On 2 Nov 2016, at 11:20, Mark Cockburn <mark.cockburn@cepa.co.uk> wrote:

Hi Willy – could we do the morning of Tuesday 15th please?

Many thanks

Mark

From: William Ricke mailto:[redacted]
Sent: 02 November 2016 10:50
To: Mark Cockburn <mark.cockburn@cepa.co.uk>
Cc: Kirby Owen <kirby.owen@cepa.co.uk>; David Newbery (dmgn@cam.ac.uk) <dmgn@cam.ac.uk>
Subject: Re: Emailing - MC341a DETI Jun11.pdf

Can no longer do morning of 16/11. Have had to agree to a meeting with DCC.
W

Willy Rickett
Sent from my iPhone

On 1 Nov 2016, at 17:58, William Rickett [redacted] wrote:

Mark

All very good points.

I am free all day on Tuesday, 15 November and Thursday, 17 November and all morning on Wed, 16 November. Let me know what suits.

all the best
Willy

William Rickett CB | [redacted]

On Tue, Nov 1, 2016 at 5:05 PM, Mark Cockburn <mark.cockburn@cepa.co.uk> wrote:

> Willy
>
> Thanks for this it is useful. I'll get back to with some more detailed points but there are some very high-level points that are relevant:
>
> The first point is that the scheme was meant to produce renewable heat – I don't mean to be flippant, the clue is in the name: "renewable heat incentive". NI was expected to make its contribution to the UK total of 12% and had a separate budget for doing so (I'm not clear why it didn't just throw in its lot with the rest of the UK) . Also, if this central budget was not used, it was lost to the NI economy (quite a big consideration locally). In terms of the level of acceptable subsidy cost, DECC set this at the level of subsidy per kWh for off-shore wind, which was 10p at the time (NI has never reached this level).
>
> Degression was not introduced into the UK until 2013. Prior to this in June 2012 – after our work - DECC consulted on "The Renewable Heat Incentive stand-by mechanism for budget management" which allowed them to suspend the scheme for a year if the budget

looked like it was going to be exceeded. The greater the proportion of estimated budget accounted for the quicker the scheme could be closed (unlike the way it was introduced in Northern Ireland in which it took three months to close down). How it was introduced was presumably a legal question – in any event, nothing to do with us. Up until then, there were no overall controls on the GB scheme.

The claim that a two tier tariff was a control is not as strong as the NIAO makes out. In fact, at the time there were documented concerns that the tiered tariff could incentivise over-sizing so as to receive a higher tier one allowance. It was not a control, but it was meant to disincentivise heat generation particularly for larger loads where it is easier to achieve higher load factor %s (the denominator essentially being the number of available hours in the year). At least in our initial work, our small band was up to 45kW – much more difficult to over-produce compared to 200kW in GB. If we had had a lower tier two tariff we would have had to have had a higher tier one tariff to produce the same level of incentive.

Even when the subsidy was higher than the fuel costs, the cost of pellets per se, this would not necessarily be the only variable cost you would be likely to face. It also takes no account of the requirements of the underlying activity supported such as accommodation or presumably even poultry don't wish to be overheated in the summer.

You can never fully control costs with a disincentive; for instance, if you have access to your own wood chips or other source of biomass (such as in the case of forestry businesses) or other source of fuel (that farms may be able to access), you get to benefit from the subsidy, irrespective of its level.

DECC, which is now considering introducing caps, but to the scheme as a whole, has publicly set out in its March 2016 IA of the GB scheme that:

"budget *management … is proposed through caps for spending and degression of* tariffs *for* new *en*trants"

*"*t*ariff rates and structure: the tariff rates offered by the RHI establish the financial*
or poten ts.*"…. "through offering a rate of return on*
vestment*, as compared to the* counterfactual"

In other words you incentivize through tariffs which determine the amount of revenue received; you manage budgetary risk at the scheme level. I need to check, but as far as I'm aware, the latter was never in our terms of reference (or our accepted proposal).

It would be great if you could be part of a mock Spanish Inquisition. Do you want to suggest some times convenient to you in the week before?

Thanks again

Mark

From: William Ricke o: Personal information redacted by the RHI Inquiry
Sent: 01 November 2016 15:15
To: Mark Cockburn <mark.cockburn@cepa.co.uk>
Cc: Kirby Owen <kirby.owen@cepa.co.uk>; David Newbery (dmgn@cam.ac.uk) <dmgn@cam.ac.uk>
Subject: Re: Emailing - MC341a DETI Jun11.pdf

Thanks.

The good points in this that can be used in evidence are:

- it calls for monitoring of scheme performance
- it calls for a formal review of the scheme after 2 to 3 years
- it calls for audit of systems in receipt of subsidy to ensure the scheme rules are being met
- it discusses the question of tiering rates
- it implies that better value for money would be achieved by the competitive allocation of grant rather than an RHI (but does not press this)
- it explicitly addresses the risk of incorrect subsidy levels (para 8.2.1) (but fails to mention the risk that this could lead to breaching expenditure limits)

The weak points are:

- it concludes that tiering is not necessary on the grounds that incremental fuel costs will exceed the subsidy levels without at the same time explaining the risks if this is not the case. Indeed it is not clear that the tables at the back support the conclusion that fuel costs exceed the subsidy.
- it does not specify "affordability" or "expenditure control" as an option appraisal criterion. Nor does it discuss this anywhere in the report, as far as I can see.
- the sections on monitoring, review and audit are mainly focused on how to deal with poor take up and do not mention the need to control expenditure

I suspect we should rely on the points that

- the report explicitly mentioned the risk of setting incorrect subsidy levels and it called for continuous monitoring of take up, a formal scheme review after 2-3 years and regular audit of subsidised systems to ensure the scheme rules were met. These recommendations should have ensured that the risk of overspend was adequately managed.
- [when pressed on why we did not say more on the risk of overspend] the focus of DETI at the time was naturally on how to meet the very demanding target for take up
- [when pressed on tiering] the report discussed the question of tiering but concluded it was not necessary if fuel costs exceeded subsidy levels. [if pressed further] With hindsight, we should perhaps have said more about the risks to the scheme of allowing subsidy levels to exceed incremental fuel costs but the focus at the time was more on the risk of low take up than the risk of overspend. However, our recommendations on monitoring, review and audit should have dealt with this risk adequately.

We need to be a bit careful of blaming the client or implying that DECC had just as much trouble staying within the LCF.

And it would be worth checking whether issues of spending control against the LCF, and the use of tiered rates and degression, had surfaced in London before our report was completed because the NI PAC may argue "you should have known from what was going on in the GB that overspending was a serious risk. Witness the setting of the FIT rates for solar PV.......And the introduction of tiered rates and degression...."

all the best and do we need to put some dates in the diary with you and whoever is supporting you (Patrick??)

Willy

William Rickett CB | Personal information redacted by the RHI Inquiry
[redacted]

On Mon, Oct 31, 2016 at 10:02 AM, Mark Cockburn
<mark.cockburn@cepa.co.uk> wrote: