

**From:** Scott, Michelle  
**To:** [McNally, Noel](#)  
**Cc:** [Morelli, Emer](#); [Brennan, Mike](#); [Simpson, Tony](#)  
**Subject:** HPRM: FW: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive  
**Date:** 21 December 2016 10:41:00  
**Attachments:** [image001.png](#)  
[image002.gif](#)  
[Executive Paper Version 1.docx](#)  
[RHI Business Case Addendum \(V4\) - Final.tr5](#)  
[RHI Business Case Addendum \(V4\) - Final.DOCX](#)

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Noel

I raised a concern with DfE that their Executive paper on the Renewable Heat Incentive quoted a rate of return of up to 19% on the tiered and capped scheme introduced under cover of the 2015 addendum (see quotes below)

#### **October 2015 Addendum**

The proposals to extend the 6.4p/kWh biomass tariff banding up to and including 199 kW boilers and to introduce a tiered tariff of 1.5p/kWh will provide a reduced Rate of Return of between 11.6% (8.6 years) and 12.8% for new applications from the poultry industry depending on boiler size. This would align Non Domestic RHI tariffs with the 12% Rate of Return included in the EU State Aid approval.

#### **December 2016 Executive paper (attached)**

In comparison, the maximum rate of return for a heating system installed after 18 November 2015 is 19%. Although higher than 12%, this is within the 8 to 22% range referenced in the Commission's approval as necessary to incentivise renewable heat production.

I would be grateful for your view on the explanation provided by DfE below

Many thanks

Michelle

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**From:** McMurray, Stephen  
**Sent:** 20 December 2016 14:24  
**To:** Scott, Michelle  
**Subject:** Fw: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Michelle, I will check this reply after Ministers meeting

Stephen

Sent from my BlackBerry 10 smartphone.

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**From:** Wightman, Stuart <[Stuart.Wightman@economy-ni.gov.uk](mailto:Stuart.Wightman@economy-ni.gov.uk)>  
**Sent:** Tuesday, 20 December 2016 14:20  
**To:** McMurray, Stephen  
**Cc:** McCann, Brendan; Marten, Lucy  
**Subject:** FW: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stephen

I attach the Business Case Addendum that DoF approved in October 2015.

The calculations presented in Section 4.16 (for the Nov 2015 tariff changes) show how quickly payback would typically be received. In other words, 12.8% means payback in 8 years.

The figures presented in the recent Executive Paper are for the projected Internal Rate of Return (IRR) provided over 20 years. This is a different calculation. The figures presented in the recent Executive Paper were informed by a detailed economic analysis completed by ASU which factors in the most recent cost information (capex, opex and fuel). It should be noted that the 19% figure quoted in the Executive paper is the maximum possible rate of return a scheme participant on the post Nov 2015 tariff could secure if they switch their heating system off just before the tariff tier kicks in each and every year.

Happy to discuss.

Stuart

**Stuart Wightman**

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[NI Year of Food & Drink 2016](#)

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

**From:** McCann, Brendan  
**Sent:** 20 December 2016 13:44  
**To:** Wightman, Stuart  
**Cc:** Marten, Lucy  
**Subject:** FW: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stuart,

Can you please provide to Stephen urgently and copy me in.

Thanks

B

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**From:** McMurray, Stephen  
**Sent:** 20 December 2016 13:43  
**To:** McCann, Brendan  
**Subject:** Fw: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Brendan, can you get me a copy of the addendum so I can check, and see what Stuart's view is

Stephen

Sent from my BlackBerry 10 smartphone.

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**From:** Brennan, Mike <[Mike.Brennan@finance-ni.gov.uk](mailto:Mike.Brennan@finance-ni.gov.uk)>  
**Sent:** Tuesday, 20 December 2016 13:19  
**To:** Scott, Michelle; McMurray, Stephen  
**Cc:** Morelli, Emer; Cousins, Heather  
**Subject:** RE: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stephen

The urgency is that DoF is now placed in a very difficult position (ie regularity of previous decision) so clarification on this rate of return point is very important

M.

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**From:** Scott, Michelle  
**Sent:** 20 December 2016 12:14  
**To:** Scott, Michelle; McMurray, Stephen  
**Cc:** Brennan, Mike; Morelli, Emer; Cousins, Heather  
**Subject:** RE: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stephen

Sorry to press – I know you are extremely busy however I just wanted to check if you had had an opportunity to consider the rate of return issue flagged in the emails below?

Many thanks

Michelle

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**From:** Scott, Michelle  
**Sent:** 19 December 2016 09:18

**To:** McMurray, Stephen  
**Cc:** Brennan, Mike; Morelli, Emer; Cousins, Heather  
**Subject:** RE: HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stephen

Further to the query below, I also note that the 14 December Executive Paper states that returns of up to 19% are achievable on the post November 2015 tariff.

Looking back to the October 2015 addendum, the Post November tariff was only projected to provide a return of between 11.6% and 12.8%. for new applicants from the most intensive users – i.e. the poultry sector.

I would be grateful if you could advise why the rate of return is higher than projected last year? Are there further opportunities for gaming which had not been recognised?

As you will appreciate, this is a fast moving issue and we need this information to augment advise to our Minister. I would therefore be grateful if you could give this your urgent attention.

Michelle

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**From:** Scott, Michelle  
**Sent:** 15 December 2016 17:03  
**To:** McMurray, Stephen  
**Cc:** Brennan, Mike; Morelli, Emer  
**Subject:** HPRM: DfE EXEC-1048-2016: Version 1: Version 1 Executive Paper Renewable Heat Incentive

Stephen

I note the reference in the attached Executive paper to recent analysis by the department which demonstrates the pre 18 November tariff could generate returns in excess of 100% for 99kw biomass installations. The addendum submitted to DFP in October 2015 stated that the rate of return for a typical 99kw boiler was around 33% under the original tariff regime - and this rate of return was driving the need to reform the tariff by introducing a tier and cap. Clearly at that time the potential rates of return for the scheme were significantly underestimated.

HMT provided funding to Northern Ireland to support the uptake of renewable heat technologies, and to contribute to the UK target of increasing the share of renewable energy to 15% by 2020.

I would be grateful if you could consider what defensive lines could be deployed to justify NI's continued access to this funding. While significant shortcomings have been identified in the scheme, has DfE undertaken any assessment of what proportion of the annual RHI bill is within the original parameters envisaged at scheme launch and is therefore delivering value for money?

For example, I assume there is ongoing monitoring and review of the domestic scheme and DfE is content this proportion of the overall RHI budget is

delivering VFM? What proportion of non-domestic installations have successfully replaced heat with an economic use which would otherwise be generated by fossil fuels in exchange for a rate of return which is within the original parameters?

I note the PPE for the non-domestic RHI scheme was originally due in August 2015 - this was based on the scheme completing in March 2015. DfE has asked for the PPE date to be put back to March 2018. Given the very significant lessons to be learned from the operation of this scheme I would be grateful if you could advise if the PPE could be completed any earlier than this date - particularly in light of the detailed analysis and review which is currently being undertaken by the department.

Many thanks

Michelle