

From: [Kavanagh, Donna](#)
To: [McCutcheon, Joanne](#)
Subject: DAC NI Renewable Heat Incentive Ofgem
Date: 17 April 2012 15:17:07
Attachments: [DAC NI Renewable Heat Incentive Ofgem.pdf](#)

CENTRAL PROCUREMENT DIRECTORATE (CPD)**Request for Procurement Advice in respect of a Direct Award Contract (DAC)**

Please complete this form with all relevant details and send to CPD.

Section 1. Client Contact Details

Name of Contact	Joanne McCutcheon
Department	Department of Enterprise, Trade and Investment
Branch/Division	Renewable Heat Branch, Energy Division
Address	Netherleigh Massey Avenue Belfast
Postcode	BT4 2JP
e-mail address	Joanne.mccutcheon@detini.gov.uk
Office Telephone Number	028 9052 9425
Mobile Telephone Number	-----

Section 2. Direct Award Contract (DAC) Details

Title of DAC	Administration of the Northern Ireland Renewable Heat Incentive (RHI) by the Office of Gas and Electricity Markets (Ofgem)
What is the estimated value of this DAC?	£386K development costs plus ongoing operational costs estimated to be £136k, £157K, £198K and £249K in each of the next four years.
What is the proposed length of this DAC?	Development phase – 4 months. Operational costs ongoing subject to an Agency Services Agreement

Section 3. DAC Justification**3.1 Technical Reasons or Exclusive Rights**

Is this DAC being justified for technical or artistic reasons or because the supplier has exclusive rights?

Ofgem is the Energy Regulator for Great Britain and has a close working relationship with the Department of Energy and Climate Change (DECC). Ofgem acts as the delivery body for a number of DECC led renewable energy schemes including the Renewable Obligation (and the Northern Ireland Renewables Obligation), the Feed-in-Tariff and the GB RHI.

Over the past 2-3 years, Ofgem and DECC have worked closely to develop administration arrangements for the GB RHI, this has included the development of a sophisticated IT system, development of application, accreditation, monitoring and fraud prevention processes, payments processing and management reporting tools. The system is now fully operational and has been managing the administration of the GB RHI since November 2011.

The proposed NI RHI is very similar to the GB RHI. By contracting with Ofgem for the delivery of the Northern Ireland RHI, DETI would be in position to avail of the systems already developed by Ofgem, at significant cost to DECC, in the design and delivery of the GB RHI. This presents significant economies of scale, ensures consistency in approach with GB in the delivery of the two similar incentive schemes and minimises the risk associated with the implementation of the scheme.

A feasibility study has already been undertaken by Ofgem. This study has shown that it is technically feasible to use the existing GB system and tailor it for the administration of the NI incentive.

Given Ofgem's role in the GB RHI and its expertise in delivering large scale renewable energy projects, it is the view of Energy Division that it is the only viable option for the administrator of the Northern Ireland RHI.

3.2 Legislative Requirements

Is this DAC in respect of a good or service which must meet specific legislative requirements e.g. Home Office Approval

If Yes, please provide details of the legislative justification.

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. 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 is, within the primary legislation, described as the administrators of the RHI in Great Britain. Subordinate legislation 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 but the 2011 Energy Bill provides DETI with the powers conferred on DECC under the 2008 Energy Act. Secondary legislation is now being drafted.

Section 4. Current / previous contract**4.1 Was there a Contract which has / or is about to expire? NO**

Please provide the name of the supplier			
Please provide the start and end dates of the contract including extensions	Start Date		End Date
If the contract has been extended beyond the original options to extend please provide details.			
Was this contract awarded under Single Tender Action?	Yes		No
If No, was there an advertisement placed in the local papers and/or the OJEU, if so please provide dates	Date in Local papers		Date in OJEU
What was the actual value of the initial contract at the time of award?			
What has been the actual spend to date from the commencement of this contract?			

4.2 Is this a new requirement? Yes

Please provide the name of the proposed supplier	Ofgem
---------------------------------------------------------	-------

Please provide justification for the DAC to this supplier

This is a new requirement. DETI is proposing to introduce a Northern Ireland Renewable Heat Incentive (RHI) and is just finalising the design of the scheme. The scheme will incentivise the uptake of renewable heat technologies to support the achievement of targets set by the Executive and obligations set by the European Union. Further to this, the increase of renewable heat in Northern Ireland will assist in increasing fuel security, reduce carbon emissions and provide opportunities for 'green jobs'. Her Majesty's Treasury has provided £25m over the next 4 years for the introduction of a Northern Ireland RHI.

For the scheme to be successful, accessible and not subject to fraudulent activities, it is vital that an administrator is put in place to process applications, make payments, monitor the scheme, enforce standards and eligibility, ensure accessibility and provide audit and management information.

Ofgem has been appointed to administer the GB RHI and DETI wish to also appoint them to administer the Northern Ireland RHI. 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.

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 and the GB RHI. E-Serve is also responsible for the administration of the Northern Ireland Renewables Obligation (NIRO).

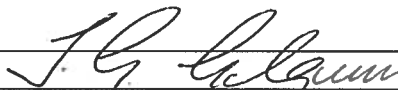
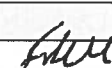
Ofgem has considerable in house expertise and this team will be mainly used in delivery of the NI project. If additional legal or financial expertise is required by Ofgem this will be procured via the OGC Framework Agreement to engage external services. This would be work specifically required by Ofgem in delivery of its responsibilities to DETI. If any work is directly required by DETI (eg drafting of the regulations) this will be undertaken by Arthur Cox; a legal firm previously appointed through open procurement competition.

There are a number of reasons for appointing Ofgem to this role;

- Economies of scale due to Ofgem's role as GB administrator, DETI would be benefiting from existing expertise, guidance documents, IT systems etc. The feasibility study showed savings on the development to be between £3m and £5m.
- Consistency of approach with GB, the GB RHI and Northern Ireland RHI are largely similar, discrepancies in administration could cause confusion and prevent uptake.
- Ofgem has a 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 Northern Ireland element). Furthermore the administration of the GB RHI is already operational; the risks associated with the implementation of the NI scheme will therefore be significantly reduced.

APPROVALS		
Requestor		
I hereby declare that I do not have an external personal or monetary interest in the company to which this DAC will be awarded.		
Print Name Joanne McCutcheon	Signature	Date 26/3/12
Recommended by Head of Branch		
I hereby declare that I do not have an external personal or monetary interest in the company to which this DAC will be awarded.		
Print Name Fiona Hepper	Signature	Date 26/3/12

CPD ADVICE – For CPD Use Only
Based on the information provided CPD is satisfied that the conditions of Teckal can be met and an exemption can be applied in this case.
The authority therefore may make a formal arrangement with Ofgem through a Service Level Agreement for the services required without a call for competition.
Signed: 
Print Name: Tom Gilgunn <i>T. G. GILGUNN</i>
Grade (Grade 6 and above only): 6
Date: 17/4/12
Signed: 
Print Name: R Bell <i>Roy Bell</i>
Grade (Grade 6 and above only): 5
Date: 17/4/12

ACCOUNTING OFFICER DECISION		
I hereby declare that I do not have an external personal or monetary interest in the company to which this DAC will be awarded. I have read CPD Policy Guidance Note 02/10 and the comments provided by CPD.		
a) I request CPD to progress this DAC on behalf of the Contracting Authority with -----.		
Name: David Sterling	Signature:	Date: