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Cc: [Dolaghan, Paul](#); [Neth, Energy](#); [Sterling, David](#); [Cooper, Trevor](#); [Thomson, David](#); [Aiken, Glynis](#); [Stevenson, Valerie \(DETI Private Office\)](#); [Baxter, Clare](#); [DG - DETI Press Office](#); [Hegarty, Damien](#); [McLaughlin, Christine \(DETI\)](#)
Subject: Submission: SUB/219/2012 BUSINESS CASE - THE APPOINTMENT OF OFGEM, VIA AN AGENCY SERVICE AGREEMENT TO ADMINISTER THE NI RENEWABLE HEAT INCENTIVE
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Attachments: [SUB 219 Min Content.pdf](#)

DEPARTMENT OF ENTERPRISE, TRADE AND INVESTMENT

Unclassified

From: Christine McLaughlin
Private Office
To: Hepper Fiona (Mrs)
Date: 24/04/2012

Action Copy: cc Energy
Hegarty Damien (Mr)
McLaughlin Christine (Mrs)

SUB/219/2012:BUSINESS CASE - THE APPOINTMENT OF OFGEM, VIA AN AGENCY SERVICE AGREEMENT TO ADMINISTER THE NI RENEWABLE HEAT INCENTIVE

The Minister has seen and read your submission of 18/04/2012 and is content.

Christine McLaughlin (Private Office)

Netherleigh House Tel: Ext 29222

OffName

Minister: For your consideration and if content approved please. **DFE-143926**

ELW
18/04/12

From: Fiona Hepper
Energy Division

Copy Distribution List Below

Date: 18th April 2012

To: 1. David Sterling [Content 18/4/12]
2. Andrew Crawford
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DETI SUB 219/2012

BUSINESS CASE FOR THE APPOINTMENT OF OFGEM, VIA AN AGENCY SERVICE AGREEMENT TO ADMINISTER THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE.

Issue: This submission seeks the mandatory internal approval to appoint The Office of Gas and Electricity Markets (Ofgem) to administer the Northern Ireland Renewable Heat Incentive (RHI) and to act as an External Delivery organisation on behalf of DETI.

Timing: Desk Immediate – Ofgem’s work must commence immediately if we are to minimise the delay in the start of the scheme.

Need for referral to the Executive: Not applicable

Presentational issues: The appointment of Ofgem may attract some comment from local stakeholders.

FOI implications: Some elements may be exempt under of the Freedom of Information Act.

Financial Implications: The development of the administrative system is expected to cost £386K; the ongoing operational costs for the next four years are estimated to be £136K, £157K, £198K and £249K respectively

Legislation Implications: N/A

PSA/PFG Implications: None

Statutory Equality Obligations: None.

Recommendation:

That the Departmental Accounting Officer authorises the appointment of Ofgem, and approves the attached business case for the project.

That the Departmental Accounting Officer authorises the appointment of Ofgem as an External Delivery Organisation.

That the Minister notes the appointment of Ofgem to develop an administrative system for the NI RHI and approves the business case for the appointment at a cost of approximately £386k.

Background

A target of 10% renewable heat for NI by 2020 is included within the Strategic Energy Framework; this is a challenging target given that the current level is 1.7% but is necessary to meet an EU Renewable Energy Directive (RED) (2009/28/EC) on renewable energy. £860million has been made available from central Government funding to support the introduction of a Renewable Heat Incentive (RHI) in GB over the period 2011-2015; HMT has notified the Northern Ireland Executive that £25million of funding is available for a NI RHI over the same period. The GB RHI scheme commenced in November 2011. Energy Division engaged consultants to consider how the renewable heat market in Northern Ireland could best be developed; this has resulted in proposals for a specific NI RHI tailored to take account of the differences in the GB and NI existing heat markets. The proposed NI RHI represents a long term approach to developing the renewable heat market by providing consistent, secure, long term payments for renewable heat generation. The scheme involves payments to installers of renewable heat technologies, with tariffs dependent on the type and size of technology installed, and in the form of pence per kilo watt hour (p/kWh) for heat generated. Payments will be made quarterly over a 20 year period for all eligible installations (following accreditation).

Administrative System

2. The introduction of a NI RHI requires an administrative system capable of managing enquiries and applications, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments as outlined above, preventing fraud and providing management information.
3. The Office of Gas and Electricity Markets (Ofgem) is the Energy regulator for Great Britain and has a close working relationship with the Department of Energy and Climate Change (DECC). Over the last 2 years Ofgem and DECC have worked closely together to develop administration arrangements for the GB RHI; this has included developing processes, designing IT systems and developing the guidance documents that underpin the scheme.

4. It was considered that by contracting with Ofgem for the delivery of the NI RHI, DETI would benefit from all the work that has already been undertaken in developing the GB system. For this reason, you will recall, Ofgem was asked to conduct a feasibility study to advise on the technical and legal implications of administering the NI RHI, the feasibility of using the existing systems and to provide estimates of development and operational costs.
5. The study concluded that Ofgem had the operational structures in place to deliver an administrative system, tailored specifically for NI, following a development phase of approximately 4 months. The cost of the development work would be £386K. Forecasts of operating costs for the next four years are £136K, £157K, £198K and £249K, based on NI accounting for a 3% share of the workload. In any case, Ofgem has confirmed that it will only pass through actual costs to DETI.
6. Exploiting synergies with the GB RHI will drive down the costs of administering the scheme whilst maintaining a high quality service to generators. For example, using the existing Customer Relationship Management (CRM) Software will save NI an estimated £100-150K, while using the existing SUN system to make generator payments, instead of a payment service provider, could save in the range of £100 -500K. In addition, using the main existing RHI register instead of commissioning a bespoke IT system is expected to save between £2m and £3m. Overall, it is estimated that using Ofgem's existing systems could save somewhere between £3.2million and £5.15million with additional ongoing operational savings.
7. The question as to who should administer the NI RHI was asked within the public consultation on the scheme. Responses to the consultation were mixed; some consultees agreed that the use of Ofgem would be beneficial in terms of efficient delivery, consistency and reduced administrative costs. Others argued that the scheme should be administered locally with the possibility of creating new jobs and skills in NI. However, the completion of this feasibility study provides clear evidence that there are very substantial gains (both in terms of efficiency and cost) to be had from utilising the existing GB system. Looking forward, there is the additional advantage that we would only be required to pay our share of any future development or enhancement costs.

Central Procurement Directorate (CPD)

8. Energy Division has discussed the award of the contract to Ofgem with colleagues in CPD who in turn have consulted the Departmental Solicitor's Office. DSO indicated that three tests should be applied to decide whether the proposed contract with Ofgem involved 'public bodies sharing in such a manner that the procurement regulations do not apply'. Having received information on the status of Ofgem, its funding arrangements and procurement procedures, CPD is content that the proposed agreement would pass all three tests. CPD have confirmed, in writing, that appointing Ofgem would be acceptable and that a formal arrangement with Ofgem through a Service Level Agreement is appropriate, without the need for a call for competition (pdf of signed form is attached).

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9. The main reasons for awarding the contract to Ofgem are contained in the attached business case (**Annex A**) and can be summarised as follows:-

- Economies of scale due to Ofgem's role as Administrator of the GB scheme; DETI will benefit from existing expertise and systems.
- Consistency of approach with GB; the GB RHI and NI RHI are largely similar and discrepancies in administration could cause confusion and prevent uptake.
- Ofgem has a sound track record in delivering large scale energy projects such as the roll out of smart metering, the Feed-in-Tariff and the Renewables Obligation (including the NI element).
- The adaptation of an existing system will be quicker and carry less risk; the NI RHI will be able to be introduced earlier and the risk of it not being fit for purpose is lessened

Ofgem as an External Delivery Organisation

10. At the Casework Committee meeting of 9th March 2012, which considered the wider proposals on the NI Renewable Heat Incentive, Energy Division was advised that if the administration of the RHI was awarded to Ofgem that they would be treated as a External Delivery Organisation and this would require approval **from the Departmental Accounting Officer**. This is in addition to the approval for the Agency Service Agreement.

11. In considering this proposal the following should be noted:

- Ofgem will be awarded the contract, via an Agency Service Agreement. CPD have been involved throughout this matter, offering procurement and legal advice, and are content with this proposal;
- Formal contractual arrangements with Ofgem and DETI will be via an approved Agency Services Agreement, again CPD are advising on this matter;
- The roles and responsibilities of Ofgem, as well as the expected costs, are set out in the attached business case and in the Ofgem feasibility study; and
- Energy Division will ensure DETI Internal Audit Branch have right of entry into Ofgem to make appropriate checks as required.

12. The **Departmental Accounting Officer** is asked to consider this proposal and give approval to the appointment of Ofgem as an External Delivery Organisation.

13. In addition, it should be noted that Finance Division have been alerted to the scale of the set up and ongoing costs as laid out in para 5 above

and have undertaken to manage these internally via deminimus bids in the appropriate monitoring rounds. Energy Division will therefore keep in close contact with Finance Division and will make in year bids as required.

Recommendations

- (1) That the Departmental Accounting Officer authorises the appointment of Ofgem, via an Agency Service Agreement and approves (and signs) the attached business case for the project.**
- (2) That the Departmental Accounting Officer authorises the appointment of Ofgem as an External Delivery Organisation.**
- (3) That the Minister notes the appointment of Ofgem to develop an administrative system for the NI RHI and approves the business case for the appointment at a cost of approximately £386k.**

(signed)
FIONA HEPPER
Energy Division
(Ext 29215)

cc: David Thomson
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