

FROM THE PERMANENT SECRETARY
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Mark Cockburn
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Dear Mark

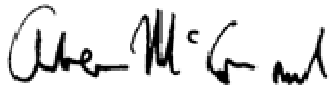
NON-DOMESTIC RENEWABLE HEAT INCENTIVE (RHI)

1. As you know, the Northern Ireland Public Accounts Committee (PAC) is currently undertaking an examination of the Northern Ireland non-domestic Renewable Heat Incentive (RHI) scheme. This was addressed in a Report by the NI Audit Office (NIAO) on the Accounts of the former Department of Enterprise, Trade and Investment (DETI), published on 5 July 2016: a link to that report is included at Annex A. DETI was merged into the new Department for the Economy in May 2016.
2. I gave evidence to the PAC on 28 September, and I have been invited to give further evidence on 9 November. While the Committee has also asked to hear from you directly on 23 November, I would wish to have a clear understanding of a number of issues before my next session, and hence this letter.
3. You will also know that DETI commissioned CEPA, in conjunction with AEA Technology Ltd, to develop two reports on the Northern Ireland non-domestic RHI scheme. These reports were instrumental to the design of the Northern Ireland scheme and are among the many documents which are being examined and referenced as part of the work of the NIAO and the PAC.
4. There is a particular concentration on issues arising around the scheme's Biomass (Small Commercial) Tariff, and in agreeing the factual accuracy of the NIAO Report, we accepted responsibility for a significant error in relation to the decision not to introduce a tiered (or capped) tariff in the NI Non-Domestic RHI scheme – in contrast to the approach taken in England (see, in particular, paragraph 35 of the NIAO Report). It is not clear, however, precisely how this arose or what factors contributed to this sequence of decisions and events.

5. As these are complex matters that are being considered it is vital that all involved are absolutely clear around the assumptions and calculations undertaken in the determination of RHI tariffs. To help inform my preparations for the session on 9 November, I would ask for comments, insights and explanations from CEPA on the following:
 - the rationale and intention behind the initial CEPA recommendation, in the 2011 Report, that tiering was not needed;
 - CEPA's view on the implications for that recommendation arising from the subsequent recommendation by CEPA, following a consultation exercise, that tariffs (and in particular the small commercial biomass tariff) should increase; and
 - the way in which the CEPA recommendation on tiering was subsequently used within the internal DETI Business Case document of March 2012 (see relevant excerpt at Annex C).
6. To drill into the detail a little further, in this regard I would ask, for the avoidance of doubt, that CEPA clarify the precise assumptions and calculations used in the tariff construction. In relation to the Biomass (Small Commercial) Tariff contained within the February 2012 Report, can CEPA:
 - provide all assumptions and calculations underpinning each input into the Tariff calculation for as highlighted in Annex B attached; and
 - provide all the calculations inherent in arriving at the 5.9p proposed Tariff subsidy (the Department has not been able to reconstruct fully the calculation to derive the tariff and we suspect that some of the figures for this boiler size may have been transposed from other technologies: for example, the annuitised upfront barrier cost of £718 is the same for large commercial biomass and small commercial biomass, although the actual barrier costs for both technologies are different).
7. In addition to recording the assumptions and calculations I would also ask that CEPA:
 - explain fully the rationale behind the assumption of a 17% load factor; and
 - explain fully the rationale behind the assumption of using a 50kW boiler size for the (20kW to 100kW) tariff band.
8. For ease of reference, I also enclose your reports of June 2011 and February 2012. If you need any additional clarity or discussion on this request you should approach the Department's Chief Economist, Victor Dukelow, in the first instance (Tel: 028 90257425, e-mail: victor.dukelow@economy-ni.gov.uk).

9. These issues are central to the current PAC investigation: hence the sooner it is possible to have your reaction to the general points at paragraph 5 above, as I may need to pursue further questions within my own team or with other stakeholders, and will need as long before 9 November as possible to do this. If some of the detailed supporting information takes a little longer to draw together, that would not be a problem, though it would be very helpful to have a full response by 4 November.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew McCormick'.

ANDREW McCORMICK
Permanent Secretary