

From: [Morelli, Emer](#)
To: [Scott, Michelle](#); [Finlay, Christine](#)
Subject: Fw: RHI - Economics Branch Comments 28 October 2015
Date: 28 October 2015 14:18:18

Christine

To add my thanks to Michelle's.

This is greatly appreciated.

Emer

Sent from my BlackBerry 10 smartphone.

From: Scott, Michelle <Michelle.Scott@dfpni.gov.uk>
Sent: Wednesday, 28 October 2015 13:47
To: Finlay, Christine
Cc: McNally, Noel; Millar, Angela (DFP); Simpson, Tony; Morelli, Emer; Houston, Michael
Subject: RHI - Economics Branch Comments 28 October 2015

Christine

Just to register my thanks on this – I know you took work home last night and also have worked on your day off today which was totally above the call of duty (I don't want to say it was unnecessary because your input is invaluable – however you really should not have).

As ever your input – and that of your colleagues - is very highly valued by Supply

Michelle

From: Houston, Michael
Sent: 28 October 2015 13:42
To: Scott, Michelle
Cc: Finlay, Christine; McNally, Noel
Subject: RHI - Economics Branch Comments 28 October 2015

Michelle,

Please see comments below from Christine on the RHI Case.

Thanks

Michael

Michelle,

I have had a really quick look over the RHI Addendum. I have included my initial thoughts below:

- 1. Application/Funding Forecasts** - Understandably it is notoriously hard to predict both application numbers and funding requirements under the Non Domestic RHI scheme. The uptake in the scheme can be influenced by both advertising and tariff prices and the funding requirement can vary depending on the number of operating hours claimed for and therefore payments required. There has been a recent increase in uptake due to various factors, including; advertising, increased awareness in the poultry industry of the benefits of biomass for poultry houses and an awareness that our tariffs are currently higher than GBs and may soon be lowered. We need to make sure that any future predictions for applications and funding are realistic and are not based on current figures which may be artificially high due to the poultry houses, which will become saturated, and due to the rush to get the good tariffs. Once the poultry house market is saturated and the tariffs decrease, remembering oil prices are also at a record low, we may see a lower uptake in applications. The majority of the applications are for biomass currently (there is a low uptake for other technologies). Once the tariff changes are implemented for biomass and the rate of return is decreased these may drop significantly. As we are only looking at initial approval for the next year until a review is done this may be OK.
- 2. Value for Money** - I am a bit wary that employment benefits have now been added to this addendum. These employment benefits have been calculated based on an estimate of job years per MW of biomass installed and an average GVA per job. I haven't had time to check the sources of these figures. This may over estimate benefits in the future if most of the applications aren't for biomass (currently uptake of other technologies is low). Also, from what I can see, this was never costed as a benefit before. If you add in the estimated jobs GVA it significantly changes the net cost - benefit ratio and I assume changes the NPC to an NPV. If this is now standard practice then it is probably fair enough.
- 3. OFGEM Administration** - approval is sought to keep OFGEM until 2020, if the scheme is to close early once the review is undertaken is there a clause to stop the contract with OFGEM? Is the 3% costs guaranteed for the rest of the programme? The additional NI specific costs for OFGEM seem high (table 6.5).
- 4. Monitoring** - It is reassuring to read that there are plans to legislate for an annual system of digression where tariffs for both RHI schemes can be changed in year if expenditure or application triggers are reached. Monitoring will need to take place continuously. DECC currently carry out monitoring of trigger points every three months. I take it it isn't possible to implement a payment cap on the non domestic scheme?

Hopefully these make a bit of sense! I wasn't involved in this previously and haven't had time to look into the sources of the figures used in the calculations (especially the employment benefit figures) but hopefully the comments above will suffice for you to make a call on the prospective approval for the initial period from December 2015 to December 2016.

If you need anything else, my mobile number is

Personal information redacted
by the RHI Inquiry

Regards,

Christine

From: [Morelli, Emer](#)
To: [Scott, Michelle](#)
Cc: [Brennan, Mike](#)
Subject: Fw: RHI approval
Date: 28 October 2015 21:35:36
Attachments: [Supply - DETI - Non-Domestic RHI Approval - Oct 15-Dec16.tr5](#)
[Supply - DETI - Non-Domestic RHI Approval - Oct 15-Dec16.DOCX](#)

Michelle

Many thanks for all your work on this issue and going over above and beyond to clear within this timescale.

It is greatly appreciated.

Emer

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From: Scott, Michelle <Michelle.Scott@dfpni.gov.uk>
Sent: Wednesday, 28 October 2015 18:12
To: Morelli, Emer
Cc: Millar, Angela (DFP)
Subject: RHI approval

Emer

As discussed, I have drafted an approval letter for the non-dom RHI in your name. Within the time available we can't be certain that a slightly tweaked tariff regime would not deliver a better outcome, however I think on balance this is a reasonable approach as an interim measure. I would not be comfortable if this was a longer term proposal.

I have deliberately not approved a spending amount given the volatility around the forecasts coupled with our tighter time period – however I think it is appropriate that we are focused on the tariffs in place as they drive the spend levels.

I do appreciate that you are on leave and should not have to look at this – therefore if you would prefer the attached to issue in my name, please just drop Angela and I an email.

I am on leave tomorrow but can be reached on Personal information redacted by the RHI Inquiry and will be monitoring my emails if you want a word.

I have added Mike to the cc list given the profile.

Thanks – and sorry again to disturb your leave (hope the finger is a shadow of its former self)

Michelle

Public Spending Directorate Supply

Rathgael House,
Balloo Road
BANGOR, BT19 7NA

Tel No: 028 9185 8128
email: emer.morelli@dfpni.gov.uk



Trevor Cooper
Finance Director
DETI
Netherleigh
Massey Avenue
BT4 2JP

29 October 2015

Dear Trevor

NON-DOMESTIC RENEWABLE HEAT INCENTIVE- ADDENDUM

Thank you for your letter of 27 October in which you requested urgent consideration of NI Non-Domestic Renewable Heat Incentive (RHI) business case addendum.

At the outset, I must record that the timing of this approach is far from ideal. I understand the need for this addendum was first discussed with DFP at a meeting on 12 June 2015 and, given the financial governance concerns raised, I would have expected this work to be prioritised and sufficient time allowed for scrutiny and approval.

Given the very short timescales afforded to DFP to consider this complex issue we have prioritised the prospective element of the addendum and will return to the retrospective request in due course.

Revised Tariff Structure

DFP approval of the non-domestic RHI was granted on 27 April 2012. The total intervention cost at that time was estimated at £405m. A marked increase in demand, considerably above that envisaged within the original business case, has prompted DETI to review the appropriateness of the tariffs in the current market. The detailed analysis attached to the addendum estimated the total cost to 2036, assuming the scheme closes to new installations in 2016 and tariffs are reduced, could be in the region of £556m.

The revisions proposed will significantly reduce the tariffs available for biomass installations. An output cap will also be introduced which reflects the maximum annual heat requirement of a typical poultry house. It is noted that this new tariff

structure is an interim arrangement to allow a more comprehensive review of the non-domestic RHI scheme to be taken forward.

Administration

DETI is also seeking approvals associated with the administration of the scheme. At the 21 October casework committee you provided an assurance that there are no procurement issues associated with the continued utilisation of Ofgem, given its public sector classification. On that basis, DFP is content that this arrangement does not require fresh approval.

DETI should ensure the contract can be adjusted in response potential changes in the scheme post SR and should ensure the procurement advice contained at para 2.50 of the original advice is adhered to as appropriate.

Affordability

The break point in the original DFP approval recognised the time limit on the funding available. While you have requested approval to December 2016, you are aware that no budget has been confirmed beyond 2015-16 and there will only be certainty on future funding availability following the November Spending Review.

Conclusion and Way Forward

As outlined above, DFP has been afforded a very limited window to review the proposed changes and, while it is accepted that a tariff reduction is required, it is difficult for DFP to conclude within the short timeframe available that the proposed changes will deliver the optimal outcome. That said, it is acknowledged that these are interim measures while the department undertakes a review of the scheme and further delay could result in more installations coming on line at the higher tariff.

Therefore on balance I am content to grant DFP approval to the interim arrangements. At this stage, DFP approval can only be granted for new installations until **31 March 2016** due to the uncertainty around future funding of the scheme. DFP approval is therefore granted for the payments arising from new installations between 29 October 2015 and 31 March 2016. This will be revisited following the SR announcement.

DFP approval is also granted on the following project specific conditions

The tariff changes are introduced as soon as practically possible following this approval.

DETI provides regular updates of forecast spend to DFP, in addition to the usual AME forecasts

Assuming a decision is taken to continue with the RHI beyond 31 March 2016: DETI Senior Management Team ensures the department has sufficient resources and expertise to deliver the review and secure the appropriate approvals within the timescales set out within this addendum.

The review should include a comprehensive, evidence based assessment of all aspects of the RHI intervention, including tariff levels, banding and the duration of the tariff payments.

It should be noted that DFP Supply approval is granted subject to the strict adherence to the following conditions:

- that there are no substantial changes to the scope/scale of the project as described in the business case;
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Requests for revised approval will take account of factors such as:

- Where Supply is approached on the earliest indication that compliance with one or more of the above conditions is under question.
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Should the request for DFP Supply approval be declined, these factors, along with any other mitigating circumstances will be taken into account when determining the extent of the irregular spends.

It should be noted that this approval relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure controls.

Yours sincerely

EMER MORELLI

cc **Mike Brennan**
Eugene Rooney
Michelle Scott
Noel McNally
Angela Millar
Christine Finlay

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From: [Morelli, Emer](#)
To: [Scott, Michelle](#); [Dynes, Fiona](#)
Cc: [Millar, Angela \(DFP\)](#); [Brennan, Mike](#)
Date: 28 October 2015 21:24:40
Attachments: [Supply - DETI - Non-Domestic RHI Approval - Oct 15-Dec16.DOCX](#)

Fiona

Grateful if this letter could issue to DETI tomorrow.

Many thanks to Michelle.

Emer

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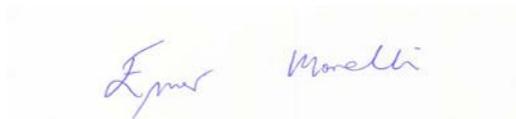
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A photograph of a handwritten signature in blue ink on a light-colored background. The signature is written in a cursive style and appears to read 'Emer Morelli'.

EMER MORELLI

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