

DRAFT FINAL

	Do nothing	Challenge fund	50% Capital Grant	GB RHI	NI RHI – DECC	NI RHI – Alt	NI RHI – Alt no Solar Thermal
term funding: £25 mto 2014/15, £12m per year thereafter							

7.6. Monetisable costs

To assess each option, we also need to consider the costs associated with it. There are both monetisable and non-monetisable costs associated with each; we consider the former in this section, and the latter in Section 9.

As well as the overall cost of the funding spent as subsidy, there are three types of monetisable cost we consider:

- the administration cost for the body operating the scheme;
- the administration cost for those installing renewable heat; and
- the cost of metering.

As will be seen below, the overall funding cost, and the administration for the body operating the scheme, dominate.

7.6.1. Cost of funding

Table 7.13 below shows the total lifetime⁶⁶ subsidy cost for each policy/ funding combination.

Table 7.13: Subsidy spending, in £m (present value)

	Do nothing	Challenge fund	50% Capital Grant	GB RHI	NI RHI – DECC	NI RHI – Alt	NI RHI – Alt no Solar Thermal
Funding 1 - Short term funding: £25 mto 2014/15	0	47	48				
Funding 2 - Long term funding: £25 mto 2014/15, additional £5m/year from 2015/16		311		333	131	533	227
Funding 3 - Long		137		164	131	166	156

⁶⁶ For the Challenge Fund, this is to 2020, while for the RHI options it is to 2039, because the latter provides an ongoing stream of payments to installations, while the former does not.

7.6.1. Cost of funding

Table 7.13 below shows the total lifetime subsidy cost for each policy/ funding combination.

Table 7.13: Subsidy spending, in £m (present value)

	Do nothing	Challenge fund	Capital Grant	GB RHI	NI RHI – DECC	NI RHI – Alt
Funding 1 - Short term funding: £25 m to 2014/15	0	22	24			
Funding 2 - Long term funding: £25 m to 2014/15, additional £5m/ year from 2015/16		161	167	455	303	334
Funding 3 - Long term funding: £25 m to 2014/15, £12m per year thereafter		79	85	161	155	154

As can be seen, the level of spending varies by option. This is driven by two factors: the timing of payments under a grant vs. an RHI, and the uptake shown by our model.

Under a grant or Challenge Fund, payments are made on installation, by assumption, and there is no ongoing stream of payments. For installations to 2020, there is therefore only a need to spend until 2020. With an RHI, on the other hand, spending needs to continue for 19 years after installation – i.e. to 2039, in our case.

Turning to uptake, deployment constraints, and the fact that the rates used in the RHI options set out above may not be sufficient to incentivise all the potential for each technology, mean that not all available funding will be taken up. In practice of course, the ability to deploy renewable heat could increase, given a long-term, credible, funding stream, and so our results need to be considered with this in mind.

7.6.2. Administration for body operating an RHI

To estimate the potential administration costs of any scheme, we have looked at the cost of running previous renewable energy programmes as reported by the National Audit Office. Table 7.14 below highlights the overall management costs as a percentage of the grant awarded under each programme. Annex D looks at the elements required in administration of a programme, based on AEA’s experience of running these for the UK Government.