From: Scott, Michelle
To: McNally, Noel
Cc: Brennan, Mike; Simpson, Tony; Neeson, Patrick (DoF); Morelli, Emer; Finlay, Christine
Subject: Re: RHI addednum - rates of return
Date: 08 January 2017 20:16:44

Noel

Thanks - I agree with your point on future movement of cost assumptions. We will need to ensure this is fully explored in any business case.

The retrospective approval was declined last year, and notified to c&AG. The expenditure which incurred outside the approval period was therefore irregular and the DfE accounts qualified.

I will keep you informed of any responses from DFE. I understand that if we we get a business case tomorrow it will be closer to close of play.

I will give you a call on Tuesday to discuss the latest position.

Thanks

Michelle

Sent from my BlackBerry 10 smartphone.

From: McNally, Noel
Sent: Sunday, 8 January 2017 20:03
To: Scott, Michelle
Cc: Brennan, Mike; Simpson, Tony; Neeson, Patrick (DoF); Morelli, Emer; Finlay, Christine
Subject: Re: RHI addednum - rates of return

Michelle

I just read SMcM's response to you.

Looks as if this is now a simple case of confusion between the (mis) use of the IRRS and the payback periods - a pity it slipped into the draft Executive paper last month. Anyway, as I mentioned to you previously I am concerned about the underpinning cost assumptions moving forward. For example, if the input costs of the wood pellets were to reduce significantly (a not implausible scenario) then we could be staring into a situation where super-normal profits are accruing over and above the estimated costs and benefits. So, the need for future monitoring/review/evaluation becomes absolutely essential.

Also the legal position in all of this will need to nailed down firmly.

Before I forget, DOF committed itself to inform DE of their views on the outstanding matter of their request for retrospective approval for RHI. In view of recent revelation I personally cannot see this being granted but my view should not interfere with your role as the ultimate authority on this.

Noel

Sent from my BlackBerry 10 smartphone.

From: Scott, Michelle
Sent: Friday, 6 January 2017 16:41
To: McMurray, Stephen
Cc: Brennan, Mike; Morelli, Emer; Cousins, Heather; Montgomery, Paul; McNally, Noel; Finlay, Christine
Subject: RHI addednum - rates of return

Stephen

There has been a helpful engagement between our departments on the rates of return query raised by DoF just before Christmas, and I am grateful for the clarity provided.

As highlighted in pervious correspondence, the 2015 addendum had compared a rate of return of between 11.6% and 12.8% for the proposed new tiered tariff to the 12% included in the State Aid Approval notification.

I understand from our recent engagement that this comparator was incorrect, as the 12% is an IRR while the 11.6% and 12.8% figures are simply the payback periods expressed as percentages.

The IRRs for the tiered tariffs which have now been calculated demonstrate that the IRRs achievable under three scenarios range from 11% to 19%, with 19% being the maximum return achievable. Clearly this can only be indicative as movement in any of the underpinning cost assumptions would change the IRR (as has always been the case for calculating the returns achievable on this scheme).

I would be grateful if you could confirm that the October 2015 conclusion on value for money reached by the then DETI is not undermined by this change in comparator to the 12% figure.

Many thanks

Michelle