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Subject: RHI Business Case Addendum - VFM of Widening of Tariff Banding
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Trevor

Further to our earlier discussion, I've run an NPV analysis to show the increased costs associated with increasing the tariff banding to 199KW. I've used the same three months of applications (Apr-Jun15) that we carried out the other NPV analysis on. The table below compares the NPVs and total costs of 3 months of applications based on:

- (i) No tariff changes
- (ii) Tiered Tariff Alone[†]
- (iii) Tiered Tariff and Widening of tariff banding

For (iii), I've assumed an average boiler size of 150kw (mid way between 99 and 199kw). It would be unrealistic to assume an average boiler size of 199kw. Larger boilers eat up much more biomass fuel, so it wouldn't be economically viable for many installations to be sized this large. The analysis shows that widening the tariff banding (and increasing the average boiler size) reduces the NPV by around £9m and increases lifetime costs by around £40m compared to just doing the tiered tariff alone. But importantly, (iii) still provides a very positive NPV of £32m.

Tariff	(i) No Changes (current tariffs)	(ii) Tiered Tariff	(iii) Tiered Tariff & Widening of Tariff Banding
NPV	+ £1.85m	+ £41.26m	+ £32.09m
Annual Cost (3months of applications)	£3.58m / yr	£1.76m / yr	£2.18m / yr
Annual Cost (14 months of applications)	£16.7m	£8.2m	£10.2m
Total 20 year Cost (14 months of applications)	£334.2m	£164.2m	£203.7m