

## Mark Cockburn

From: [REDACTED]  
 Sent: 12 April 2011 17:37  
 To: Mark Cockburn  
 Subject: RE: DETI

Hi Mark

Yes 1 pm tomorrow is fine. My mobile is [REDACTED]

The plan for DETI for Thursday goes like this.

1. We meet at Heathrow for the 0655 flight to Belfast City. [REDACTED] and [REDACTED] from AEA will be joining us.
2. We are due to meet [REDACTED] and possibly [REDACTED] from around 10. They would like 2 hours or so covering the comments they have made on the report (working lunch provided if this takes more than 2 hours). I sent round an email last week asking everyone to ensure that they could deal with the comments identified for their sections. I've set out how we might address each of [REDACTED] high level comments below. The outcome should be an agreement on how we address all the comments, particularly the high-level ones, and an agreed timetable. [REDACTED] has said that they need to have the draft report by w/c 25th April, which gives us two (short, because of Easter etc) weeks to finalise it. This will be at a time when there are still a lot of uncertainties about the GB RHI (see below) so if I were DETI I would want a report in June rather than April, and I think we should make this point to them (emphasising that our conclusions can only be preliminary) but this may not be politically possible. I will bring printed copies of the report with comments on them.
3. As well as the session on the report, we have also offered to talk [REDACTED] through the model, but he and I could do this separately - it doesn't need all of us. I'll bring my laptop, which has the model on it, and a USB stick so we can give it to him if we want.
4. We then have a 2 hour session from 2-4 with other Departments, and NIAUR, presenting our findings using the draft presentation send round on Sunday. The presentation follows the outline [REDACTED] suggested, and should last around 20 minutes, as requested by him. Again, I'll bring printed copies of the presentation, and my laptop with the electronic version on it.
5. Leaving by 4 will give us plenty of time to catch our (late) flight.

[REDACTED] high level comments and how we might address them

- Structure - we can rework the report to follow the NIGEAE stages more closely without too much difficulty.
- Impact on gas- This is one of the tricky ones. The question of how many current or future potential gas customers will switch to renewables depends on the relativity of future oil and gas prices, and the sorts of comfort/ perceived benefits factors for gas that we tried to explain to DETI last time. This isn't, therefore, a question that we can give DETI a simple comforting answer for. I suggested to [REDACTED] last week that we might conclude that under our base case assumptions, the impact on gas is minimal, but that there are credible scenarios where it is not (e.g. gas prices go up dramatically). To me, it seems that DETI don't want any gas customers to switch, and so the best option would be not to give any subsidy to gas customers. This will come up against their desire to be 'fair' to everyone but we need to press

them hard on this - they have several objectives here that they need to prioritise.

- **Industry** - Our final report is likely (subject to AEA confirmation of the data) to say that there should be no support for renewable heat in the large industrials, because they will switch to biomass anyway because it is cost-effective without subsidy. The report is a little inconsistent on this and needs tidying up. AEA has agreed to provide a site-by-site analysis of the large industrials.
- **Risk** - [REDACTED] wants a more detailed section on risks (as per stage 6 of appraisal guidelines) and gives a selection. Some will be covered by our sensitivity analysis, and some will be addressed qualitatively or through a review after the first 2-3 years (e.g. low uptake, inadequate / overly generous support levels). So this is partly running the model again, and partly some additional text which can be relatively easily drafted.
- **Objectives** - We can include a table of SMART objectives, which would include: 10% renewable heat, reduction in CO2 emissions of 7 million tonnes, reduction in oil imports of [x] million barrels per year, gas customer connections remain at or above currently projected levels. There may be an issue here about an objective for jobs.
- **Options** - We need to be clearer about what exactly the options are (five, I think: 1. Do Nothing, 2. Short term Challenge Fund, 3. Long term Challenge Fund, 4. NI RHI, 5. GB RHI)
- **NI RHI** - [REDACTED] wants an explanation of why tariffs are different from the GB RHI. We have explanations in most cases, but these need to be more explicit. Some may need discussion (e.g. zero incentive for solar thermal, which is possibly not the right choice). We need to run other options such as front-loading of RHI tariffs (again, a model sensitivity that we should be running this week). It is not clear how these tiers have been calculated and we need to consider how to model them. DETI also wants us to talk about how the tariffs could be structured to attract ESCOs. Apart from making it easier for ESCOs to receive the payments directly, there presumably isn't much.
- **Contact with stakeholders** - AEA has [REDACTED] now contacted the stakeholders that DETI suggested on biomass, bioliquids and industrial/ commercial sites. AEA has promised to cover this on Thursday.

#### Outstanding issues

- **Administration costs** - DETI may raise this again. AEA has provided an assessment based on their previous experience of running grant programmes for renewables. Our difficulty may be convincing DETI that it won't be any more difficult to run a challenge fund than an RHI.
- **State Aids** - DETI would like us to provide an assessment of what the State Aids hurdles will be and how to structure the RHI to avoid them. I don't think this is in our remit (it is not an economic question) so think we should push back on this.
- **The GB RHI** - GB is planning to put out more details on its RHI in "May". This makes it difficult for us to design an NI RHI to fit with the GB RHI, and our final report to DETI will have to contain lots of statements like "this assumes that GB does xx". This issue will be mitigated to some extent by the fact that we are giving them the model, so they can run new scenarios through, but it might be worth pointing out to them again that a report produced now will need significant revision later.
- **Bioliquids** - AEA has now become aware of a field trial of bioliquids that has just started in NI. It will complete next year and should show whether bioliquids are viable in NI. Because they are potentially so important for NI (since all NI's oil boilers can be relatively easily converted to use bioliquids) this is a very important trial for DETI. We need to highlight in the report that our recommended

support for bioliquids is conditional on successful trials. Bioliquids are NOT supported in the GB RHI.

- **Data** - we have only just had final numbers from AEA (except bioliquids).
- **Tiering for biomass** - the new GB RHI proposals include two-tier support for small-scale biomass boilers, in which there is one payment level up to a certain level of annual usage (operating 15% of the time), and then a lower one after that. This is a new idea introduced last month. DETI are asking how we will model it. My view is that we use the current model, which looks at the annual support required for small-scale biomass, and work out the corresponding tiers using the same 15% threshold as GB. Attached spreadsheet shows how it would work (it's not a difficult calculation).



tiering  
example.xlsx

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

From: Mark Cockburn

Sent: 12 April 2011 13:40