

From: [Hutchinson, Peter](#)
To: [Clydesdale, Alison](#)
Subject: FW: Our conversation on gas distribution charges
Date: 15 March 2011 10:17:00
Attachments: [RHI gas & oil displacement.xls](#)

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From: Connolly, Samuel
Sent: 15 March 2011 10:08
To: 'Iain Morrow'
Cc: Hutchinson, Peter
Subject: RE: Our conversation on gas distribution charges

Iain,

I'm not sure why you would assume that only gas customers would be displaced. Were we not thinking about apportioning this in line with the current/future market share of oil/gas? It is important to remember that a significant number of oil customers will never have access to gas and therefore any renewables incentive will displace oil as well as gas. Furthermore, the distribution companies' build profiles will mean that some customers who may have access to gas in the long term, may not have it over the short - medium term, hence why i think it would be appropriate to use penetration rates being forecast by the companies. (see attached a spreadsheet which attempts to explain this - I recognise that there may be a case for sensitivity analysis depending on the relative financial incentives of converting from oil to gas)

Indeed, I'd be interested to understand the relative cost difference between oil and gas, especially in the context of a gas tariff review that is about to be announced that may increase gas prices significantly.

Furthermore, I would favour a bottom up approach to determining the profile of renewable heat growth i.e. from the funding available, work out how this is likely to translate into installations/kwh of heat over time.

Hope i've understood and this makes sense!

sam

Samuel Connolly

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

From: Iain Morrow [mailto:Iain.Morrow@cepa.co.uk]
Sent: 11 March 2011 17:29
To: Connolly, Samuel
Subject: RE: Our conversation on gas distribution charges

Sam

If we take your suggested assumption, that each renewable heat installation is assumed to replace gas or oil in proportion to the market share of those technologies, then by 2020, won't approximately 10% of gas have been displaced, if we assume that renewables account for 10% of heating demand by that point? There will be some second order effects because some customers who switch from oil to renewables might have switched to gas in future if renewables hadn't been available, but this can probably be ignored. You are already over-estimating the number of gas customers who will switch, since oil is more expensive than gas, oil customers will switch to renewables at a lower level of subsidy, so I'd argue that the second order effect of removing potential future customers doesn't matter.

The other thing you need is the profile of renewable heat growth. The reality is that things take time to get started, and so there is likely to be slow growth initially with higher growth as we approach 2020 (see for example the GB profile for renewable electricity deployment). So, if we assume straight line growth of 1 percentage point per year, we would be overestimating the speed of deployment and so again overestimating the impact on gas.

This would give the following profile for gas demand relative to current projections:

2011 99%
2012 98%
2013 97%
...
2019 91%
2020 90%

Is this enough for your colleague to use for an initial analysis (I guess he probably already has the figures on future gas penetration), and to give a view as to whether the impact is material? We should have more accurate numbers on displacement next week, which I expect will be significantly lower than this 10% straight-line profile.

Let me know if this seems ok. Happy to discuss on Monday.

Have a good weekend.

Regards

Iain

From: Connolly, Samuel [<mailto:Samuel.Connolly@detini.gov.uk>]
Sent: 10 March 2011 16:06
To: Iain Morrow
Subject: RE: Our conversation on gas distribution charges

I don't have access and it's not publicly available.

I had an initial conversation with a former colleague and he suggested that they would be amenable to carrying out the analysis (although he would need managerial approval)

I don't have the split at hand, however might there be information in our previous heat study? Also, if you need e.g. future penetration rates etc for gas, hopefully the regulator will release this.

Sam

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From: Iain Morrow [<mailto:Iain.Morrow@cepa.co.uk>]
Sent: 10 March 2011 15:57
To: Connolly, Samuel
Subject: RE: Our conversation on gas distribution charges

Sam

OK that's good to hear. Do you have access to the regulators' model? Is it public?

As you say, the main thing is the number of displaced gas connections/ volume. Would you have figures on the gas/ oil split by sector to hand? I can ask one of our team to do some digging if not.

Regards

Iain

From: Connolly, Samuel [<mailto:Samuel.Connolly@detini.gov.uk>]
Sent: Thu 10/03/2011 15:55
To: Iain Morrow
Subject: RE: Our conversation on gas distribution charges