governance" issues is a reference to the lapse of DFP approval and other controls. The reference to a "financial requirement" issue is recognition that the Scheme was operating outside its budget. The paragraph was developed by Eugene Rooney, myself and other Departmental colleagues (including Andrew McCormick and following engagement between Eugene Rooney and the Head of the Audit Committee) , and was included in the Accounts at the Departmental Audit Committee meeting on 24 June.

26. Whilst the paragraph is relatively brief, a key factor in the drafting was the tension between the details that could be provided and the awareness of the acute sensitivity of the market sensitive nature of the issues and the potential for the market to respond to the actions that the Department was planning to take to try to address these issues (to the best of its understanding to the maximum extent legally available), with the potential to aggravate the problem prior to the corrective action (**DFE-146867**).

Budgetary treatment

27. The HM Treasury email of 2011 (**DFE-164136** to **DFE-164137**) was available to new staff in EE Branch, being included by Stuart Wightman as part of Domestic RHI Scheme Business Case papers submitted in September 2014 (**DFE-164124** to **DFE-164138**). While the profile of the funding was unusual, the 2011 email from HM Treasury made clear that overspends would have to be recouped from the Department's future allocations and made reference to a likely 5% DEL penalty which would apply even if the balance could be recouped from future AME allocations.

28. In spite of the potential for DEL penalties being highlighted to John Mills again by Bernie Brankin in her email of 24 August 2015 (**WIT-02741**), Energy Division continued to incorrectly describe the profile of the funding which is referenced again in a submission dated 6 November 2015 seeking the Minister's signature for the Motion for Approval for the draft 2015 Regulations (**DFE-123805**).

29. The Department has previously stated that the attempt to engage with DECC in the spring and summer of 2015 was a "blind alley" (see paragraph 290 of the Department's Corporate Witness Statement **WIT-00112**). It should be recognised that had that route been tested to destruction, the way should have been cleared for DFP to address the issue with HM Treasury earlier given DFP's position that it first wanted further clarification between DETI and DECC on how penalties may be applied prior to it engaging with HM Treasury. It is unfortunate therefore that

the Head of Energy Division appears not to have acted urgently on Bernie Brankin's advice (email of 24 August 2015 at **WIT-02741**) to seek direct contact in DECC finance directorate.

30. A slightly different understanding of the nature of the historic funding position was represented to the Minister in a submission from John Mills on 31 December 2015 (**DFE-122356** to **DFE-122361**) which talks of a change in HMT policy whereby the NI DEL budget would be liable for the full cost of the overspend, rather than only 5% of the overspend, linking it to the Chancellor's Autumn Statement. An email from Chris Stewart in February 2016 describes the situation as he understood it at the time:

> *"We always recognised the requirement for overspending to be addressed through a combination of future reductions and an RDEL penalty… We now know that spending has risen to such an extent that cost control is insufficient and that, even with complete suspension, we face an overspend. However, I maintain that the HMT decision to require all of the resulting pressure to be found from RDEL is a late, and major contributing factor. Had we known that earlier (or perceived it as a risk if the spike had been foreseen) then we would have pressed for closure earlier."*
> (**WIT-11921**)

31. It is true that the Chancellor's Statement indicated slower growth in available spending for the period covered by the UK 2015 Spending Review, compared with the forecast in July 2015. This meant that there would have been less scope to recoup overspend in the current year from the increased amount of the available AME budget in subsequent years. The original reference in the email to a 5% penalty that was to apply was made in the context where AME spend in future years would be reduced by the amount of the overspend (i.e. the 95% of the overspend remaining). Energy Division was aware of the potential for reductions in future AME provision in relation to the RHI Scheme (**Annex 2**), however Energy Division did not share this information with Finance Division, apparently the Policy Grade 3, the Senior Finance Director, or the Permanent Secretary. This means that Energy Division alone was aware of the much higher

likelihood that the overspend in-year could not be recouped from AME allocations for the following years. The limited intelligence available (low, medium and high forecasts) provided by Energy Division/DECC (**Annex 3**) suggested that it may have been possible that future allocations could have offset overspending that was at that stage forecast (although not to the level that ultimately transpired given the delays in introducing tiering and the unforecasted huge degree to which applications would actually spike).

32. As regards the projected scale of any spike, again Energy Division should have been uniquely aware of the full magnitude of this risk given the previous national experiece of a colossal spike when amendements were made to feed in tariffs. This information was not shared with Top Management or Finance Division.

33. There was an unfortunate lack of communication from HM Treasury about the budget provision for the Scheme including in regard to 2015-16. It was known in 2012, and indeed in 2015, that the scheme should have had cost controls (in 2012 it was represented by energy division to the Casework Panel that it did). In June 2015 it was clear to all concerned including Andrew McCormick, Chris Stewart and Eugene Rooney that it did not have these necessary controls. However in June 2015 Energy Division pointed out that it was not possible for these to be introduced other than over a prolonged time period – this advice was accepted by Top Management.

34. The lack of formal communication by HM Treasury of its final position on the scheme, and the absence of any communication of a budget from Treasury for 2015-16 led to Treasury providing in the AME budget for the full level of excess expenditure in 2015-16 without explanation or precedent. There is a difference of evidence in relation to when that was formally decided (July/August 2015 or December 2015/January 2016).

Statement of Truth

I believe that the facts stated in this witness statement are true.

Trevor Cooper

Signed: Trevor Cooper

Dated: 4 September 2018

Received from Trevor Cooper on 04/09/18
Annotated by RHI Inquiry

ANNEX 1

Cooper, Trevor

From: Stewart, Chris (DETI)
Sent: 14 August 2015 18:09
To: Cooper, Trevor
Cc: McIlwrath, Linda
Subject: FW: RHI

Trevor

No surprise here.

C

From: Stewart, Chris (DETI)
Sent: 13 August 2015 11:58
To: Cairns, Timothy; McCormick, Andrew (DETI)
Cc: McIlwrath, Linda; McIlwrath, Linda
Subject: RE: RHI

Tim

On foot of our recent conversation, I spoke to DFP who confirmed the advice. In essence, a course of action that would not provide value for money would require a direction to the Accounting officer; DFP officials would then be in a similar position and would have to be directed by the Finance Minister to approve the proposal.

Chris

From: Stewart, Chris (DETI)
Sent: 11 August 2015 18:09
To: Cairns, Timothy; McCormick, Andrew (DETI)
Cc: McIlwrath, Linda
Subject: FW: RHI

Tim

To see the advice on a 3000 hour approach. This would be very difficult, and would raise an Accounting Officer issue for Andrew.

Chris

From: Mills, John (DETI)
Sent: 11 August 2015 17:16
To: Stewart, Chris (DETI)
Cc: McIlwrath, Linda; Wightman, Stuart; Hughes, Seamus; McCoy, Laura; McIlwrath, Linda
Subject: RE: RHI

Chris,

- The proposed 1314 peak hours is taken from DECC and supports parity with the GB scheme. This ensures acceptance (and, conversely, what's the justification for NI being different?).
- It equates to 15% of the maximum possible annual running hours for a boiler (8760 hours). Given our understanding of the poultry sector where heat demand runs in 3 x 5 week cycles (the first with a high heat requirement, second with less and third none as the shed is empty awaiting the next crop of chickens) this can be defended in VFM terms. Obviously, suggestions of heating empty sheds cannot.
- We would have no basis for a 3000 hours, (or indeed any other figure).
- DARD has provided a report which shows the upper limit of the annual heat requirement to be 388,000kWh's. In our proposed tiered tariff structure using this and a 99kW boiler running at 90% efficiency as the measure the total annual payment would be £11,557. Assuming an initial capital cost of £50,000 this would see payback,(£5,737 per yr capital element), in around 8.7 years or 11.5% rate of return, and bring us into line with the 12% rate of return envelope included in the EU State Aid Approval.
- If we were to apply a 3000 hour figure the corresponding total annual payment would be £20,823. This would see payback, (£19,013 per yr capital element), in around 2.6 years or 38.46% rate of return and well outside of State Aid Approval.
- In addition the total annual costs on the 3000 hour scenario would not address our requirement to bring spending back under control and within budget.

Seamus, many thanks.

From: Stewart, Chris (DETI)
Sent: 11 August 2015 15:33
To: Mills, John (DETI)
Cc: McIlwrath, Linda; Wightman, Stuart; Hughes, Seamus; McCoy, Laura; McIlwrath, Linda
Subject: RE: RHI

John

Thank you.

I spoke to Tim on the submission: he accepts the need for early control measures, but has asked whether a 3000 hour limit would be more appropriate than 1000 hours. Can we (without doubling the work on the business case) provide some quick advice on the VFM of that?

C

From: Mills, John (DETI)
Sent: 11 August 2015 15:03
To: Stewart, Chris (DETI)
Cc: McIlwrath, Linda; Wightman, Stuart; Hughes, Seamus; McCoy, Laura
Subject: RE: RHI

Chris,

Stuart's off:

1. The additional AME funding we require has appeared in our baseline;
2. The lack of clearance of the submission prevents us from going out to public notification on the essential tariff tier change to be made from 1 October (but documents prepared). Following meeting with SPAD on 28 July I sent the requested update note on RHI financial management measures to him on 30 July. No response. I understand you issued a reminder on 7 August.

3. Reply received from DECC on budget issues. Basically says no spare UK funding and arrangements need to be made with HMT.
4. Preparation of "business case" to justify continued spend and assure VFM is ongoing but close to finalising (awaiting August figures available from next week). Positive NPV can be shown on spend but response to DFP, again, hampered by not being able to give assurance on introduction of further control measures.

Seamus, add anything else you can think of.

From: Stewart, Chris (DETI)
Sent: 11 August 2015 14:06
To: Wightman, Stuart
Cc: Mills, John (DETI); McIlwrath, Linda
Subject: RHI

Stuart

Grateful if you would let me know the latest position on RHI (Andrew has asked for a progress report), and it would be useful if I could relay to you the content of a further conversation with Tim Cairns on the subject.

C

Cooper, Trevor

Subject: FW: NI Domestic EPCs

From: Sinton, Dan [mailto:Dan.Sinton@detini.gov.uk]
Sent: 02 June 2015 10:11
To: Burke, John (DFP) <John.Burke@dfpni.gov.uk>
Cc: Dornan, Susan <Susan.Dornan@dfpni.gov.uk>; Clarke, Orla (DFP) <Orla.Clarke@dfpni.gov.uk>; Wightman, Stuart <Stuart.Wightman@detini.gov.uk>; Hughes, Seamus <Seamus.Hughes@detini.gov.uk>
Subject: RE: NI Domestic EPCs

John,

We have no knowledge of this and fully expect our RHI budget for new applications to remain in place to 2020 and to honour the commitment to annual RHI payments, a further 7 years for domestic installations. Also I think we explained when we met that the budget commitment for the domestic scheme is small in comparison to the non domestic scheme.

Kind regards

Dan

From: Burke, John (DFP)
Sent: 01 June 2015 17:36
To: Sinton, Dan
Cc: Dornan, Susan; Clarke, Orla (DFP)
Subject: RE: NI Domestic EPCs

Dan

I understand that Orla and Susan are taking the lead with this.

I have heard some initial rumours that the new conservative government may look to reduce RHIs and FITs as part of the planned cuts- might it be worth considering if/how such developments be replicated here?

Regards.

John Burke
Properties Division | Building Standards Branch | 3rd Floor | Northland House | 3-5A Fredrick Street | Belfast | BT1 2NR
Tel: 02890257064 (Network 57064) | Mob: Personal information redacted by the RHI Inquiry | Email: john.burke@dfpni.gov.uk | Web:www.buildingregulationsni.gov.uk

From: Sinton, Dan
Sent: 01 June 2015 11:18
To: Burke, John (DFP)
Cc: Neely, John; Dornan, Susan; Clarke, Orla (DFP); Wightman, Stuart; Hughes, Seamus
Subject: NI Domestic EPCs

John Burke
Building Standards Branch
DFP
Northland House
BELFAST
BT1 2NR

Dear John,

Stuart and I were very grateful for the time you and colleagues gave us on 18 May it was most useful.

We have been considering the best way to move forward with an Energy Performance Certificate that gives suitable information tailored to the N Ireland Renewable Heat Incentive.

You and colleagues outlined two possibilities, firstly to make a change to the data presented on each domestic EPC at the earliest possible date and secondly to obtain for existing and forgoing EPCs some of this same data in a tabular format matched to existing EPC Reference Numbers that DETI already hold. To take these options forward we would need:

(1) Inclusion of Heat Requirement information in the Northern Ireland Energy Performance Certificate – Currently the NI EPC only details a dwelling's energy demand in kWh/m^2 and £ per year. However the data collected during both New Build and Reduced Data SAP assessments includes figures for the space heating and water heating demands in kWh/year. There is also data held in kWh/year which can demonstrate the impact of any insulation work recommended in the EPC. This data is currently presented as the last item of EPCs in England and this section is shown below.

Your home's heat demand

For most homes, the vast majority of energy costs derive from heating the home. Where applicable, this table shows the energy that could be saved in this property by insulating the loft and walls, based on typical energy use (shown within brackets as it is a reduction in energy use).

Heat demand	Existing dwelling	Impact of loft insulation	Impact of cavity wall insulation	Impact of solid wall insulation
Space heating (kWh per year)	18,495	(986)	(4,041)	N/A
Water heating (kWh per year)	2,239			

We would therefore please request that an identical section is added to the EPC produced for NI as soon as is possible. We understand there may be a cost to effect this change and whilst DETI may be in a position to cover this we would like to know in advance an estimate of that cost.

We also note that the "footer" on Page 2 of the NI EPC is no longer valid and would request that this is changed to reflect the NI "EnergyWise" brand and the Bryson Energy Advice Line telephone number 0800 1422 865.

(2) Retrieving heat requirement data from SAP Worksheets for existing EPCs – When performing a SAP assessment to produce an EPC, data is uploaded into "SAP Worksheets". We understand that this data might be available for existing NI EPCs that we have received from applicants for the Domestic RHI. If this is the case it will enable DETI to continue processing Domestic RHI applications until the NI EPCs are amended as requested in (1) above. The information required from the SAP Worksheet is:

- the value of *(62)m* which appears in *"4. Water heating energy requirement"*
- the value of *(98)m* which appears in *"8. Space heating requirement"*.

Can you please investigate with the necessary authority (Landmark) if DETI were to supply an EPC Reference Number could they provide the above information from the associated SAP Worksheet? We understand there may be a cost to retrieve this data and whilst DETI may be in a position to cover this we would like to know in advance an estimate of that cost.

If you wish to discuss these requests further we would be happy to do so. I look forward to hearing from you at your earliest convenience.

Yours sincerely

Dan Sinton
Energy Efficiency Branch
Department of Enterprise, Trade & Investment
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Renewable Heat Incentive expenditure forecast note

SECTION 1 - Background to the forecast:

Overview: A Market Intelligence based approach is used for forecasting until 16/17, with upside risk controlled by an automatically responsive budget management policy. Beyond that point profiles reflect various scheme growth rates that may be achievable but depend on the outcome of Spending Review settlements.

Economic assumptions - RPI Inflation

Judgements required & Key issues:
RHI forecasts are limited by weak evidence and uncertainty across the board due to:

1. Lack of evidence on demand and supply stemming from nascent technologies and markets.
2. Heterogeneity in costs, performance, end-use, scale and consumers covered by RHI.
3. Heat demand: the non-domestic scheme is paid on the basis of metered heat; therefore annual variation in expenditure can result from changes in heat demand on existing stock.
4. Response of the market to changes in tariff levels brought about by automatic budget management.

Latest developments:
Since the previous forecast, a number of step changes have occurred in the RHI policy:

1. We have concluded the Biomethane Tariff Review (reduction) which will be made in regulations in February.
2. We have seen continued high deployment in Biomass in Domestic and Non-domestic schemes, leading to total tariff reductions of:
   a. Over 20% in Small Biomass
   b. 10% in Domestic Biomass

Recent Analysis: We have recently completed an updated Market Forecast, based upon the following sources:

- Updated pipeline and market intelligence information
- Evidence work on constraints and growth rates experienced across EU
- Statistical analysis of scheme data.

However these forecasts are still highly uncertain, especially when factoring in the interaction with budget management (tariff decreases) associated with high deployment. These have an impact on the cost of deployment, but also on the attractiveness of tariff levels; the response of consumers to these changes are uncertain. Tipping points at which actual deployment levels will change as a result of tariff changes are very difficult to predict with accuracy.

These forecasts are based on scheme performance up to the end of November 2014.

SECTION 2 – Forecast summary and description:

Table 1. Previous OBR return forecasts

(£m, nominal)		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Spending Forecast	Spending Limit	**251**	**424**	**430**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	High (central MI)	83	232	428	645	912	1273	1747	2362
	Central	**80**	**211**	**365**	**531**	**736**	**1010**	**1371**	**1843**
	Low (low MI)	77	187	302	417	559	747	994	1323
Expenditure incl. accruals		**56**							

Table 2. Updated forecasts *

(£ m, nominal)	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
High	218	469	670	882	1216	1650	2212
Central	**208**	**428**	**629**	**867**	**1146**	**1469**	**1842**
Low	198	387	509	857	1102	1363	1640

*2017/18 onwards are central growth scenarios

Table 3. Indicative number of accreditations *

	2014/15	2015/16	2016/17
Non-Domestic	8-9,000	8-12,000	9-14,000
Domestic	30-35,000 (including legacy since 2009)	11-24,000	11-34,000

*Sensitive to spikes in monthly applications, and size of installations

NB The following narratives describe the approaches taken to reflect the uncertainty of RHI cost estimates. There is a further uncertainty that can be applied to all scenarios of around 20% caused by the unpredictability of heat demand caused by variables such as weather in any given year.

<u>2014/15 expenditure</u>

The previous return estimated an expenditure of £211m this year; we now expect to spend £208m. However, this is still subject to around +/- £10m uncertainty.

This estimate is based on current scheme data on installed capacity, heat use and seasonality factors. It also allows for MI forecasts of new installations over the remainder of the financial year, however these have diminishing impact on 14/15 expenditure as there is little time left to generate heat.

<u>2015/16 expenditure</u>

Estimates for next financial year are based on the same principle of applying Market Intelligence forecasts of deployment to our current stock. This MI includes a wide range of uncertainty, which is compounded by the interaction with degression policy and its potential impacts on both price and volume of deployment.

Current Market Intelligence suggests that applications to the scheme next year could be in the range of 8-15,000 (building from around 8,000 this year). However, given the scale of tariff degressions (as much as 50% over the year) that would occur at the top end of that range, as well as the unknown impact of the recent drop in oil prices, we do not consider it likely. Therefore we are using the lower half of the range of MI estimates at this time, leaving a range of 8-12,000 installations.

Using our forecasting methodology as set out in regulations, this translates to a central estimate of spend which is right at the top of the RHI spending envelope. This means that we expect degressions to play an important but unpredictable role over the next 12 months. Resulting tariff reductions are expected to be up to 50% in high deploying technologies such as small biomass, biomethane and domestic biomass.

Given the lag between degression announcements and coming into force, there is still a possibility of a high spend scenario of £469m in 2015/16. However we believe there is some further downside pressure on these estimates on top of the potential market response to lower tariffs:

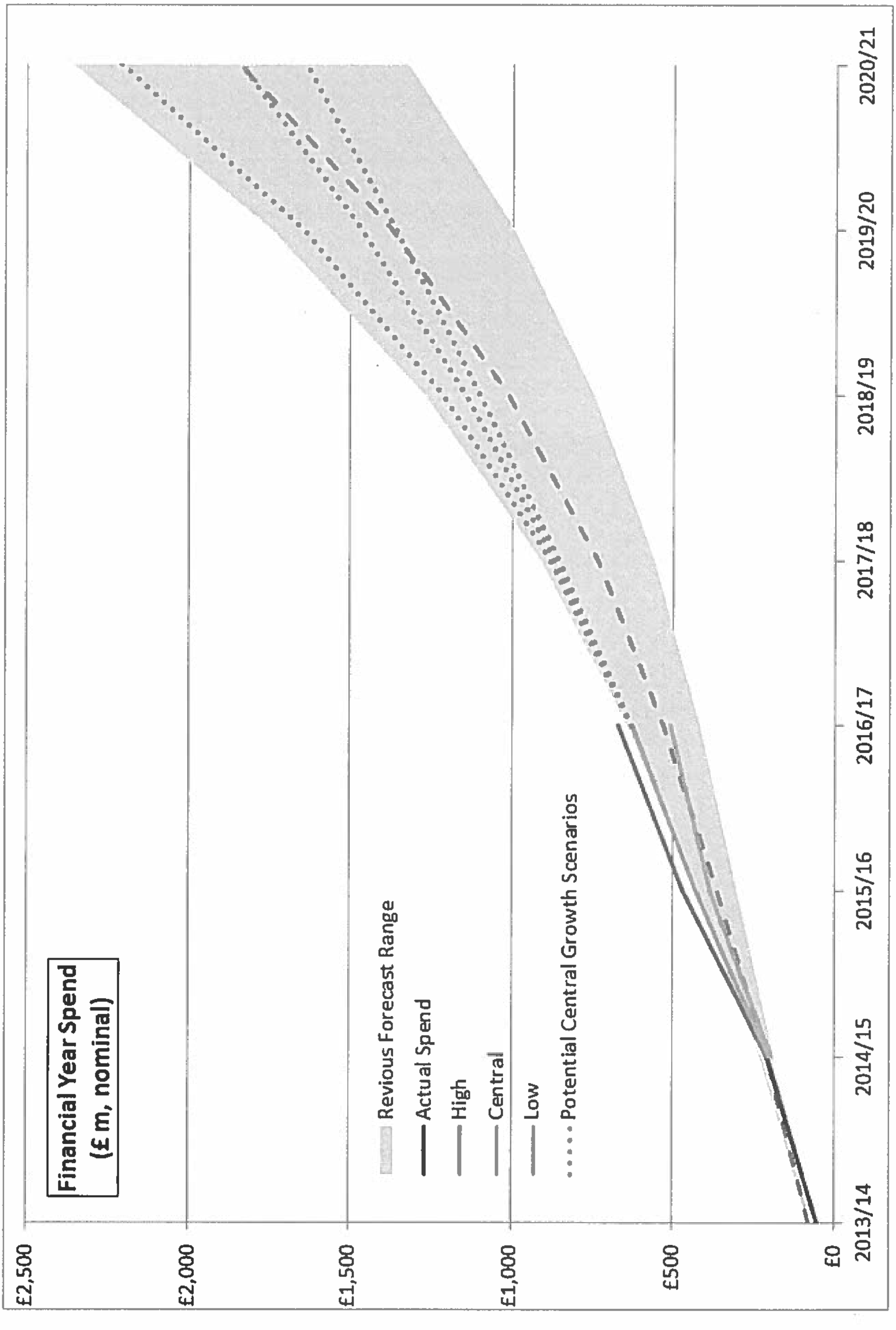
- The forecasting methodology set in regulations does not consider items including drop-out rates (either before or after receiving payment), or the lag between large plants being accredited and achieving full capacity, meaning actual spend may be less than forecast;
- The unknown impact of the drop in oil prices, as for many projects and consumers the attractiveness of the offer provided by the RHI will be reduced as the counterfactual heating technology becomes cheaper.

2016/17 onwards expenditure

Expenditure beyond the end of 16/17 will depend not just on scheme performance but also on the budget available after the coming Spending Review and any associated controls or policy changes made on the back of that settlement. Here we present scenarios for growth, as in previous returns that are based on the central (MI driven) expectation of spend in 16/17 followed by an assumed scheme-level growth rate out to 2020.

These growth rates are lower than the previously assumed 30% annual growth. This is largely because we expect to start from a higher base in 16/17, near the high end of spend profiles previously agreed, and so ambition of the scheme is likely to be constrained by budget rather than technical potential. As such, we present a subset of potential central growth scenarios compared to the previous range of expenditure uncertainty for 2020 agreed with OBR and HMT in the chart below.

Chart 1. Near term forecasts and potential central growth scenarios



Received from Trevor Cooper on 04/09/18
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