

Re: Correspondence from Chair of the NI Public Accounts Committee

William Rickett

Personal information redacted by the RHI Inquiry

Sun 30/10/2016 09:01

To: Kirby Owen <kirby.owen@cepa.co.uk>;

Cc: Mark Cockburn <mark.cockburn@cepa.co.uk>; David Newbery <dmgn@cam.ac.uk>;

And to me please so I can be a bit more helpful rather than just pointing out lines of attack!

Thanks

W

Willy Rickett

Sent from my iPhone

On 29 Oct 2016, at 19:14, Kirby Owen <kirby.owen@cepa.co.uk> wrote:

Hi all --

I've read the report of the audit commission / commissioner -- but I can't seem to find the underlying CEPA report. **Can somebody please forward?**

Thanks. I've 2 long plane flights week after next (visiting our Peruvian friends for what I hope to be the closing out part of the project) and so plenty of time to focus then . . .

cheers

Kirby Owen

Director

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From: William Rickett

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Sent: 29 October 2016 18:00:48

To: Mark Cockburn

Cc: David Newbery; Kirby Owen

Subject: Re: Correspondence from Chair of the NI Public Accounts Committee ee

I have read the report and the evidence given by the Department.

It is clear the PAC will focus on what the report and the Committee and the Department all agree was the flawed design of the scheme: the absence of tiering and degression and the final setting of a rate, on our advice, that was higher than the cost of fuel. After all, if the design had been right, the rest of the problems would probably not have arisen. The problems are not just overspend but potential fraud based on the incentive to run biomass boilers 24/7, for no heating purpose, simply to claim subsidy. The whistle blower says this has happened - empty farm sheds being heated for no purpose etc

The Committee will argue that we should have highlighted issues of control and pressed the case on DETI. They will argue that as a firm based in London we should have been well aware of the problems DECC had had, and was having, with FIT and RHI schemes and should have brought these forcefully to the Department's attention in writing.

I think the argument over the imposition of an AME cap by HMT and the subsequent hit to the block grant will not be laid at our door.

So we need to have a robust explanation of our position but I think we may have to admit that, with hindsight, we should have made more fuss about the need for controls and the risk of setting a tariff above the marginal fuel cost. We will need a convincing explanation of why we did not recommend tiering or degression - indeed it is not really clear to me why we did not. Of course we can say that any scheme requires monitoring and review but the Committee will say that a well designed scheme requires a lot less.

all the best
Willy

William Rickett CB

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On Fri, Oct 28, 2016 at 12:06 PM, Mark Cockburn <mark.cockburn@cepa.co.uk> wrote:

As per the GB scheme there was no cap on the subsidy – the objective being for the UK as a whole to have 12% of its heat generated by renewables by 2020. This was not necessarily at the lowest price due to technology banding – although the offshore wind subsidy per kWh – c8-10p I think - was seen as being the ceiling.

In GB – after our work – degression was introduced to help limit demand in which the tariffs were automatically reduced once number of application trigger points were reached.

The role of tiering was **not** to drive more funding in earlier years to cover capital costs – revenue in real terms through indexation is the same in all years. The role of tiering was to control the amount of subsidy in any one year – particularly as regards those large scale technologies that had the potential for higher load factors. In NI the top of the small scale biomass band was 99kw in GB 199kw – that's quite a big difference in terms of potential. This is not to say that tiering may have helped reduce expenditure but number of installations and the overall tariff level (which became more and more generous relative to costs) are likely to have been greater drivers (which we're testing). The uptake models which NERA developed for DECC and which we mimicked for DETI set a reference boiler which drives the take-up calculation. Ours was 50kw – so from a modelling perspective at least – had a low potential over compensation.

If you read our report, we were initially all for competitively bid subsidies, but they wanted an RHI – which would have been much more controllable. If they really wanted to control risk, they should have remained part of the GB scheme –as did Scotland and Wales who have received more than proportionate shares of funds available. This decision was probably influenced by their favourable experience with the NIRO scheme. Under this there have been incredibly generous subsidies eg 4+ ROCs for AD – of course, these costs as socialised across the UK whereas under the NI RHI they ended up with

responsibility for under and overspend which, in any event, is much more difficult to manage within a smaller budget rather than the larger GB one...

From: David Newbery [mailto:dmgn@cam.ac.uk]

Sent: 28 October 2016 11:45

To: Mark Cockburn <mark.cockburn@cepa.co.uk>

Cc: Willy Ricke ternal Personal information redacted by the RHI Inquiry; Kirby Owen <kirby.owen@cepa.co.uk>

Subject: Re: Correspondence from Chair of the NI Public Account ee

a sorry tale. is CEPA the consultancy referred to? did you really not require a limited number of hours subsidy (= capital subsidy) or indexing the subsidy to the excess cost of woodchips over oil fuel? still, the DETI guys were clearly asleep on the job and not monitoring what a moments glance should have suggested was a seriously flawed idea.

On 28/10/2016 08:56, Mark Cockburn wrote:

David

Can you try this please?

If you're able to open the NIAO report in the link in the letter I would be interested in your views. We are trying to ascertain the relative impact of the absence of two tier structure versus many of the other causes of overspend – such as failure to regularly review tariffs, inability to limit / reject applications etc. It would be interesting to get your sense on what you the key issues were.

As we repeatedly told them to review tariffs – which they didn't – I think there's a limit to how much blame could be laid at our door; I don't know the reason for it, but the NIAO report seems to go to great length to apportion blame the tariff structure rather than level of overall incentive. At a minimum I find the report disproportionate in its emphasis.

But very interested in your views!

See you tonight – when this will be absolutely off the agenda!

Kind regards

Mark