Renewable Heat Incentive in Great Britain

Following my letter of 22 June 2018, covering the introduction of Assignment of Rights to the scheme, my Department provided an initial response to the Committee’s recommendations as detailed in the Committee Report HC696 RHI for the Renewable Heat Incentive (RHI) in Treasury Minute of July 2018 (Cm9667). I hope you found this a useful summary.

I turn now to the following recommendations, for which the Committee requested a more detailed response by September 2018:

1b) Write to the Committee to explain what BEIS will do differently in the future across all of its major projects and programmes to address its track record of optimism bias;

5a) Write to the Committee to explain how BEIS is improving its understanding of the impact on air quality of installations funded by the RHI;

5b) Write to the Committee to explain how Ofgem is actively helping Local Authorities and other relevant public bodies tackle air pollution due to RHI installations;

6b) Write to the Committee to explain how they plan to measure the impact of gaming, and how this will enhance the effectiveness of compliance activity

Recommendation 1b – optimism bias

The Department already follows HM Treasury guidance (the ‘Green Book’) on inclusion of optimism bias in project appraisals. The Department also makes extensive use of advice from the Infrastructure and Projects Authority and its Major Projects Review Group for major projects.

As noted in Treasury Minute Cm9667, July 2018, the Department is now also rolling out an internal Keyholder Assurance Process, which provides an additional level of expert scrutiny and assurance on all Business Cases over £20 million, which began in May 2018. The new
process involves experts independent of the project, reviewing cases for errors, bias and compliance with best practice. These colleagues challenge and provide advice to teams as to how the case can be improved, before projects are submitted for an investment decision. The comments from them are provided to the Investment Committee and incorporated in their decisions. The process has been successful in increasing the quality of the cases submitted and the robustness of the investment decisions.

Additionally, the Department is developing a database which will cover ex ante\(^1\) and ex post\(^2\) costs on all projects. This will give us the optimism bias for each project. The database is expected to be launched in Autumn 2018.

**Recommendation 5a – air quality**

The Department recognises the importance of air quality and protecting people from pollution caused by RHI installations. All RHI plants must meet strict standards for emissions to air. Regulations laid on 29 May 2018 clarify that installations must have the necessary environmental accreditations in order to meet conditions of eligibility and receive payments.

In May 2018, in response to the Committee’s recommendations, the Department established a cross-Government Working Group on Air Quality to consider the impact of RHI-funded installations. This builds on previous cross-government air quality work undertaken by the Department, Ofgem, the Environment Agency (EA) and Department for Environment, Food and Rural Affairs (Defra). The new group is attended by the Department, Ofgem, Defra, EA, the Scottish Environment Protection Agency (SEPA), Natural Resources Wales (NRW) and representative Local Authorities. The Air Quality Working Group reports to me, as the Permanent Secretary of the Department, and the Chief Executive Officer of the Environment Agency. It oversees cross-Whitehall efforts to build evidence on air quality impacts of the RHI, strengthen enforcement of standards and cross-government co-ordination for existing RHI-funded installations, and identify and oversee further actions that can be taken to improve air quality.

In Defra’s draft Clean Air Strategy in May, the government committed to consult on excluding new RHI biomass from urban areas on the gas grid, and I expect that consultation to be published shortly.

**Recommendation 5b – helping Local Authorities**

One of the projects of the Air Quality Working Group, detailed above, is to encourage cross working and collaboration between public bodies, including Local Authorities. One of the main pieces of work the Group is preparing is a formalised data sharing agreement, which will allow Ofgem to share data with EA (on installations under the RHI. This will be rolled out to include data sharing with SEPA and NRW by 2019.

To date, Ofgem have been sharing data with Local Authorities on an ad hoc basis, when specific requests have been made, which have led to them actively exploring options for a

---

\(^1\) Ex ante – an estimate based on an assumption rather than an actual result.

\(^2\) Ex post – based on the actual, or end result.
data sharing agreement with Local Authorities. As an interim measure, Ofgem have created a site checklist that Local Authority and EA field staff have been using when visiting a site with an installation under the RHI. Data from these site visits has been fed back to the Department by Ofgem, and we are investigating this further.

Ofgem also meet regularly with Local Authorities through Local Authority Air Quality Meetings, chaired by Defra, which take place each quarter. Ofgem also took part in a joint audit of an installation wishing to be accredited for the RHI, alongside the Local Authority, EA and Police Service. This collaborative site visit went well, and Ofgem are looking to do more of these in the future.

In addition to the Working Group and collaborative working, Ofgem have taken the opportunity to remind participants of their ongoing obligations in relation to air quality, in the quarterly RHI Newsletter. They have also recently revisited the processes for reviewing air quality emissions certificates and have clarified the criteria for meeting the required standards.

**Recommendation 6b – gaming impact**

Ofgem and BEIS are committed to driving out activities and behaviours which are contrary to policy intent. Ofgem have put in place a new strategy to reduce the amount of fraudulent activity, quantify non-compliance and establish the root causes of fraud and error across all environmental and social schemes that Ofgem delivers on behalf of the Government.

BEIS and Ofgem’s work in this area includes:

- **Fraud prevention**, by updating standard operating procedures, and working collaboratively with Local Authorities and the Police;
- **An improved RHI audit strategy**, which, in line with the NAO recommendation, ensures the current Financial Year’s audit strategy allows us to both target suspected non-compliance, and provide a robust view of the overall level of non-compliance within the scheme;
- **Internal checks and processes**, where checks are made against meter readings data, as well as using auditors in the field to record instances of potential gaming and non-compliance;
- **Collaborative working**, where we introduced a formal quarterly meeting, specifically to discuss fraud, non-compliance and gaming. We review recent cases and audit findings, work together to identify the root causes of fraud and ensure effective management of these issues are taking place. This systemic approach will also provide quantifiable improvement data.
- **Legislative reforms**, where we have updated the RHI scheme regulations 2018, which included removing certain heat uses including wood-fuel and waste drying.

These measures improve the Department and Ofgem’s ability to identify and tackle gaming and non-compliance. To calculate the impact of gaming on the scheme, we will apportion gaming risks into one of two categories:

- Part of the installation’s heat use may be categorised as gaming
The installation's purpose, as accredited, meets with the scheme's regulations but its entire activity is misaligned with the policy intent.

For the first, deriving gaming costs will be done on a case-by-case basis.

For the second category, quantifying the sum of risk can be done more easily, as it will be equivalent to the lifetime payments that the installation affected receives.

We will use information from the 2017-18 audit programme to quantify the maximum potential loss due to error and fraud, and use our quarterly fraud, non-compliance and gaming meetings to consider both categories in detail.

I hope the Committee finds this detailed summary useful in assessing the actions the Department has taken in response to its recommendations.

Yours faithfully,

Alex Chisholm