From: Cousins, Heather
To: McCormick, Andrew (DFE)
Subject: Re: Immediate/Priority - RHI - Tariffs and Tiering - Query from DoF
Date: 27 September 2016 21:30:36
Attachments: image001.png
image002.gif

Do we have any idea why there was no sensitivity analysis? I. thought this was a basic requirement in any appraisal.

Heather

Sent from my BlackBerry 10 smartphone.

From: McCormick, Andrew (DFE)
Sent: Tuesday, 27 September 2016 21:26
To: Morelli, Emer
Cc: Scott, Michelle; Caldwell, Alison; McEvoy, Colette; Dukelow, Victor; Murphy, Shane; Clydesdale, Alison; Cousins, Heather; Wightman, Stuart
Subject: Fw: Immediate/Priority - RHI - Tariffs and Tiering - Query from DoF

Please see Shane's email below in response to my request for some retrospective sensitivity analysis. This suggests that a relatively small increase in the load factor (17 to 20%) increases the rate of return to 18%, and that high usage gives very high rates of return. So this confirms that if the tariff of 5.9 was intended only to subsidise the capex, that assumption was only valid at low usage rates, and that as usage increased, the subsidy became in effect pure profit. I fear that this kind of sensitivity analysis could have been done in 2012.....

Any additional thoughts?

Many thanks.

Sent from my BlackBerry 10 smartphone.

From: Murphy, Shane <Shane.Murphy@economy-ni.gov.uk>
Sent: Tuesday, 27 September 2016 16:40
To: McCormick, Andrew (DFE); Dukelow, Victor
Cc: Smith, Alan; Wightman, Stuart; McCann, Brendan; Coyne, Terence; McMurray, Stephen; Conliffe, David; McEvoy, Colette; Marten, Lucy; Woods, Michael (DfE); McFarlane, Iain; Cousins, Heather; Clydesdale, Alison
Subject: RE: Immediate/Priority - RHI - Tariffs and Tiering - Query from DoF

Andrew,

In relation to your Rate of Return question enclosed below is an extract from one of Alan's summary spreadsheets which shows an assessment of how the Rate of Return (IRR) varies with different load factor assumptions. As I mentioned earlier the Rate of Return varies very sharply with the load factor – and it very quickly diverges away from the target 12% IRR.

		Do Nothing Option