

## Annex B

## BUSINESS CASE FOR PROPOSAL TO ENGAGE A CONSULTANT

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

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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 administrating 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: £ Sensitive commercial information redacted by
- A Renewable Heat Incentive for Northern Ireland, a report for DETI (June 2011) by CEPA and AEA Technologies. Cost £ Sensitive commercial information

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 relies 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 £100,000.

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 £6,000.

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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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