

From: [Connolly, Samuel](#)
To: [Hutchinson, Peter](#)
Cc: [McConville, Carmel](#); [Murphy, Shane](#)
Subject: RHI - Draft final economist comments
Date: 03 June 2011 10:59:00
Attachments: [RHI - Economist comments.doc](#)

Peter,

See attached draft comments in relation to the revised report.

Perhaps we can discuss prior to sending to CEPA.

Thanks
sam

Samuel Connolly

Strategic Planning & Economics
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9287 (ext: 29287)
Textphone: 028 9052 9304
Web: www.detini.gov.uk

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Options

9. [Point for DETI re early adopters] – Is this approach consistent with our policy proposals regarding the SWEG issue? When increasing the level of NIROCs for small wind generators, those who had already installed capacity were not eligible for the increased support based on the argument that it would not result in any additional generation. Does the same argument apply here?
10. Section 6.2 & 7.1 – The report should clarify whether we are seeking to make renewable heat more affordable than conventional sources or whether the policy aim is to make it financially the same as the counterfactual fuel i.e. oil?
11. Table 6.1 – it would be useful if the “barriers to deployment” could be outlined to demonstrate the reduction in heat output under the do nothing scenario.
12. Section 6.6 – Are CEPA recommending that DETI should copy the GB deeming procedures when published? Does CEPA have its own view on what would be best for Northern Ireland?
13. Section 6.6.1 – The report should provide details of applicable tariffs to use if it’s decided to provide an element of the funding up-front?
14. Section 6.7 – It will be necessary to analyse the model in order to assess the methodology behind the NI RHI subsidy levels being proposed.
15. Section 6.7.1 – The report should make a clear recommendation on the rates for solar thermal, rather than wait for DETI to make the decision at a later date.
16. More information should be provided to explain the tiering issue and why it has not been adopted for NI. What is meant by a “positive additional fuel expense”?
17. Table 6.6 – It is possible to get a sense check of these figures from e.g. NIAUR or other third party?
18. Table 7.2 – In 2020, the challenge fund produces the most renewable heat. How is this statement compatible with figure 6.1 which demonstrates by 2020 a challenge fund will have delivered less renewable heat?
19. Section 7.4 – It would be useful to understand how the percentages in table 7.5 have been derived. Furthermore, it is not clear what relevance the rural/urban split has to the analysis. Clarification should also be provided to explain why the domestic sector should have a higher discount rate than the commercial sector.
20. Section 7.6.1 – Under “funding 1”, the total challenge fund cost is £47m. However table 4.2 demonstrates that £25m is available. Please clarify providing a breakdown if necessary.

21. Page 78 – It would be useful to provide a breakdown of the administrative costs i.e. what do these cover? From reading this section it is not clear what the total cost of the entire project will be e.g. subsidy, admin and other costs?
22. It would be useful if the consultants could include a VFM conclusion within their analysis. How do the suggested levels of support compare to other renewable support mechanisms e.g. NIROCs for electricity?
23. As the project incurs a significant cost it will be important to determine whether the non-monetary benefits outweigh the economic cost incurred.

Non-Monetary costs & benefits

24. It is not clear why it is being assumed that an oil boiler would require 2 days to install compared to 4 for domestic heat pumps and biomass boilers. Please clarify/provide evidence.
25. Can the non-monetary costs/benefits be scored to demonstrate relative importance?
26. It would be useful to clarify what gas/oil tariffs have been used in the modelling. Are these NI specific?
27. Furthermore, is it being recommended that the scheme should not be available to those currently connected to the gas network?
28. Page 88 – What are the reasons for the relatively few small & commercial/public sector premises switching from gas to renewables given the detail outlined in section 9.5.2 i.e. what incentives make this possible?

Funding etc

29. How will inflation be applied within the tariffs going forward? Are the tariffs set to reduce in real terms?
30. An estimate of all administration costs e.g. Ofgem should be included within the appraisal. DFP should be notified if total costs are expected to change by more than 10%.

Conclusion

31. It would be useful and necessary to analyse the financial model prior to providing any comments on the methodology and tariffs that have been derived.
32. It will also be necessary to have a preferred option determined (that has been fully costed) and finalised prior to submitting to DFP.