



**From: Fiona Hepper
Energy Division**

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Date: 8 December 2011

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

BUSINESS CASE FOR THE RE-APPOINTMENT OF CAMBRIDGE ECONOMIC POLICY ASSOCIATES LTD AND AEA TECHNOLOGY (CEPA/AEA), VIA A DIRECT AWARD CONTRACT, TO CARRY OUT FURTHER WORK ON THE RENEWABLE HEAT INCENTIVE PROPOSALS

Issue: This submission seeks the mandatory internal approvals to appoint CEPA/AEA to carry out further work on the Northern Ireland Renewable Heat Incentive (RHI) proposals.

Timing: Desk Immediate – the further work must be completed by the beginning of January 2012 if we are to remain even broadly on schedule for the introduction of a RHI by April.

Need for referral to the Executive: Not applicable

Presentational issues: None

FOI implications: This submission is exempted under Section 35 of the Freedom of Information Act.

Financial Implications: The assignment will cost just under £20,000.

Legislation Implications: N/A

PSA/PFG Implications: None

Statutory Equality Obligations: None.

Recommendation: That the Departmental Accounting Officer authorises the award of this contract to CEPA/AEA via a Direct Award Contract and approves the attached business case for the project;

That the Minister notes the award of the contract and approves the business case for the appointment of CEPA/AEA at a cost of approximately £20,000 to carry out further analysis relating to the RHI proposals.

Background

You are aware that the public consultation on the RHI closed on the 3 October 2011 and my submission of 11 November outlined the main issues arising from the responses received. The proposals contained in the consultation document were based on a report, produced for DETI by CEPA/AEA, which recommended the most appropriate form of a Renewable Heat Incentive for Northern Ireland. This original work was complex, costing £83,400 and taking 5 months to complete. The recommendations made by CEPA/AEA were based on economic modelling which took into account many factors including available funding, the calculation of costs compared to an oil counterfactual, subsidy levels and profile, relative attractiveness of technologies and fuel, finance and technology constraints. The model produced the expected uptake of renewable heat, by customer segment, and looked at the displacement of oil and gas that this implied, thus forming the basis for a quantitative assessment of options and a cost benefit analysis.

Current Position

2. While the concept of a RHI was welcomed by the vast majority of respondents, there were a number of areas where consultees did not agree with the Department's proposals; further detail of these areas is provided in the 11 November briefing. One such area was the tariffs, banding and technologies. Energy Division is currently looking at the evidence provided and has identified some potential adjustments that might be made to the scheme. However, with a finite budget available, making adjustments to any aspect of the proposed scheme has implications for other tariffs/technologies. The extent of these knock-on effects needs to be assessed by adjusting the data within the original CEPA/AEA model.
3. If the RHI is to be implemented by April 2012 (or as close to April as possible) a final policy position must be reached during January 2012 at the very latest. This is to allow time for the necessary legislation to be put

in place and for an appropriate administrative system to be commissioned and finalised.

4. While we hold a copy of the model, making the necessary changes is not straightforward. Energy Division staff (and a DETI economist) have a high level understanding of how the model operates but do not have the expertise to carry out the further work that is now required. As the RHI has a budget of £25m it is imperative that any modelling is precise and reliable.
5. Energy Division has written the business case for the additional work required to investigate potential adjustments to the proposed scheme (**Annex A**) and for the reasons given above it is necessary to engage consultants to undertake this work.
6. It is my view that CEPA/AEA are best placed to carry out this work for the following reasons:-
 - **Expertise** – This work involves manipulating the model created in the original consultancy. CEPA/AEA created the model and are fully conversant with its structure, operation and underlying assumptions. The personnel involved in the original exercise are still working within the companies and are available to undertake this additional work.
 - **Timing** - If the RHI is to be introduced in April 2012, the final policy position needs to be agreed by end January 2012. For this to be achieved, the re-modelling needs to be completed by early January. CEPA/AEA, being the creators of the model, are best placed to deliver within the timeframe
7. To use alternative consultants (who did not develop the model) would run the risk of not delivering within the required timescale and, even more importantly, the risk of producing output that is not fit for purpose.
8. Energy Division officials have had discussions with CPD in regards to a Direct Award Contract. We have submitted the necessary paperwork and they are considering the case and a decision to proceed should be with us shortly. We have no indication that this will not be forthcoming and I'll let you know as soon as a final response is received.

Next steps

9. The additional modelling work will enable DETI to properly consider a small (but potentially crucial) number of alterations to the scheme. On completion of the work a draft final policy position will be submitted for Ministerial approval and approval will then be sought from the Casework committee and DFP.

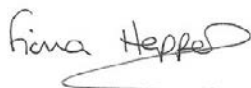
Recommendation

10. It is recommended that the Departmental Accounting Officer:

- authorises the appointment of CEPA/AEA to carry out further work on the Northern Ireland Renewable Heat Incentive (pro forma at **Annex B**); and
- approves the business case for the proposed assignment (attached at **Annex A**).

11. It is recommended that the Minister:

- notes the intention to appoint CEPA/AEA for this assignment via a Direct Award Contract; and
- approves the business case for the proposed assignment (attached at **Annex A**)



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