

Re: NI RHI deployment figures CRM:0162213

William Rickett

Personal information redacted by the RHI Inquiry

Mon 21/11/2016 12:41

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

Cc: Mark Cockburn <mark.cockburn@cepa.co.uk>; Paul Grimal <paul.grimal@cepa.co.uk>; Paget Fulcher <paget.fulcher@cepa.co.uk>;

The point about schemes being subject to constant change can be dealt with by adding the following to the third bullet in the final para:

".....we did recommend both monitoring and review. Review is essential and the GB scheme, like any energy incentive scheme, has been subject to [several] [many] changes since it was introduced."

Broadband now back from the dead....

W

William Rickett CB

Personal information redacted by the RHI Inquiry

On Sun, Nov 20, 2016 at 10:55 AM, Kirby Owen <kirby.owen@cepa.co.uk> wrote:

Willy --

I've given it a quick look.

First, it's of course a bit longer than the Friday (was it Friday?) short draft that you produced. But still, it needs to be as long as it needs to be.

Second, I preferred the way you dealt with tiering etc in those 3 paras in the Friday draft. But here it's OK, if a bit longer (length attracts attention!). I am pleased to see -- and certainly agree with -- that the statement "takes a hit" by admitting that tiering should have been looked at in the 2012 report (the previous draft even said it "may have helped" with some of the subsequent problems, which is also a good point). By giving that at first, we take it partly off the table. So here is OK in my view.

Third, I think that if you have not already done so, maybe you should check para 3 for factual accuracy against the written words in the first report. I don't recall (and I'm sorry I don't have it in front of me) the "clarity" of the preference for challenge fund which is suggested here. But certainly if we can accurately characterise that preference as correct, it is a valuable and useful point (and should if not here or at least later be used to point out that it almost certainly would have solved many of the subsequent problems).

Fourth, maybe I've read it too quickly, but have you lost the useful brief bullet point noting the GB scheme went through a number of tweaks due to monitoring, and that is / should be not unexpected; by implication,

Provided by CEPA on 10th May 2017

pity that the same monitoring / tweaking was not adopted in NI (I think the 2nd or 3rd bp of the Friday draft)

Fifth -- as you very correctly suggest -- all of this is Mark's statement and he has to be 100% comfortable with whatever it says. After all, we all agree we need credibility, confidence, preferably simplicity, transparency, and trust to be conveyed.

So, great job. In summary, I somewhat prefer the earlier draft (Friday?) but this seems to make the same general points but perhaps with slightly different focus. If Mark is comfortable with it, then it's great.

Kirby Owen

Director

Tel: [+44 20 7269 0210](tel:+442072690210)

Kirby.Owen@cepa.co.uk

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From: William Rickett [Personal information redacted by the RHI Inquiry]
Sent: 20 November 2016 10:38
To: Kirby Owen
Cc: Mark Cockburn; Paul Grimal; Paget Fulcher
Subject: Re: NI RHI deployment figures CRM:0162213

Agreed. I hope my latest revision follows your logic.
W

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

On Sun, Nov 20, 2016 at 7:34 AM, Kirby Owen <kirby.owen@cepa.co.uk> wrote:

Agree with your point Willy, but maybe I see the reference to the need for monitoring (as clearly stated in the report) as saying essentially "of course, you (NI), not us (consultants) need to do the continuous things like monitoring in order to ensure that the subsidy is working as hoped and that the budget is not blown". Which by implication at least also tosses the need for window closure (i.e., the ultimate move in depression) over to them.

Sure, Mark is right that every 3rd word in the testimony can't be "monitoring", but I still see it as the most powerful argument in our armoury.

If our discussion of it previously didn't have the character of "this is something you (NI) needed to sort out and do, not us (consultants)", then I certainly agree it should.

Also a good place to keep in mind using the example of the GB scheme which was constantly tweaked over time (er, due to monitoring and actions taken on that basis).

Kirby Owen

Director

Tel: [+44 20 7269 0210](tel:+442072690210)

Kirby.Owen@cepa.co.uk

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From: William Rickett Personal information redacted by the RHI Inquiry
Sent: 19 November 2016 20:16
To: Mark Cockburn
Cc: Willy Rickett - External; Kirby Owen; Paul Grimal; Paget Fulcher
Subject: Re: NI RHI deployment figures CRM:0162213

You are right. I went too far. We should concede tiering but not give the impression our job was to advise on budgetary control. I will have a look at the wording.

W

Sent from my iPad

On 19 Nov 2016, at 18:28, Mark Cockburn <mark.cockburn@cepa.co.uk> wrote:

Thanks for doing this Willy, but aren't we conceding a bit too much? Even in the first report we were contributing to a number of elements of the design, but not the whole of it. Like any other consultant we responded to an agreed terms of reference in both cases. I don't get the idea that we're being accused of a number of these things. Specifically it was not in our remit to develop scheme level controls - even DECC didn't introduce these until a year or so later. You can only say review, monitor etc so many times. The whole point with these schemes is you don't know how people will react, game etc until you put something out there - just look at small scale solar in GB. With this I think we run the risk of opening up a whole series of other lines of attack that they would never otherwise have thought of? Whatever we say they're going to have a go - they take their lead from the troupe of clowns that performs regularly at Westminster. Unless we think we're really exposed shouldn't we just concede where we are really weak and defend vigorously where not - or do we do a full on upfront confessional of things which were outside our remit just in case it's raised? Risks both ways I know, but perhaps some of these points fall into the 'if pressed' category?

Mark

Sent from my iPhone

On 19 Nov 2016, at 16:44, William Rickett Personal information redacted by the RHI Inquiry wrote:

Dear Mark

I have had a go at separating this material into an opening statement and "additional material" which can be used, if necessary in questioning.

The opening statement is now 990 words which I think is at the limit.

I agree with your approach of conceding that we should have recommended tiering. I have also added that we should perhaps have advised on the need for scheme level controls, though I have pointed out that this was not in our remit. I think it will be easier to defend ourselves from this position. I have however retained the para that says there was plenty of time to introduce effective monitoring ,review and scheme controls between 2012 and 2015 - though I have put it before the concessions in the concluding para.

I have not done anything with the "additional material". But I do advise you to prepare a written Q&A brief giving you the two or three sentence lines on particular issues.

all the best
Willy

William Rickett CB |

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On Fri, Nov 18, 2016 at 5:42 PM, Mark Cockburn <mark.cockburn@cepa.co.uk> wrote:

Thanks Willy, that's useful.

My understanding from the NI Dept for Finance, is that it is likely that the Panel will focus on our role, development of tariffs, tiering and subsidy rates (and rationale for the rates), why different from the UK and risks to the scheme.

Looking at the evidence to date it's widely recognised that there was a need for review and that they consulted on cost controls in 2013 but never introduced them. I think it will rile them if we hide behind them.

I've therefore refocused the statement to reflect these developments, although it's probably still a little too long.

There are a few supplementary points that we've been developing but I don't think they should go in the opening statement. They help explain what happened, and can be used later.

I'm also attaching the profiles of the interrogation committee. If anyone wants a bet on the Chair being big into mushroom farming... that is, if they follow their Westminster counterparts...

Thanks again for your help

Mark

From: William Rickett [mailto:Personal information redacted by the RHI Inquiry]
Sent: 18 November 2016 17:09
To: Mark Cockburn <mark.cockburn@cepa.co.uk>
Cc: Kirby Owen <kirby.owen@cepa.co.uk>; Paul Grimal <paul.grimal@cepa.co.uk>;
Paget Fulcher <paget.fulcher@cepa.co.uk>
Subject: Re: NI RHI deployment figures CRM:0162213

Dear Mark

Here is a list of the sort of questions I would expect the PAC to ask. Just so you can consider what your two sentence answers would be - most of which are suggested in the draft opening remarks.

Willy

William Rickett CB | Personal information redacted by the RHI Inquiry

On Thu, Nov 17, 2016 at 4:04 PM, Mark Cockburn
<mark.cockburn@cepa.co.uk> wrote:

Kirby and Willy

Thanks for both your inputs.

For clarity. In 2011 we applied the tiering approach adopted by DECC, which it had applied to its small and medium scale but not large scale band. In the case of the 145w band the cost of fuel was above the tariff rate. This was certainly the case for >45w band where the tariff was only 1.3p. We discussed tiering with them and a version was included in our model (and guide). No one disputes the need for a two tier approach when the tariff is above marginal cost – this creates an incentive to over-generate in the absence of any other constraining factor.

But the strength of that incentive is less clear. Interestingly, the 4.39p was an input price; in other words once efficiency of 85% for our reference boiler was taken into account, the actual amount was closer to 5.2p – and remember that there is no biomass index as such. So, yes, the tariff was 0.7p (and still probably within a margin of error) over the marginal cost of heat generation. And if there was an underlying eligible economic activity to support, yes, you'd probably go for it. But 0.7p for an ineligible activity, where you risk getting caught out, and at a 100% load factor earns you about £6k per annum (and you think biomass prices are going north)? Hmm, what are those economics? This could potentially explain why there was very little abuse until 3+ years later – the GB market was less attractive to ESCOs because depression had driven tariffs so low and good old NI still had a tariff of 6.4p...

2012 is not so much a report but an Addendum in which we were asked to look at banding and the tariff level – there is no explicit request to look at tiering. It's not entirely clear whether that meant tiering too, but in any event we missed it and we need to acknowledge that. Although we were specifically asked about heat pumps for which we calculated a tiered tariff. 2012 is not, however a replacement for 2011 and needs to be read in conjunction with it (although unfortunately we did not state that, although the title might be taken to imply it).

Mark

From: Kirby Owen
Sent: 17 November 2016 15:46
To: Willy Rickett - External [Personal information redacted by the RHI Inquiry]
Cc: Paul Grimal <paul.grimal@cepa.co.uk>; Mark Cockburn <mark.cockburn@cepa.co.uk>; Paget Fulcher <paget.fulcher@cepa.co.uk>
Subject: Re: NI RHI deployment figures CRM:0162213

hmhhh . . .

since you have also already argued that active monitoring was needed (as Chapter 11 in the 2011 report essentially says; I've still not read the 2012 report to see if it is echoed there, but I think others have said that it is), then, what else is there? By 2012 as I understand it, tiering as a concept was out there. Certainly two-part tariffs had been "out there" for decades.

Thoughts?

Kirby Owen

Director

Tel: [+44 20 7269 0210](tel:+442072690210)

Kirby.Owen@cepa.co.uk

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From: William Rickett Personal information redacted by the RHI Inquiry
Sent: 17 November 2016 15:37:44
To: Kirby Owen
Cc: Paul Grimal; Mark Cockburn; Paget Fulcher
Subject: Re: NI RHI deployment figures CRM:0162213

Yes, we have already agreed that we have to concede that tiering would have eliminated the incentive to over produce. I am looking for the plea in mitigation.

W

Willy Rickett

Sent from my iPhone

On 17 Nov 2016, at 15:10, Kirby Owen <kirby.owen@cepa.co.uk> wrote:

yes, of course you have to argue that.

The counterargument is that if the higher-than-variable-cost-energy-only subsidy had instead been structured (appropriately) with tiering so that "higher-than-designed" load factors received only a less-than-variable cost subsidy, then this problem would not have been incentivised.

Reviewing would of course helped; a different tariff structure in the first place would have helped also, and in advance of the need to review.

I make this reply to all in an attempt to be helpful.

Kirby Owen

Director

Tel: [+44 20 7269 0210](tel:+442072690210)

Kirby.Owen@cepa.co.uk

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From: William Rickett Personal information redacted by the RHI Inquiry
Sent: 17 November 2016 14:54:52
To: Paul Grimal
Cc: Mark Cockburn; Paget Fulcher; Kirby Owen
Subject: Re: NI RHI deployment figures CRM:0162213

So we presumably have to argue that the higher than expected load factor and the concentration of applications on medium biomass boilers should have been signals that the tariff needed reviewing??

W

Willy Rickett

Sent from my iPhone

On 17 Nov 2016, at 13:26, Paul Grimal
<paul.grimal@cepa.co.uk> wrote:

Below is some data I request from Ofgem on the NI RHI.

It shows that the average load factor for Medium Solid Biomass Boiler has been on average 42.6%

since the inception of the scheme.

This number is higher than the load factor we had estimated using the DfE data (24%).

Thanks,

Paul

From: RHI FOIs [<mailto:rhi.fois@ofgem.gov.uk>]
 Sent: 17 November 2016 12:23
 To: Paul Grimal <paul.grimal@cepa.co.uk>
 Cc: Ofgem FOI <foi@ofgem.gov.uk>
 Subject: RE: NI RHI deployment figures
 CRM:0162213

Dear Mr Paul Grimal,

Thank you for your email in relation to the Northern Ireland Renewable Heat Incentive.

In response to your queries:

'How many applications have been made under the NI RHI across different technologies?'

We have received a total of 2,128 applications on the NI RHI. Please see the below table showing the split by tariff band.

Tariff Band	Count
Medium Ground Source Heat Pump (GSHP)	6
Small Ground Source Heat Pump (GSHP)	13
Small Solar Thermal	6
Large Solid Biomass Boiler	26
Medium Solid Biomass Boiler	2,064
Small Solid Biomass Boiler	12

Small Water Source Heat Pump (WSHP)	1
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'What has been the average load factors reported by applicants, if possible across technologies?'

We do not hold average load factors reported by applicants, as this data is not provided by applicants.

For your reference, we have generated an estimated eligible heat load factor. It's important to note that this should only be used as an indicative guide, as it is based on standard payments recorded on our central register, excluding some adhoc payments. The calculation we have employed is to take the eligible heat recorded in the register, divided by the total number of hours in the payment period, and multiply by the installation capacity. Please see the results below

Tariff Band	Average indicative eligible heat load factor
Large Solid Biomass Boiler	24.2%
Medium Ground Source Heat Pump (GSHP)	17.0%
Medium Solid Biomass Boiler	42.6%
Small Ground Source Heat Pump (GSHP)	28.5%
Small Solar Thermal	7.2%
Small Solid Biomass Boiler	25.9%
Overall Average	42.2%

I hope that this information has been useful.

Kind regards,

Charlotte Baker

Operations Manager

Commercial

Ofgem

2nd Floor, Cornerstone

107 West Regent Street

Glasgow

G2 2BA

Tel: 0300 003 3548

www.ofgem.gov.uk

----- Original Message -----

From: paul.grimal@cepa.co.uk

Received: 31/10/2016 16:04

To: RHI Enquiries

Subject: NI RHI deployment figures

To whom it may concern,

CEPA is currently involved with the Northern Ireland Public Accounts Committee (PAC) and the Department for the Economy (DfE) of Northern Ireland in examining a number of issues with the Northern Ireland non-domestic Renewable Heat Incentives (RHI) scheme.

In order to be able to help on this matter, we are looking for deployment figures. In particular:

- How many applications have been made under the NI RHI across different technologies?
- What has been the average load factors reported by applicants, if possible across technologies?

Those figures are publically available for the GB RHI but I cannot find them for the NI RHI.

I would be very grateful for your help.

Many thanks,

Paul Grimal

Paul Grimal

Economist

Cambridge Economic Policy Associates | Queens House, 55-56

Lincoln's Inn Fields, London, WC2A 3LJ |

T: [+44 20 7269 0210](tel:+442072690210) | M: Personal information redacted by the RHI Inquiry

paul.grimal@cepa.co.uk | www.cepa.co.uk |

www.linkedin.com/company/cepa-ltd

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