Department of Enterprise, Trade and Investment
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Renewable Heat Incentive Project

Background

1. DETI Energy Division has requested comments on a report "Renewable Heat Incentive for Northern Ireland" prepared by CEPA and AEA to examine the best use of approximately £25m awarded to the NI Executive to develop the renewable heat sector within Northern Ireland. This funding represents Northern Ireland's share of the funding being made available to DECC to implement a Renewable Heat Incentive Scheme in GB. This policy is being developed to help achieve Northern Ireland's target of 10% of its heat requirement to come from renewable sources by 2020.

Need

2. The need section suggests that without support NI is highly unlikely to achieve its renewable heating target. It would be useful if this section could expand on the current state of the renewable heat sector and explain the specific market failure that is currently acting as a barrier to the increased deployment of renewable heat technologies. In addition, all policy need e.g. 10% target should be included to further justify government intervention.

3. This section should also seek to examine the additionality & displacement of the proposal.

Objectives

4. A full list of SMART objectives should be provided along with any constraints that have been identified e.g. funding, technical, timescales etc

Options

5. It is not clear how awarding the same level of support can be considered technology neutral. As different technologies have different levelised costs surely awarding the same support will make some technologies more attractive than others?

6. It is not clear how relevant sections 4.2 & 4.3 are. This discusses the theoretical implications of options design without adding much value to section 4.4.

7. The ‘do nothing’ option should also be included for assessment. To what extent will the 10% target be achieved without government intervention?

8. It is not clear what the difference is between the feed-in tariffs for heat option and the NI RHI option. Furthermore, why don’t the reasons used to justify rejecting the feed-in-tariff apply to the RHI?

9. It would be useful if more information was provided to explain the initial assessment provided in Table 4.2. Furthermore, could scores e.g. out of 10 be used in order to demonstrate the relative difference between e.g. two +s.

10. The renewable refurbishment option proposes to use the funding to install renewable heating in housing stock that is due to be refurbished over the next few years. However the reason for rejecting this option is that it is thought this would have similar objectives to the DSDs Green New Deal scheme. It is not clear how this is the case as the DSDs scheme is concerned with energy efficiency where as a renewable heat scheme is concerned with installing renewable heat systems. Perhaps this can be clarified further.

11. Table 5.2 – what is the definition of a rural household? What is meant by “gas 50”? Why are industrial applications being considered if they were ruled out previously in the document?

12. The statement “Could limit to houses meeting insulation criteria” is ambiguous. What insulation criteria are being proposed?

13. Table 5.3 – In the “sectors covered” section reference is made to there being no subsidy for industrial consumers. However in the “metering/deeming” section it suggests that both industrial and commercial customers will be metered. Please clarify.

14. Table 5.4 – It is not clear why the NI RHI tariff levels are considerably higher than GB. Why are these technologies more expensive to install and run in Northern Ireland or is this due to the counterfactual? To what extent has NI capex and opex data been used in the analysis? Why has tiering not been used as per the GB RHI?

15. Furthermore are the tariffs in Table 5.4 to be expressed per KWh? Why are some technologies being excluded given the statement in 5.3.2 that “we see no reason to exclude any of them from support at this stage on technical grounds”?

16. It is not clear how this policy will help consumers in fuel poverty (page 80). How will on-going costs be lower if the subsidy is being set to make up the levelised cost of renewables? Indeed the payback associated with each technology should be demonstrated (useful to provide an example consumer) and the net benefit calculated on an aggregate basis for all technologies.

17. It is not clear why a challenge fund should deliver more renewable heat than a RHI? Furthermore how can the output of a challenge fund be assessed without having sight of potential bids? Perhaps this could be explained in more detail in Annex D?

18. The report should clarify whether the challenge fund is proposing to fund an element of capex only? If this is the case are consumers still incentivised to switch once running costs have been factored in?

19. Why is it suggested that households will require "very high implied returns" on an investment given the current poor returns on savings products offered by banks and building societies? What other evidence is there to suggest a 16% rate of return is necessary for households?

20. Section 6.5.1 – what "subsidy levels" are being referred to? What "two right hand columns" show the results of applying the GB RHI?

21. Page 84 – reference again made to the industrial sector which is not being funded by either the challenge fund or RHI.

22. What assumptions have been made regarding the uptake of the various technologies as outlined in page 85? What is the basis for the split between urban and rural?

23. What does "% of total renewable heat" refer to in the tables? Furthermore, the percentages in tables 6.7 & 6.9 add up to over 100%. How is this possible?

24. How do the figures outlined on page 85 translate into number of annual installations per sector?

25. Can a value in £s be attached to the carbon savings in section 6.6? Can these be presented annually?

26. What are the assumptions behind the reductions in oil imports outlined in section 6.7? Has this been prepared using bottom up analysis? Can the reduction be expressed annually as a percentage?

Impact on the gas Network

27. Can the connection numbers be updated – Phoenix currently has 138,000 customers with firmus having 10,300 customers.

28. It is not clear why a straight line progression has been used to model gas displacement? Why hasn't this been based on future penetration rates? What discount rate and assumptions have been used to calculate the 7-8% figure? The detailed analysis behind this figure should be provided as part of the financial model.

29. What are the assumptions behind the number of potential future gas customers switching to renewables by 2020 in table 6.13? Specifically why are none assumed under the short term challenge fund? How is this split by sector/average consumption?

Administration costs

30. The appraisal should provide a summary of the annual administration costs expected under each option. Furthermore, it will be important to ensure that

the admin costs have been netted off the available funding prior to conducting the tariff analysis.

31. Furthermore the NPV associated with each option should be presented clearly within the report.

Non-Monetary costs & benefits

32. More effort should be made to assess the expected non-monetary costs & benefits associated with the project. These should be assessed in line with the NIGEAE guidance e.g. benefit to the industry, security of supply benefits, impact on gas industry, carbon savings

33. It is not clear how this proposal will lead to any increase in employment. Is it fair to assume that renewable heat installations would result in 100% employment displacement in the oil and gas markets?

34. 6.11.3 – "Why should DETI work with DECC to look at the option of having a different profile of payments, front loaded in some way"? Does Cepa intend to perform this analysis in the final report?

Further sections required

35. The appraisal should also include a section on risk/uncertainties as per NIGEAE. In addition a separate section should be included to provide final details of funding, management (including timescales & future evaluation) and marketing as well as associated costs.

36. Risks may include – risk of do nothing, low uptake, inadequate level of incentive/support, failure of renewable fuel supply, perverse incentives etc.

Conclusion

37. Overall, the structure of the report could be improved through more closely following the format outlined in the NIGEAE guidance and providing more detail in relation to need, objectives, non-monetary analysis, risk and management/monitoring.

38. In addition, it will be necessary to have sight of the financial analysis/model prior to providing firm views on the information provided to date.

39. Furthermore, DFP approval will be required prior to commencing with this project.