

From: [Connolly, Samuel](#)
To: [Iain Morrow](#); [Hutchinson, Peter](#)
Cc: [McCutcheon, Joanne](#)
Subject: RE: RHI report
Date: 24 June 2011 10:00:01

Iain,

I'm content with what you are suggesting regarding VFM and that this could form the main basis of a VFM statement.

However, I would expect that a brief reference could be made to the other benefits expected from the proposals when summarising on VFM i.e. meeting long term targets, diversifying energy supply risk etc.

Regards
Sam

Samuel Connolly

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From: Iain Morrow [mailto:Iain.Morrow@cepa.co.uk]
Sent: 23 June 2011 18:22
To: Hutchinson, Peter
Cc: McCutcheon, Joanne; Connolly, Samuel
Subject: RE: RHI report

Peter

Thank you. We will include reference to the Premium Payment scheme. On suggested levels of support, we will look at the annual support that would be provided to typical domestic consumers under an RHI and use that for the Premium Payments. If this is significantly out of line with the GB support levels, we may need to discuss with you in the morning.

On funding, how about the following text for the report: *"We understand from DETI that HM Treasury has agreed that funding beyond 2014/15 will be available for those installations that are installed within the Spending Review period (i.e. up to 2014/15). This is subject to funding being basically flat beyond 2014/15, and initial payments being affordable within the Spending Review funding profile."*

Regards

Iain

From: Hutchinson, Peter [<mailto:Peter.Hutchinson@detini.gov.uk>]

Sent: 23 June 2011 17:42

To: Iain Morrow

Cc: McCutcheon, Joanne; Connolly, Samuel

Subject: RE: RHI report

Iain,

Thanks for this. Just to deal with your points.

Domestic

Happy for the report to include the recommendation that domestics should be included in the RHI but at a delay in line with GB proposals so the market is given time to develop, that cost-effective solutions are incentivised first and so ESCOs can prepare for the domestic market. As discussed, it would be helpful for the recommendation to include reference to the 'Renewable Heat Premium Payment' scheme, especially in regards the £2m funding for yr1. Potential levels of support would be appreciated.

Funding

Apologies for delay in wording. Our understanding from HMT is that HMT have agreed with DECC that they can make commitments to spending in future years (up to 20 years) for installations that are installed within the SR period (i.e. the initial payments have to be affordable within the SR profile), and providing that the policy is set up so that payments should be basically flat over the 20 year period in real terms (i.e. no backloading to ease short-term affordability pressures). This same agreement would apply to any NI scheme. Hope this provides clarity.

I am happy for you to keep the various funding lines as they stand so show that a range of options was considered.

VFM

Sam may be best placed to comment, however I am content with the approach that you suggest in the email.

Other issues

The only other issue I wanted to raise was just to make sure that within the final document there will be a full list of the technologies supported i.e. does biomass refer to woody biomass or also combustion of municipal waste; similarly, does biogas include land fill? Further to this, explicit bands by kWth should also be included.

If you need anything further let me know.

Thanks,

Peter

Peter Hutchinson

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Please consider the environment - do you really need to print this e-mail?

From: Iain Morrow [<mailto:Iain.Morrow@cepa.co.uk>]

Sent: 23 June 2011 13:21

To: Hutchinson, Peter

Subject: RHI report

Peter

Just a handful of things on the RHI report.

Domestic consumers

I said on Tuesday that we were tending towards recommending grants for domestic consumers. It's a judgment that depends on factors like what GB does, funding, and early experience of the scheme, but we now think that actually including them in the RHI is probably the right preferred option for now. This is for consistency with what GB expects to do, because an RHI tends to bring on renewable heat faster, and because there are likely to be ESCOs coming forward to help domestic customers install renewable heat (as with FITs for small scale renewable electricity). So we will make that recommendation in our report, but say that it would make sense to reserve the final decision until those factors are clearer. We will provide suggested grant levels as well in case you decide – e.g. after consultation - that grants are better. The model will be able to recalculate these for you in future if any assumptions change.

Funding

When we spoke on Tuesday, you said that Treasury had agreed that there would be on-going funding for any installations made by March 2015. This makes our analysis of the situation where you only have £25m less important; would you want to remove it, or leave it in for comparison purposes/ discussions with Treasury? Happy to do whichever would be most useful for you.

In terms of on-going funding, our "Funding 3" line is effectively the funding required to cover installations made to 2015, since it assumes a flat level of support after that year, which is what you need to cover a flat rate subsidy like the RHI. I'd previously asked if we should remove this, but given what you said on Tuesday it seems sensible to keep it in. Sorry to ask again, but are you able to provide a form of wording about what Treasury has agreed? I'm happy to draft something but would be a little worried about getting the politics of it wrong!

Value for Money analysis

Sam had asked about VFM analysis. What we've now done is compare the cost of the RHI, in £ per tonne of carbon saved, to the cost of wind power (based on the Committee on Climate Change's figures). It looks like the cost of our recommended RHI option is within the range of costs for wind power – in other words the RHI should be similarly cost-effective to support for

wind power. I'll include a table and some text on this in the report.

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