

To: David Gibson[David.Gibson@moypark.com]; Tom McKeown[Tom.McKeown@moypark.com]
Cc: John Harrison[John.Harrison@moypark.com]
From: David Mark
Sent: Mon 6/9/2014 8:48:43 AM
Importance: Normal
Subject: RE: Thomas Forgrave– Wood Pellet Supply
MAIL_RECEIVED: Mon 6/9/2014 8:48:00 AM

Thomas has 6 houses converted and he has been talking to Balcas (as have all others) he wanted a steer on how he should proceed –I told him we were reviewing and not to jump to quickly to sign a 10 year contract with Balcas – group buying would get a better price for all – he just wanted to review what was happening.

I have also been talking with Fred but he is sourcing Wood Chip from a local supplier – wood chip will be a very different issue –I have been advising him on moisture content and on the quality issues he is facing.

David

From: David Gibson
Sent: Monday, June 09, 2014 8:32 AM
To: David Mark; Tom McKeown
Cc: John Harrison
Subject: RE: Thomas Forgrave - Wood Pellet Supply

David How is Thomas Forgrave involved

David.

From: David Mark
Sent: 08 June 2014 17:54
To: David Gibson; Tom McKeown
Cc: John Harrison
Subject: RE: Thomas Forgrave - Wood Pellet Supply

Very keen to open this up to discussion – its important and we have talked about it internally.

Here is my take on the current position:

Currently we have 200 houses with letter of Intent for Hot Water Heating.

We have a detailed schedule of these and good visibility on fuel of choice. –

I think we will have 300 – 350 houses in conversion in 2014.

From that I calculate they would consume in the 2014/2015 main heating season September to September around $325 * 75$ tonnes = 24,000 tonnes - they will not all be commissioned for the full period but a figure of 15,000 to 20,000 would seem possible.

If we assume a purchase price of £180 per tonne this is a purchase of £2.5 - £3M

I have been talking with Procurement Irrelevant information redacted by the RHI Inquiry and have been following the process for Pellet procurement in GB. They are looking at a 1 year fixed price of £168 delivered GB

The current Balcas price being charged to NI Growers is between £175 and £185 per tonne.

They are also offering a 5 and 10 year deal which would guarantee supply based around a base price inflated 50% RPI/50% Oil price

I met with Balcas Paula Kellagher and Ian McCracken on 2 June for an introductory meeting –I agreed this with Irrelevant information redacted by prior.

Issues I think we need to consider:

1. Procurement— do we go down the “Gas” route and centrally “buy” and re sell to Growers via the Crop account?
 - a. The grower has to buy biomass fuel from an approved supplier for audit purposes – we think we would have to seek registration and fulfil all the audit conditions
 - b. We have not paid AHP on the boiler so we may not be in a position to mandate Pellets bought through Moy Park – that said we would aim to be most competitive and our credit terms would be the best out there.

- c. We would have to finance the cash flow on the material – which we already do with gas but it does tie up cash – this may be manageable with payment terms with the suppliers.
 - d. Invoicing through Moy Park gives visibility on volume and cost – however with Biomass the grower will burn fuel freely to maximise RHI income – we will have to review how we calculate the “Gas Allowance” - my view is that we should consider moving to a kWh requirement per thousand birds (currently 153litres LPG by 7.09 kWh per l = 1085kWh per Thou at 38Kg) To convert the kWh to Pence use the current LPG price and the current Pellet price on a ratio to represent the installed position each year.
 - e. Price transparency will be important but we will have a base price in the GB volumes that Moy Park buys and this could be the base unless growers can show a local cost difference.
- 2. Growers form a Buying Group
 - a. This should allow the buying efficiencies to flow to our growers
 - b. Moy Park could support this process (procurement running the electronic auctions on their behalf) but not actual legally “buy” the material
- 3. Security of supply
 - a. Talking to growers they are interested in a longer term certainty and would consider the Balcas type option if the price is right 5 or even 10 years
 - b. Moy Park for GB has only committed to 1 year – but our risk appetite may be different to individual growers – this needs to be considered with procurement
 - c. The 50/50 mechanism may be negotiable to a 60/40 and would this be best?
- 4. NI versus GB
 - a. Transportation is a significant cost for this material
 - b. GB prices will be relevant but transport will have to be added on
 - c. Material is bulky and supply needs to be assured.
 - d. Material from GB will I imagine need to be hauled in bulk trailers (to allow possibility of back loading) and then bulked and loaded on to blower tankers for delivery to farm
 - e. Balcas will have advantage with manufacture in Enniskillen
 - f. However an open process will be required to maximise the buying power to get a deal from Balcas.

In short my feel is that Balcas are starting at £190 for a 10 year deal - a short one year deal in GB is circa £170 – a ten year deal from Balcas at c £175 - 180 would be a result I think – but this is just me putting down a marker.

Happy to discuss

David M

From: David Gibson

Sent: Saturday, June 07, 2014 3:10 PM

To: Tom McKeown; David Mark

Cc: John Harrison

Subject: Re: Thomas Forgrave - Wood Pellet Supply

Tom what is this about

Please discuss with me on monday - our own procurement team should be involved as they have been in GB

Speak on monday

David

From: Tom McKeown

Sent: Saturday, June 07, 2014 02:21 PM

To: David Mark

Cc: David Gibson; John Harrison

Subject: FW: Thomas Forgrave - Wood Pellet Supply

David

Agreed with the group purchase of pellets.

Would prefer that both committees are involved ...not 1.....would also wish to have our procurement folks involved so that we can keep in touch with the costs that the groups are facing.

Can we think this through ourselves as to our involvement before we allow it to go further?

Tom

From: David Mark
Sent: 06 June 2014 09:01
To: Tom McKeown
Subject: Thomas Forgrave - Wood Pellet Supply

Thomas met the Ulster Bank on Thursday and he had he thinks a very productive day.

We are suggesting the 3 of us should sit down to review how we go with procurement od Pellets going forward.

We checked dates Thursday 12 is OK (perhaps around the evening event) as is Monday 16 and Thr 19 or Frid 20 June would all work

Thoughts

David