

**From:** [Hawthorne, Jill](#)  
**To:** [McFarlane, Iain](#)  
**Cc:** [McAvera, Gerry](#)  
**Subject:** FW: DFP Approval required for a feasibility study into the administration arrangements for a NI RHI  
**Date:** 18 August 2011 17:55:36  
**Attachments:** [Signed Business Case - feasibility study - Aug 11.pdf](#)  
[SUB 1155 Minister content.pdf](#)  
[DFP proforma - feasibility study into RHI admin.doc](#)

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Iain,

I would propose to raise the following in my email to Peter re. the RHI Feasibility Study:

- The business case states that the proposed consultancy will examine and report on the required 'high level reporting and governance structure between Ofgem E-Service and DETI'. Given that the programme will be administered by Ofgem, does this not represent a potential conflict of interest? Should governance and reporting arrangements not be dictated by the responsible department rather than the delivery agent?
- I understand that the costs Ofgem's service delivery costs (e.g. staff, IT) will be met by the Department. I note that the proposed feasibility study will assess the necessary resource requirement to administer the programme. How will the Department satisfy itself that the resource requirement, as identified by Ofgem through the feasibility study, is robust and is the absolute minimum required to administer the RHI.
- DETI Energy Division is proposing to seek the services of Ofgem to act as administrator of the NI RHI. However, the business case makes no assessment of alternative delivery agents. Have alternative options been explored?

Happy to take on board any feedback and / or further points that you think we should make.

Jill

## **Jill Hawthorne**

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**From:** Hutchinson, Peter  
**Sent:** 12 August 2011 16:37  
**To:** Hawthorne, Jill  
**Cc:** Hepper, Fiona; McCutcheon, Joanne; McFarlane, Iain; Stewart, Susan  
**Subject:** DFP Approval required for a feasibility study into the administration arrangements for a NI RHI

Jill,

Please see attached signed business case, approval from DAO and Minister and DFP pro forma for the engagement of consultants to consider the administration arrangements for the Northern Ireland RHI.

It is proposed to appoint Ofgem to carry out this work. This will be done via a Direct Award Contract, DAO has approved this course of action and approval is now being sought from CPD (preliminary discussions indicated they would be content to approve).

Grateful if you would engage with DFP Supply on this issue and seek necessary approvals. This work is scheduled to begin 1 September, this is important to allow for the study to complete in time for scheme to be in place for April 2012.

Many thanks,

Peter

**Peter Hutchinson**

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## Annex B

## BUSINESS CASE FOR PROPOSAL TO ENGAGE A CONSULTANT

Project Title: FEASIBILITY STUDY INTO THE ADMINISTRATION OF THE  
NORTHERN IRELAND RHI

Prepared By: Peter Hutchinson Date: 8 August 2011

Approved By: Fiona Hepper  
(Director of Energy Division)

Signed:



Date:

9 August 2011.

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### Section 1: Need for the assignment

#### Background –Purpose of the assignment

This paper is prepared in line with the DFP Guidance for the use of consultants (22 December 2009).

The purpose of this assignment is to appoint the Office of Electricity and Gas Markets (Ofgem) to undertake a feasibility study into the administration of a Northern Ireland Renewable Heat Incentive<sup>3</sup> (RHI) in advance of the launch of the scheme, scheduled for April 2012. The administration of the RHI is a complex issue which will require subordinate legislation, the development of protocols and agreements between DETI and Ofgem, the design of IT systems and ongoing management. Ofgem are best placed to carry this work out given their role as GB Energy Regulator, previous experience of administering the Feed-in-Tariffs, the roll out of smart meters and the Renewables Obligation, as well as their role in designing and delivering the GB RHI on behalf of the Department of Energy and Climate Change (DECC).

Further to this, the primary legislative powers which provide DECC with the authority to introduce the RHI in GB lie within Section 100 of the 2008 Energy Act<sup>4</sup>. These powers specifically define Ofgem as “the Authority” and refer to them as having the power to make payments under the RHI, enforce the scheme, require information from applicants etc. Ofgem are, within the primary legislation, described as the administrators of the RHI in Great Britain. Subordinate legislation<sup>5</sup> which sets out how the GB RHI will be administered, eligibility standards and regulations, prescribe in more detail the role of Ofgem as administrator.

Northern Ireland was not included under the 2008 Energy Act. DETI have been successful in seeking an amendment to the current 2011 DECC Energy Bill that will provide DETI with the powers conferred on DECC under Section 100 of the 2008 Energy Act. Therefore, the primary powers under which the Northern Ireland RHI will be implemented will prescribe Ofgem as “the authority” with the appropriate powers to administer the scheme. The 2011

<sup>3</sup> An RHI is an incentive scheme that will reward those who install eligible renewable heat technology with a set tariff to be paid over a number of years, the level of tariff and length of payment is determined by the size and type of technology involved. The tariffs are set in order to cover the capital, operating and other non-financial costs of installing such technologies.

<sup>4</sup> <http://www.legislation.gov.uk/ukpga/2008/32/part/5/crossheading/renewable-heat-incentives>

<sup>5</sup> <http://www.legislation.gov.uk/ukdsi/2011/9780111512753/contents>

Energy Bill is due for Royal Assent in early Autumn 2011.

Therefore, Ofgem's role as administrator of the Northern Ireland RHI will be set out in primary legislation. The appointment of Ofgem to carry out a feasibility study in advance of implementation is necessary to identify costs, risks and benefits and advise on aspects of administration.

### Strategic/policy context

In September 2010, DETI published the Strategic Energy Framework<sup>6</sup> (SEF) which had been agreed and endorsed by the Executive. The SEF included a target of 10% renewable heat by 2020 and explained that this was required to increase fuel security, reduce dependence on fossil fuels, support the drive for a cut in emissions and provide opportunities for green jobs. In the same month, the DETI Minister announced DETI would seek to introduce a RHI in Northern Ireland should one be economically viable<sup>7</sup>.

The Minister's announcement followed on from research that demonstrated a RHI could support the delivery of the Executive target and would be required for the market to be developed. Further to this, GB had made clear plans to introduce a GB RHI, Northern Ireland had not been included in this measure because of the differences in the two different heat markets, these differences meant that a Northern Ireland specific approach was required.

In October 2010, Her Majesty's Treasury allocated DETI with £25m over the next 4 years for the introduction of a RHI. Following on from this, DETI appointed Cambridge Economic Policy Associates (CEPA) and AEA Technologies, following a competitive tender process, to carry out an economic appraisal<sup>8</sup> of a RHI. This appraisal informed a final policy position which was endorsed by the DETI Minister and a public consultation on the introduction of the Northern Ireland RHI was launched on 20 July 2011<sup>9</sup>.

### What is the need for the assignment?

In order for the RHI to be introduced and implemented it needs to be administered. The role of the administrator will be to deal with applications, make payments and ensure that conditions of the scheme are in place. The administrator will also have powers to withhold payments, seek information on installations and carry out inspections if required.

DETI propose to appoint Ofgem to the role of administrator. Ofgem are fulfilling the role for DECC in regards to the GB RHI. They are experts in the design of the scheme, have developed guidelines for administration and have IT systems in place to make payments. By DETI contracting with Ofgem there will be significant economies of scale and savings by utilizing the significant work already undertaken. Ofgem have a proven track record in the delivery of such schemes and are the administrators for the Northern Ireland Renewables Obligation (NIRO).

In order to Ofgem to administer the scheme a feasibility study is required. This will advise on the appropriate structures that need to be in place, the optimum method of administration, the introduction of necessary legislation and the design of appropriate IT systems. This study will also advise on start-up costs of administering the scheme and ongoing staffing costs.

### What is the scope of the assignment, i.e. tasks anticipated to provide desired outcomes?

A focused feasibility study will provide a detailed evaluation of preferred options to implement the Northern Ireland RHI. In doing so we will deliver the following:

- A high level reporting and governance structure between Ofgem E-Serve and

<sup>6</sup> <http://www.detini.gov.uk/deti-energy-index/deti-energy-strategic-energy-framework.htm>

<sup>7</sup> <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-deti/news-deti-september-2010/news-deti-200910-foster-recognises-importance.htm>

<sup>8</sup> [http://www.detini.gov.uk/economic appraisal into the northern ireland rhi - june 2011.pdf](http://www.detini.gov.uk/economic%20appraisal%20into%20the%20northern%20ireland%20rhi%20-%20june%202011.pdf)

<sup>9</sup> [http://www.detini.gov.uk/consultation on the development of the northern ireland renewable heat incentive](http://www.detini.gov.uk/consultation%20on%20the%20development%20of%20the%20northern%20ireland%20renewable%20heat%20incentive)

DETI

- Use a cost/benefit analysis to identify the most effective internal options for developing and operating the scheme, focusing on those elements which are different from the GB RHI
- High level process maps showing how the processes will be carried out in practice
- Risk analysis of risks associated with Ofgem E-Serve taking on this role in addition to operating GB RHI - and proposed mitigation
- Identified key workstreams and deliverables for development, and resources (staff, IT, legal, technical support etc) required
- Evaluation of resources required for operations
- Detailed costs for the development and implementation phase
- A full timetable of the scheme delivery

In addition Ofgem legal advisors and development staff will carry out one full review of the draft regulations, and will advise DETI on Ofgem's ability to implement the regulations as drafted, what changes may be needed to enable us to implement them in practice, and what changes may be required to streamline or improve implementation.

**Timing of assignment – when is the information required and is there any possibility of deferring the assignment?**

It is essential that this work is carried out as a matter of urgency. The GB RHI is scheduled to be in place shortly and delays to the introduction of a NI incentive scheme will lead to concerns that the NI market is being disadvantaged. Delay would also lead to money allocated by HMT not being utilized and the 10% target not being met.

It is anticipated that the NI RHI will be in place by April 2012. For this to be achieved the feasibility study must be completed as a matter of urgency.

**Description of previous similar consultancy assignments, including an analysis of past expenditures (corresponding evaluations must also be appended)**

No previous consultancy has been carried out on the administration of a Northern Ireland RHI. Two previous pieces of consultancy on the renewable heat market are detailed below;

- Assessment into the potential development of the renewable heat in Northern Ireland (June 2010) by AECOM Ltd and Poyry Energy Consulting. Cost: £145,930
- A Renewable Heat Incentive for Northern Ireland, a report for DETI (June 2011) by CEPA and AEA Technologies. Cost £82,310

A post project evaluation (PPE) for the first study is attached at **Appendix I**. A PPE for the second study is underway.

## **Section 2: Benefits & Their Timing**

**What are the projected outputs from the assignment?**

The immediate output will be a feasibility study on how the Northern Ireland RHI can be efficiently and cost-effectively rolled out in a timely manner. This will ensure that the administration arrangements are fit for purpose and fully costed.

In advance of this project being initiated a full outline proposal will be submitted to DETI. The key expected outputs from this assignment are;

- A focused feasibility study providing a detailed evaluation of preferred options to implement the Northern Ireland RHI.

- A high level reporting and governance structure between Ofgem E-Serve and DETI.
- Use a cost/benefit analysis to identify the most effective internal options for developing and operating the scheme.
- High level process maps showing how the processes will be carried out in practice.
- Risk analysis of risks associated with Ofgem E-Serve taking on this role and proposed mitigation.
- Identified key workstreams and deliverables for development, and resources (staff, IT, legal, technical support etc) required
- Evaluation of resources required for operations
- Detailed costs for the development and implementation phase
- A full timetable of the scheme delivery
- Review of draft regulations.

**What are the expected benefits to be delivered from the assignment and give an indication of when they are likely to accrue?**

The main benefit of this work will be the delivery of the feasibility study advising on the appropriate method of administering the Northern Ireland RHI and the expected costs. This study is expected to be completed within 12 weeks of commissioning.

The longer term benefit is that the future Northern Ireland RHI can be introduced and implemented in a timely and efficient manner. The feasibility study will ensure that the appropriate systems are put in place, that technical/IT issues are resolved and that expected costs are known in advance. The success of the Northern Ireland RHI relays on many aspects, one of which is reliable administration. If the administration is poorly planned or executed there is real danger that consumers will not be willing or be unable to avail of the incentive. It is vital that the administration systems are assessed, costed, planned and agreed in advance, with any potential risks or dangers identified. The feasibility study into the administration arrangements is important for the future success of the Northern Ireland RHI.

**What are the implications of the assignment not going ahead?**

If this assignment does not go ahead the introduction of a Northern Ireland RHI would be in significant doubt as there would be no viable method of administration. This in turn would result in money set aside for the scheme (£25million over 4 years) having to returned to HMT and the target for renewable heat, set by the Executive, not being achieved. Further to this, DETI would not be contributing to the UK target set by the EU Renewable Energy Directive.

There would also be substantial criticism from the renewable heat industry that Northern Ireland was being significantly disadvantaged in comparison to the market in GB.

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**Section 3: Assessment of Alternative Options**

A number of alternative options to external consultancy have been considered;

***Option 1 – Do nothing***

Doing nothing would result in the Northern Ireland RHI not going ahead due to a lack of viable administration options. DETI are unable to deliver the scheme given the scale and complexities. Ofgem, through their experience of working with DECC in designing and implementing the GB RHI, are the only body able to deliver the scheme in a timely and effective manner.

Doing nothing would lead to no Northern Ireland RHI, a loss of allocated funding, criticism from stakeholders and failure to achieve Executive and EU set targets.

***Option 2 – Complete the analysis in-house***

The necessary resources and technical expertise do not exist in-house in Energy Division.

***Option 3 – Partial completion of assignment using in-house resources***

The necessary resources and technical expertise to develop appropriate administration measures for the Northern Ireland RHI do not exist in-house. DETI Energy staff will work alongside Ofgem during the feasibility stage to ensure that the agreed policy position can be delivered and the NI RHI can be accessed by consumers wishing to avail of the incentive scheme.

***Option 4 – Short/Medium term secondment of industry experts***

This is not a viable option given the urgency of the assignment. In addition, long term administration support will be required in the future; this cannot be fulfilled by short/medium term secondment of industry experts.

***Option 5 – Use of External consultants***

This is our preferred approach and the only viable option. This will ensure the feasibility study is carried out in a timely and effective manner by a body experienced in delivering such programmes. This will also support the implementation of longer term administration plans following consideration of recommendations contained in the feasibility study.

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**Section 4: Expected Deliverables**

**Please provide details on the deliverables expected from consultancy. If available, a copy of the draft terms of reference for the proposed consultancy should be attached.**

The key expected deliverables from this consultancy will be;

- A focused feasibility study providing a detailed evaluation of preferred options to implement the Northern Ireland RHI.
- A high level reporting and governance structure between Ofgem E-Serve and DETI.
- Use a cost/benefit analysis to identify the most effective internal options for developing and operating the scheme.
- High level process maps showing how the processes will be carried out in practice.
- Risk analysis of risks associated with Ofgem E-Serve taking on this role and proposed mitigation.
- Identified key workstreams and deliverables for development, and resources (staff, IT, legal, technical support etc) required
- Evaluation of resources required for operations
- Detailed costs for the development and implementation phase
- A full timetable of the scheme delivery
- Review of draft regulations.

This feasibility study will inform the future administration arrangements of the Northern Ireland RHI. Following this assignment, DETI will consider the study and how the Northern Ireland RHI can be most effectively implemented.

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**Section 5: Skills Transfer**

**Outline the potential for skills transfer?**

There will be some potential for skills transfer during this assignment, this will largely be in the form of increased knowledge and understanding amongst Energy Division members of the potential administration issues of a Northern Ireland RHI.

By working closely with Ofgem, Energy Division staff will be able to understand better the requirements of the administration aspects, potential risks or failings and how the scheme's accessibility can be optimized.

**What arrangements have been put into place to facilitate the transfer of skills from the consultants to departmental staff to the extent that this is a benefit of the consultancy?**

Throughout the project there will be some opportunity for skills transfer to Departmental staff. This knowledge and understanding will increase through close contact with the appointed consultants and can be maintained following the successful completion and implementation of the project.

**When is it anticipated that knowledge and skills delivered by the consultancy will be transferred to internal staff?**

Knowledge and skills delivered by the consultancy will be transferred to internal staff throughout the project through meetings and discussions about the elements of the project. This will be increased further on delivery of the draft report through the process of quality assurance. The final report will assist in the implementation of the Northern Ireland RHI.

**What are the implications of skills transfer for future consultancy support?**

The project will assist in the design of appropriate administrative arrangements to allow the successful delivery of the Northern Ireland RHI. The administration and implementation of the Northern Ireland RHI will be delivered by Ofgem with oversight from DETI.

## **Section 6: Proposed Division of Work**

**What in-house support will be given to the consultants e.g. technical/specialist inputs, accommodation, photocopying and typing services etc?**

Ofgem will be required to provide the delivery of specific objectives as described in the project proposal.

Energy Division staff will be used to manage the delivery of the project, assisting consultants with queries, advising on policy issues and ensuring the project is delivered on time and on budget. It is expected that there will be ongoing contact in terms of phone calls, email correspondence and tele/video-conferencing. Consideration will also be given to the need for face-to-face meetings. Departmental economists will be included as required.

**Provide indicative estimates of the expected number of consultancy days by consultancy grade.**

The assignment is estimated to take up to 80 consultancy days as follows:-

- Project Manager – up to 15
- Principal Consultant – 20 to 25
- Junior Consultant – 20 to 25
- Legal Advice – up to 15

**Provide indicative estimates of the expected number of in-house staff days by staff grade.**

The assignment is estimated to take up to 20 in-house staff days, estimated at 12 days at DP,



5 days at G7 and 3 days at Deputy Economist.

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## Section 7: Expected Costs of the assignment

### External Consultancy Costs

**What is the expected cost of the external consultants' input to the assignment? Information derived from section 6 should be used alongside estimated consultancy rates to derive an estimate of the cost. Costs should be provided on a nominal basis. Affordability should be addressed, i.e. is budget provision available?**

It is expected that the cost of this assignment will be in the region of Sensitive commercial information redacted by the RHI Inquiry

Budget is available within the Energy Division Budget.

### In-House Costs

**What are the estimated in-house support costs for the assignment? Information derived from section 6 should be used alongside staff rates to derive an estimate of the cost. Costs should be provided on a nominal basis.**

The in house costs based on 20 staff days (12 days at DP, 5 days at G7 and 3 days at Deputy Economist) for meetings, reading time and project management is in the order of Sensitive commercial information redacted by the RHI Inquiry

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## Section 8: Project Management/ Performance Review Arrangements

**What are the proposed project management arrangements, including details of monitoring officers, draft reports, Steering Groups etc?**

The project will be managed by Renewable Heat Branch with the project team in Ofgem expected to liaise closely with the Head of Branch and Deputy Principal on a regular basis. A Deputy Economist will also provide support throughout the project, as requested.

**Proposed arrangements for on-going monitoring of consultancy performance and expected deliverables. The project managers should ensure that appropriate mechanisms are in place for influencing performance at interim stages;**

Regular meetings will take place throughout the project with the consultants obliged to submit regular update reports (at agreed intervals) to enable the review of progress. A final report will be required by 4 November 2011.

**Identify person/persons responsible for managing/delivering skills transfer.**

The progress of the assignment will be monitored closely by the Deputy Principal to ensure that the project is completed on time and within budget.

**What are the performance review arrangements for the assignment, e.g. the quality assurance employed from Departmental specialists?**

Payment will only be made following sign-off at Grade 5 level. Departmental economists will be involved in quality assurance as required.

**Skills transfer it should be pro-actively managed and monitored like any other consultancy benefit.**

The appointed project team will be expected to attend project management meetings, provide regular update reports and be contactable throughout the contract. Ofgem will be expected to explain the analysis carried out and the evidence gathered so skills and knowledge will be transferred.

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## **Section 9: Implementation and Evaluation Plan**

### **How will the results of the consultancy be implemented?**

The results of this consultancy will be to provide an evidence base for the administration arrangements and implementation of the Northern Ireland RHI.


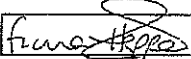
**Proposed arrangements for evaluating the outputs delivered by the consultancy assignment. This should include information on who is the responsible officer for ensuring the evaluation takes place and also information on when it is proposed to carry out the evaluation. Whilst ideally the evaluation should be independent of the project promoters, in most instances, evaluations should be carried out by internal resources, i.e. in-house staff or internal consultancy.**

Following the completion of this assignment a Post Project Evaluation on the work of the consultants will be carried out by Energy Division, to be completed within 6 months of the satisfactory conclusion of the project.

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## Appendix I

## POST PROJECT EVALUATION

Title of Consultancy Assignment:	ASSESSMENT OF THE POTENTIAL FOR DEVELOPMENT OF RENEWABLE HEAT IN NORTHERN IRELAND		
Name of Consultant Appointed:	AECOM Ltd and Pöyry Energy Consulting		
Cost of Consultancy:	£	Sensitive commercial information redacted by the RHI Inquiry	
Prepared By:	Peter Hutchinson	Approved By:	F. Hoppal
Signed:		Signed:	
Date:	8 November 2010	Date:	8 Nov. 2010

## Section 1: Background

*Provide a brief description of the assignment including:*

- *What was the purpose of the assignment?*

The assignment was expected to cover the following;

- undertake an independent assessment to identify and quantify the current scale, future sustainable growth potential and optimum size and scale of the renewable heat sector in Northern Ireland. The successful consultant will be required to provide a statistical evidence base to verify their findings;
- make recommendations as to the options for encouraging the deployment of renewable heat technologies in Northern Ireland. The successful consultants must examine the appropriateness of a RHI for NI and will be expected to provide an analysis of the needs or otherwise for any short term incentive that may be required in the absence of anticipated legislation for a RHI in NI in the short term; and
- make recommendations for an appropriate evidence-based renewable heat target and to consider how this target might impact on existing energy markets in NI.

- *What was the need for the assignment?*

Following developments in renewable heat policy in both the EU and Great Britain, namely the renewable energy directive and the introduction of the Renewable Heat Incentive (RHI)

respectively, DETI commissioned a piece of research in order to gather up to date information on Northern Ireland heat market and assess the potential for developing renewable heat.

This piece of research was essential to provide the evidence required to inform future policy development in this area and to establish how the renewable heat sector in Northern Ireland could be most effectively supported and developed. With the introduction of binding EU targets in respect of renewable heat (the UK is expected to that 15% of its energy consumption, including heat, comes from renewable sources by 2020, Northern Ireland is expected to contribute to this target) and the introduction of the RHI in Great Britain but not in Northern Ireland, evidence needed to be gathered to inform future policy decisions so the market here would not be disadvantaged.

- *Who was the appointed consultant and when were they appointed?*

AECOM Ltd and Pöyry Energy Consulting were appointed in December 2009 following a competitive tender.

## Section 2: Assessment of Costs

*This section should provide a comparison of the actual costs of the external consultancy with the agreed contract value.*

*Where the variation between contract value and actual costs is greater than 10%, an explanation for the variation must be provided. [Note where actual costs exceed the cost approved by DFP by more than 10%, then DFP must be informed].*

Expected Cost	Sensitive commercial information redacted by the RHI Inquiry	Actual Cost	Sensitive commercial information redacted by the RHI Inquiry
Percentage variation between expected cost and actual cost.			
			0%
Explanation of variation in costs		n/a	

## Section 3: Assessment of Deliverables

*This section should provide detail on what was delivered by the consultants. The extent to which projected deliverables, as outlined in the Terms of Reference, were met by the consultants, and the quality should be assessed.*

The project deliverables, as specified in the Terms of Reference, were as follows;

- To provide up to date and accurate statistics on the current heat and renewable heat usage in Northern Ireland.
- To produce a base heat map for Northern Ireland in a Geographic Information Systems format that identifies, as a minimum, high-level heat users and their location; highlights heat demand and resource in NI; and identifies locations which offer the best potential for developing renewable heat technologies.
- To benchmark Northern Ireland's renewable heat potential against Renewable Heat markets in GB, ROI and at least 2 other European regions.
- To consider and present options on how the Renewable Heat market in Northern Ireland could be encouraged / incentivised.
- To make an evidence based assessment of the need for an interim measure in Northern Ireland to stimulate the Renewable Heat market in light of the introduction of the Renewable Heat Incentive in Great Britain, and present options for any short term incentivisation.

- vi. To make projections as to evidence-based target for renewable heat to 2020 for Northern Ireland, setting out clearly the potential impact of any target on other existing energy markets (i.e electricity, gas, coal and oil).

On the whole the deliverables as outlined in the ToR were met, quality was consistently good throughout with minimal supervision required. ✓

The terms of reference stipulated that the successful consultant would provide a draft report for consideration by Sustainable Energy Branch (SEB) followed by submission of a final report. These reports were delivered to agreed timescales and to a good standard. Some changes were required but these were incorporated into the final report. AECOM and Pöyry both worked closely with SEB staff, providing regular updates on their research throughout the contract and were also available to answer questions or discuss certain issues further. ✓

The final report is a substantial piece of research and includes detailed analysis of the current status of both the heat and renewable heat markets in Northern Ireland. It provides information on Northern Ireland's position in comparison to other EU states and regions and presents various evidence based options on how the market could be developed. Recommendations are made about how DETI should proceed with this policy area and how a 10% target of renewable heat by 2020 could be achieved. GIS maps have also been provided for DETI's use. ✓

The consultants demonstrated throughout an in-depth knowledge of renewable heat, and wider issues that would affect the rollout of heat policies. ✓

#### Section 4: Assessment of Benefits

*This section should provide detail on the benefits provided by the consultancy assignment. For example:*

- *Were the deliverables achieved within the timescale specified in the contract?*

The deliverables of the project, as detailed in the terms of reference, were achieved with the final report covering all aspects required in great detail. This work has informed decisions take on renewable heat policy as it was intended. There was some delay in completing the project. ✓

- *Reasons for any delays and the impact on expected benefits should be explained.*

The project was delivered with some delay, largely due to a delayed start and the amount of data collection that was required. Timescales were revised following discussions between SEB and the consultants. This had limited impact and the final report is of a good standard with excellent detail. ✓

- *Was the consultancy assignment used for the purpose originally intended?*

The consultancy assignment was used for the purpose originally intended. ✓

- *How were the outputs delivered by the assignment used?*

The project provided a detailed analysis of the current status of the renewable heat market, the potential for growth and the possible support measures (both policy and financial) that would be required. The report has informed decisions on future renewable heat policy, detailed in a statement by the Minister on 20<sup>th</sup> September 2010. The Executive Summary of the report was also circulated to interested parties and placed on the DETI website for information. ✓

SEB now plan to carry out a short piece of economic work aimed at developing a RHI specifically for Northern Ireland, as advised in the report. This work will assess the cost/benefit of such a policy to ensure that it is the most appropriate scheme for Northern Ireland and so that funding secured will be sufficient for the expected demand. ✓

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#### Section 5: Division of Work

*This section should provide details of the division of work between in-house staff and the consultants. Evidence should be provided of whether the in-house assistance provided matched what was in the business case.*

The business case for this assignment stated that a project steering group would be set up to monitor progress of the consultants and that this group would include representatives from the public sector, private sector, academia and others. This group was established in January 2010 and chaired by Jenny Pyper, Head of Energy Division. Project Steering Group meetings were held on 19 January 2010, 11 March 2010 and 26 April with members of the PSG invited to comment on progress, advise on work areas and quality assure findings. ✓

In addition, the business case stated that there would be regular meetings between the consultants and officials from SEB (G7/DP) and update reports would be submitted at agreed intervals. ✓

An inception meeting between SEB and AECOM and Pöyry was held on 1 December 2009 to discuss the project and the expectations and deliverables. Further meetings were held throughout the project, as well as continual communication via telephone and email. Regular update reports were submitted during the data gathering element of the assignment, with a draft outline report and final draft submitted and considered in advance of a final draft being agreed. ✓

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#### Section 6: Skills Transfer

- *What mechanisms were put in place to allow the transfer of skills and knowledge to happen?*

As a result of the close contact with AECOM and Pöyry throughout the project staff in SEB have a significantly increased understanding of the heat market in Northern Ireland and a better knowledge of the various renewable heat technologies and the economics in comparison to existing fossil fuels. Skills transfer was largely through learning and development gained on a day to day basis working with the AECOM / Pöyry team. ✓

- *Assess the extent to which transfer of skill and knowledge to in-house staff has taken place and what impact has this had on in-house capability?*

This knowledge has been very useful in developing policy options to support the Northern Ireland market and has informed this policy area's work plan for the next 12-18 months. ✓

- *Has the need for future consultancy support diminished as a result of skills transfer?*

Despite the increased understanding there will still be a need to employ experienced energy economists to carry out an economic appraisal of a renewable heat incentive because of the level of technical expertise required. ✓

## Section 7: Assessment of Project Management Arrangements

*This section should provide an assessment of the project management arrangements. For example:*

- *Were the monitoring arrangements put in place to manage the consultant's satisfactory?*

From the outset of the project it was agreed that regular detailed update reports would be provided by the consultant, specifically in terms of progress of data collection, and that informal contact in the form of phone calls and email would be expected. This system worked well and SEB were kept informed of progress, advised of difficulties and were able to offer appropriate support and advice as appropriate. AECOM and Pöyry were also able to advise of development in renewable heat policy in GB which benefited the project as a whole.

- *Was there an opportunity to influence performance interim stages?*

There were opportunities to influence performance at interim stages, and this was utilized most between the draft and final report stages.

- *Was the project managed effectively?*

There were no issues with project management – appropriate levels of staff from AECOM and Pöyry were made available to work on the project and good contingency arrangements were in place where required. The project was managed effectively by AECOM. ✓

## Section 8: Conclusions and Recommendations

### Conclusions

*Provide a summary of what value was added by this assignment and assess whether, on balance, value for money was achieved.*

The assignment provided SEB with a sound evidence base to make policy decisions on renewable heat, namely an appropriate target for 2020 and a view on how this could be achieved. It also provided up to date accurate information on the heat and renewable heat markets in Northern Ireland for the first time. The final report is a detailed document which will be of significant value to SEB as this work progresses and policy is developed and legislation drafted.

The assignment was viewed as the first step in the development of the local renewable heat market, by developing this sector there are significant opportunities to reduce carbon emissions, increase fuel security and realize the potential for new 'green jobs'. ✓

On balance Value for Money was achieved.

### Recommendations

*Provide a summary of the lessons learnt and provide details on how these will be disseminated within the Department/Agency.*

The report allowed the adoption of a 10% target for renewable heat in the Strategic Energy Framework which has been agreed by the Executive as part of Northern Ireland's vision for energy policy.

One lesson learnt from this assignment is that in future more time is required for an assignment that requires so much data collection. The use of a Project Steering Group to manage the process was also useful and worked well.



**From: Fiona Hepper  
Energy Division**

**Copy Distribution List Below**

**Date: 10 August 2011**

**To: 1. David Sterling  
2. Andrew Crawford  
3. Arlene Foster MLA**

*2 in content 10/8/11  
12/8 - Note cost & risk of OFgem  
11/8 Content*

**BUSINESS CASE FOR THE APPOINTMENT OF OFGEM (VIA A DIRECT AWARD CONTRACT) TO CARRY OUT A FEASIBILITY STUDY INTO THE ADMINISTRATION ARRANGEMENTS FOR THE RENEWABLE HEAT INCENTIVE (RHI) FOR NORTHERN IRELAND**

- Issue:** The submission seeks the mandatory internal approvals to appoint Ofgem to carry out a feasibility study into the administration arrangements for the Northern Ireland Renewable Heat Incentive. If approvals are forthcoming Energy Division will approach Central Procurement Directorate to consider the award of the direct award contract and DFP supply for the consultancy spend element. To note: CPD have informally indicated that they are content.
- Timing:** Urgent: DFP Supply approval is required and the study must begin as soon as possible to allow for implementation of the Northern Ireland RHI within proposed timescales.
- Need for referral to the Executive:** Not applicable at this stage.
- Presentational issues:** Not at this stage, however there has been increased interest in this work area following the launch of the public consultation document.
- FOI implications:** This submission is exempted under Section 35 of the Freedom of Information Act.
- Financial Implications:** This assignment will cost in the region of £100,000. Her Majesty's Treasury (HMT) has advised that



scheme, should one be introduced.

<b>Legislation Implications:</b>	DETI does not hold primary powers for renewable heat, however, Energy Division officials have secured an amendment to the current 2011 Energy Bill to extend necessary powers. Subordinate legislation to prescribe the administration aspects of the RHI will be required in due course and in advance of implementation.
<b>PSA/PFG Implications:</b>	None at present, but it is likely that new PSA targets in relation to renewable heat will have to be developed.
<b>Statutory Equality Obligations:</b>	None.
<b>Recommendation:</b>	<p>That the Departmental Accounting Officer authorises awarding this contract to Ofgem via a direct award contract and approves the attached business case for the project.</p> <p>That the Minister notes the award of the contract and approves the business case for the appointment of Ofgem at a cost of £ <span style="border: 1px solid black; padding: 0 2px;">Sensitive commercial information redacted by the RHI Inquiry</span> to undertake a feasibility study into the administration arrangements of a RHI scheme for Northern Ireland.</p> <p>Once approval has been obtained, DFP approval to award the contract and incur the expenditure will be sought.</p>

## Background

You will be aware that the consultation on the development of a Northern Ireland Renewable Heat Incentive (RHI) was launched on Wednesday 20<sup>th</sup> July and will be open for comments until Monday, 3 October 2011.

2. The consultation document sets out DETI's proposals to incentivise the uptake of renewable heat technologies in Northern Ireland. The development and implementation of the Northern Ireland RHI follows on from research commissioned by DETI Energy Division and is designed to support the achievement of the Executive set target for renewable heat.

## Administration of the Northern Ireland RHI

3. For the Northern Ireland RHI to be implemented it requires the services of an appropriate delivery agent. The resource needed to deliver the scheme in terms of technical expertise, people and IT systems, is not

available within DETI. The GB RHI is to be administered by the Office of Gas and Electricity Markets (Ofgem). I am proposing that DETI also seek the services of Ofgem to act as the administrator of the Northern Ireland RHI.

4. Ofgem is the energy regulator in GB and is governed by an Authority, consisting of non-executive and executive members and a non-executive chair. For funding, Ofgem recover costs from the licensed companies it regulates. Licensees are obliged to pay an annual licence fee which is set to cover Ofgem's running costs. Ofgem is independent of the companies it regulates.
5. Ofgem has vast experience in administering large scale energy programmes and has a dedicated team, known as E-Serve, which currently deals with a range of energy schemes including the Feed-in-tariff, Smart Metering, the Renewables Obligation as well as the GB RHI. E-Serve is also responsible for the administration of the Northern Ireland Renewables Obligation (NIRO).
6. There are several reasons for having Ofgem administer the Northern Ireland RHI;
  - a. **Track record and expertise** – Ofgem has a proven track record in delivering large scale energy projects, as outlined in para 5, similar to the Northern Ireland RHI. For the Northern Ireland RHI to be successful it must be accessible and professionally delivered.
  - b. **Economies of scale** – Given that Ofgem has been engaged with DECC over the past 18 months in designing the GB RHI they have built up expertise that can be utilised in implementing the Northern Ireland RHI. The existing administrative system can be used – bringing a significant saving to DETI.
  - c. **Legislative position** - The primary legislative powers which provide DECC with the authority to introduce the RHI in GB lie within Section 100 of the 2008 Energy Act<sup>1</sup>. These powers specifically define Ofgem as “*the Authority*” and refer to them as having the power to make payments under the RHI, enforce the scheme, require information from applicants etc. Ofgem are therefore, within the primary legislation, described as the administrators of the RHI in Great Britain. Subordinate legislation<sup>2</sup> which sets out how the GB RHI will be administered, eligibility standards and regulations, prescribe in more detail the role of Ofgem as administrator. A similar legislative position will exist for DETI when the 2011 Energy Bill receives Royal Assent.

## Feasibility study

<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2008/32/part/5/crossheading/renewable-heat-incentives>

<sup>2</sup> <http://www.legislation.gov.uk/ukdsi/2011/9780111512753/contents>

7. In order for Ofgem to implement the Northern Ireland RHI a detailed feasibility study is required to determine exactly how the Northern Ireland scheme could be administered, what resource requirements are needed and what the expected ongoing cost may be. The feasibility study will ensure that the implementation of the Northern Ireland is fully costed, that guidelines and governance issues are in place and that the final scheme is fit for purpose.
8. Specifically the feasibility study will deliver the following;
- A high level reporting and governance structure between Ofgem E-Serve and DETI.
  - A cost/benefit analysis to identify the most effective internal options for developing and operating the scheme, focusing on those (few) elements which are different from the GB RHI.
  - High level process maps showing how the processes will be carried out in practice.
  - Risk analysis identifying the risks associated with Ofgem E-Serve taking on this role in addition to operating the GB RHI - and proposed mitigation.
  - Identified key workstreams and deliverables for development, and resources (staff, IT, legal, technical support etc) required.
  - Evaluation of resources required for operations.
  - Detailed costs for the development and implementation phase.
  - A full timetable for delivery of the scheme.
  - Legislative advice on draft regulations.
9. Ofgem will provide a full outline proposal in advance of the work beginning. It is expected that the study will take up to 12 weeks and will cost in the region of £Sensitive commercial information redacted by the RHI Inquiry (budget cover is available within Energy Division).
10. The feasibility study will advise on the appropriate administrative arrangements required for the Northern Ireland RHI and the expected delivery timetable and costs. This is an **essential piece of work** for the future implementation of the Northern Ireland RHI.
11. A full business case for this proposal is attached at **Annex B**.

### **Direct Award Contract**

12. I have sought guidance from Central Procurement Directorate (CPD) within DFP on the award of the contract for the proposed feasibility study. CPD has advised that this contract would be classed as a Direct Award Contract (formerly a Single Tender Action). The reasons for the award of this contract to Ofgem have been outlined above, specifically the legislative position of Ofgem within the primary legislation provides a sound argument for this direct award contract.

13. CPD have indicated that there is a case for a direct award contract in this instance.
14. For a direct award contract to be awarded Departmental Accounting Officer approval is required. I have attached the necessary completed pro forma at **Annex A** for your consideration. If you provide your approval this will be forwarded to CPD for authorisation.

**Recommendation**

15. It is recommended that the Departmental Accounting Officer;
  - i) Authorises the appointment of Ofgem to carry out a feasibility study into the administration arrangements for the Northern Ireland RHI via a Direct Award Contract (pro forma at **Annex A**); and
  - ii) Approves the business case for the proposed assignment (attached at **Annex B**).
16. It is recommended that the Minister;
  - i) Notes the appointment of Ofgem for this assignment via a Direct Award Contract; and
  - ii) Approves the business case for the proposed assignment (attached at **Annex B**).

(signed)

**FIONA HEPPER**  
**ENERGY DIVISION**  
**(Ext 29215)**

Distribution List:

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Press Office

# DFP Supply Division Business Case Proforma

1. Name of Department:

2. Name of Agency (if applicable):

3. Name of NDPB (if applicable):

4. Project Title:

5. TRIM Container Reference:

6. Is this Case a Resubmission?  Yes:  No:

*(Double click relevant box and select 'checked')*

7. Departmental Contact Details:

Job Title:	Peter Hutchinson
Branch:	Sustainable Energy, DETI
Address:	Massey Avenue, Belfast
Postcode:	BT4 2JP
Tel No:	Ext 29532

8. Type of Business Case:

Capital: <input type="checkbox"/>	IT: <input type="checkbox"/>	Consultancy: <input checked="" type="checkbox"/>	Policy: <input type="checkbox"/>	Other: <input type="checkbox"/>
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*(Double click relevant box and select 'checked')*

9. Is the Business Case:

Standard <input checked="" type="checkbox"/>	Novel <input type="checkbox"/>	Contentious <input type="checkbox"/>	Setting a Precedent <input type="checkbox"/>
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*(Double click relevant box and select 'checked')*

10. Is this a PPP or PFI Project?  Yes:  No:

*(Double click relevant box and select 'checked')*

10 (a). If a PPP or PFI Project is this the:  OBC:  FBC:

*(Double click relevant box and select 'checked')*

<b>11. Costs Outlined in Business Case:</b>	Capital Cost	£
	Resource Cost	£ <span style="background-color: black; color: white; padding: 2px;">Sensitive commercial information redacted by the RHI Inquiry</span>

<b>12. Estimated Project Start Date:</b>	1	Sept	2011
<b>13. Estimated Project Completion Date:</b>	31	October	2011
<b>14. Post Project Evaluation (PPE) Due Date:</b>	30	April	2012
<b>15. Please state the job title and /or name of body responsible for completing the evaluation:</b>	Job Title:	Peter Hutchinson	
	Branch:	Sustainable Energy, DETI	
	Address:	Massey Avenue, Belfast	
	Postcode:	BT4 2JP	
	Tel No:	29269	

**16. Has Business Case been cleared by Departmental Economists?**

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
---	-----------------------------

*(Double click relevant box and select 'checked')*

**17. Has Business Case been approved by the Minister?**

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
---	-----------------------------

*(Double click relevant box and select 'checked')*

**19. Accounting Officer Declaration:**

I am content with the regularity and propriety of this business case and that it represents value for money for the Department.

**Signed:**

On behalf of the Departmental Accounting Officer

**Date:**

## FOR SUPPLY USE ONLY

<b>Date Received in Supply:</b>	(Day)	(Month)	(Year)
<b>Date Entered on IMS:</b>	(Day)	(Month)	(Year)
<b>TRIM Container Reference:</b>	<input type="text"/>		
<b>Signed:</b>	<input type="text"/>		
<b>Date:</b>	<input type="text"/>		