

Date : 18/04/2011 16:02:32
From : "William Rickett"
To : "fiona.hepper@detini.gov.uk"
Cc : "Iain Morrow" , "Mark Cockburn"
Subject : NI Renewable Heat - Impact on Gas
Dear Fiona

Mark Cockburn, who visited you on Thursday, has been talking to me about the potential conflict between gas network extension and the roll out of renewable heat, and what the options might be for resolving this potential conflict.

This is not an easy issue. So far we have identified three main options, which I pass on for what they are worth:

(1) Restrict eligibility for the renewable heat subsidy to those who have no current or potential access to gas. Apart from the practical difficulties of this option, I can see why DETI might be reluctant to look at an option which could be perceived to discriminate administratively between gas and non-gas areas.

(2) Instead of administratively restricting eligibility, write into the rules for the renewable heat subsidy a "carbon benefits" test which would require large energy users who want to take up renewable heat to pass a test looking at the likely impact on gas network extension of those users switching to renewable heat. The test might look at whether one energy user switching to renewable heat could make a material dent in the business case for the gas extension to that user's town. So, for example, if ABC Factory Limited in AnyTown applies to switch to renewable heat, look at the relative attractiveness of the gas extension to AnyTown depending on whether ABC Factory switches to gas or not. If ABC connecting to renewables meant that the net benefit of the gas extension dropped by, say, twenty percent or more, then ABC's application would fail the test on the grounds that it would put at risk the total carbon benefits of the gas extension, which outweigh those of switching ABC to renewable heat. You could apply a strict test that only denies an application from ABC if having it switch to renewable heat would make the gas extension to AnyTown unviable, but that is a high bar.

(3) If any restrictions on eligibility are ruled out, then take the risk – though our analysis suggests that it is a small risk unless gas prices rise – that renewable heat will be taken up by some potential future gas customers, but announce that you will look again at the issue in 2-3 years time, as part of a review of the renewable heat incentive, which it would anyway be sensible to carry out. Since the funding of £6m for the first two years is relatively small, and will not incentivise more than 1% of NI consumers to switch to renewable heat, this seems a relatively low risk to take.

Options 2 and 3 are not of course exclusive.

I hope this is of some value. If you want a word, you can get me on Personal information redacted by the RHI Inquiry tomorrow.

All the best

Willy Rickett

William Rickett CB | Personal information redacted by the RHI Inquiry
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