



**KPMG**  
**Corporate Finance**  
The Soloist Building  
1 Lanyon Place  
Belfast BT1 3LP  
Northern Ireland

Telephone +44 28 9024 3377  
Fax +44 28 9089 3893  
Internet www.kpmg.ie

Mr William Humphrey MLA  
Chairman  
Public Accounts Committee  
Parliament Buildings  
Stormont  
BT4 3XX

Our ref Rs/cw

6<sup>th</sup> May 2021

Dear Mr Humphrey

**Re: Inquiry into Generating Electricity from Renewable Energy –  
Evidence session 22 April 2021**

On behalf of KPMG, I would like to thank the Public Accounts Committee for the recent opportunity to provide formal evidence into the ongoing inquiry "*Generating Electricity from Renewable Energy*".

We would, however, like to express our disappointment that we were not provided with advance notice that Professor Gordon Hughes had submitted a written paper to the Committee criticising the KPMG Report "*An Economic Review of Small-Scale Wind in Northern Ireland*", which would have provided KPMG with an opportunity to respond directly to these comments during the session. In the end, Professor Hughes was provided with a public forum to slander the KPMG Report without KPMG having an opportunity to respond.

Accordingly, KPMG would like to put on the record that it strongly refutes the statements made by Professor Hughes, both in his oral delivery and written paper, where he claimed that the KPMG Report methodology "*is based on flawed statistical and mathematical assumptions*".

The methodology adopted by the KPMG Report is robust and in line with the methodology utilised by the UK and NI Governments in developing the ROC scheme more generally and the small-scale wind scheme specifically. This same methodology has been utilised during each interim review of the ROC scheme by both DECC and DETI. Furthermore, in our recent interactions with the NI Audit Office, the Department of the Economy and the Utility Regulator, no party has expressed any concern with the methodology adopted.

While we do not intend to comment on the Gordon Hughes paper ("GH Paper") in its totality, we would note the following relevant observations:

1. In contrast to the methodology adopted by KPMG, the GH Paper assesses turbine returns exclusively in terms of payback periods. We do not consider this an appropriate or robust methodology or in line with the scheme's design. The ROC scheme was designed by the Government to achieve an average target internal rate of return ("IRR"), with payback period never considered in any design or consultation documents. Furthermore, from KPMG's extensive experience of advising the

A list of Partners' names is available for inspection at the above address.

commercial wind sector, it is IRR, not payback, which is used for investment decisions, with, for example, payback failing to take into account the time value of money or reflecting the long-term nature of an investment. To assess a scheme using a completely different metric than to which it was designed cannot be appropriate.

2. The GH Paper has produced its estimate of project capital costs from Companies House records. We do not consider this to be a robust source of such information. Given the small scale of the individual entities, the only information available will be an unaudited abbreviated balance sheet. This will not provide any clarity at all, of what assets are or are not included within the company, with it highly possible, for example, that the SPV holds the turbine and grid, yet the costs associated with originally refurbishing the turbine are expensed within a separate entity.
  - a. Furthermore, most professional developers hold multiple turbines within each SPV. It will have been impossible to establish turbine by turbine information from such company accounts. In contrast, the KPMG dataset has been compiled with complete and accurate capital costs for 134 individual turbines and has not had to rely on conjecture or estimation.
  - b. Based on the GH data, the average turbine cost was calculated to be c.£400k, while KPMG's analysis calculated the average cost to be £570k. Given that only 22% of KPMG's data points were £400k or below, and both DETI and DECC reports calculated an average cost of between £600k - £700k, we simply do not consider an average cost of £400k to be credible and we believe indicative of the poor data used by GH.
3. The GH Paper acknowledges that it has not had access to sufficient operational cost data to draw any conclusions. Given this is such an important element of returns, it cannot be credible to draw conclusions without access to NI-specific small-scale wind costs. The KPMG dataset has 134 actual real-world operational cost data points, which provide significantly higher credibility to the analysis. Furthermore, the GH Paper acknowledges that operating costs increase over time, which further undermines the concept of payback period, which focuses only on profitability in the early years and ignores higher cost impact in later years.
4. The GH Paper has assumed an average capacity factor of 25%, based on adjusted capacity factor for small-scale wind from 2016 – 2020, while KPMG utilised a lower capacity factor of 22% based on actual performance from 2010 – 2016. While both figures are accurate, KPMG has adopted a specific methodology of assessing investment returns based on the information available to developers at the time of making their investment decision (the approach used by the Government in setting the support rate), rather than judging returns based on future information over which Developers have no control. As such, we have used the capacity factor as



**Mr William Humphrey**

*Inquiry into Generating Electricity from Renewable Energy*

achieved by over 300 turbines over 6 years to 2016 (the year in which the average turbine was installed). While one could change methodology and adopt the higher 25% capacity factor, one would also then have to use actual and up-to-date energy price forecasts. The GH paper fails to do this. Since energy price forecasts have fallen significantly since 2016, this negative movement would more than offset the impact of the higher capacity factor on project returns.

While the GH Paper is clearly critical of the small-scale ROC wind subsidy in NI, we would observe that most of the conclusions and commentary (many of which we don't agree with) are criticisms on the design of the Renewable Obligation more generally and not specific to the NI small-scale wind support regime.

We note Professor Hughes has made many similar claims before on ROC wind projects in GB and appears to be a long-standing critic of UK government support for renewable energy generally. For example, he stated in his paper entitled, *"Why is Wind Power So Expensive"*, that *"the Renewables Obligation is a scandalous boondoggle. Unfortunately, it goes beyond an unwarranted transfer from electricity users to a privileged group of producers"*.

We are confident that the KPMG Report provides an unbiased, evidence-based report on the economics of small-scale wind and we fully stand over its conclusions. As we have explained before, we are more than happy to discuss and share our methodology and information with the Department for Economy officials. Indeed, we have already discussed them with DfE and the NIAO and will continue to do so until the DfE review into small scale wind generation is completed.

We have absolute confidence in the accuracy, integrity and transparency of our approach and findings. KPMG has been rigorously objective in its analysis of all the data it has reviewed in compiling the report.

If the members of your PAC Committee wish to speak to KPMG or Renewable NI again, we are more than happy to answer questions. Alternatively, if you wish to submit any questions in writing to us, we will answer them without delay.

Yours sincerely

Russell Smyth  
*Partner*  
KPMG