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Subject: RHI - EA content
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Attachments: [RHI - EA requirements.doc](#)

Peter/Alison,

See attached a scoping paper outlining some preliminary thoughts on what could be included within any potential RHI economic appraisal.

Hopefully this can be used as a basis for determining what information is currently available and what needs to be produced in order to meet DETI requirements.

Happy to discuss.

Sam

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Content for the RHI Economic Appraisal

Section	Issue to be addressed/Information required
1. Strategic Context	<ul style="list-style-type: none"> • EU Policy position • GB Policy position • NI Policy position
2. Need	<ul style="list-style-type: none"> • An analysis of the 10% target (is this legally binding, implications of not meeting the target) • Implications for DETI of doing nothing (Political, industry perspective) • Assess the market failure • Implications for the industry of doing nothing • Assess potential demand for renewable heat (inc in absence of any gov't intervention) • Assess the ability of NI renewable heat industry to supply the RH market • Assess additionality of any proposal • Implications for renewable heat market once intervention ends (will the market continue to grow?) • Definition of what is meant by renewable heat i.e. what technologies would qualify, including a description of each technology.
3. Objectives	<ul style="list-style-type: none"> • SMART objectives required • Overall policy objective (what are we hoping to achieve?) • Objectives may incorporate the 10% target and the implementation date of 2020 (perhaps also number of households, amount of energy, type of technology, type of energy user e.g. domestic/business) • Constraints – DFP requirements, legislative
4. Options	<ul style="list-style-type: none"> • Define do nothing (including the likely counterfactual position) • Provide Capital Support to customers • Provide Supplier support (e.g. R&D, Marketing etc) • Programme to raise customer awareness of renewable heat • Options for RHI – these could be developed from a range/mix of <ul style="list-style-type: none"> - type of technology, - type/size of customers, - duration of support, - number of customers - Options for determining energy usage (deeming, metering etc)
5. Monetary Costs & Benefits	<ul style="list-style-type: none"> • Each option above should be fully costed. • For options relating to the RHI, it would be necessary to assess the financial payback (taking account of the most likely counterfactual position) of each technology prior assessing the wider full economic cost. • Costs to be included: <ul style="list-style-type: none"> - Capital (including learning rates) - Running costs (wood pellets, electricity etc) - Maintenance costs (could be omitted if assumed the same for all technologies) - Metering (if large users) - Rate of return - Compensation for non-financial barriers? - Displacement (of other fuels e.g. gas & potential increase on gas bills) - Cost of administering the project • Benefits to be included <ul style="list-style-type: none"> - Payback (may actually be a net cost) - CO2 reduction (monetary terms) • Cost effectiveness (cost per tonne of carbon abated – could be compared with gas, wind etc.) • The cost section should also include an analysis of potential tariffs. This should cover issues such as

	<ul style="list-style-type: none"> - Different tariff for gas/non gas areas? - Cross subsidy for fuel poor? - Different tariff for different technologies? - Different tariff for different scale of user (banding?)
6. Assess Risks & OB	<ul style="list-style-type: none"> • Risk of do nothing • Low uptake • Inadequate level of incentive/support • Failure of renewable fuel supply • Damage to other energy sectors • Risk of perverse incentives i.e. tariff > MC of producing heat
7. Non-monetary costs & benefits	<ul style="list-style-type: none"> • A critical assessment of current industry/market for renewable heat installations and potential benefit to the industry of financial support. • A critical assessment of the potential security of supply benefits – include supply of e.g. wood pellets, reducing price volatility, overall impact, cumulative impact with other measures e.g. renewable wind. • An assessment of the wider impact on development of the gas industry (impact on future network extensions), impact on oil industry. • An assessment of potential carbon benefits e.g. what if wood pellets have to be imported? • Assess distributional effects e.g. between people with different incomes/locations
8. NPVs & uncertainties	<ul style="list-style-type: none"> • Include a summary of all the cost information required above. • Should include sensitivity analysis of key assumptions
9. Funding, management, monitoring & evaluation	<ul style="list-style-type: none"> • An analysis of funding the proposal as well as details on how to fund the preferred option. • Options for managing the proposal e.g. DETI, Ofgem, NIAUR • How and when any project should be evaluated.
10. Present Conclusions	<ul style="list-style-type: none"> • Summary of the above & any further recommendations