

From: [Hepper, Fiona](#)
To: [Sterling, David](#); [Hill, Janice](#)
Cc: [Thomson, David](#); [Cooper, Trevor](#); [Brankin, Bernie](#); [McFarlane, Iain](#); [Coyne, Terence](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#); [Hawthorne, Jill](#); [Aiken, Glynis](#); [Connolly, Samuel](#); [Stewart, Susan](#); [Thompson, Sandra](#)
Subject: DESK IMMEDIATE : Business Case for Appointment of Ofgem to Administer the NI RHI
Date: 18 April 2012 10:23:14
Attachments: [Appointment of Ofgem via Agency Service Agreement.DOC](#)
[DAC NI Renewable Heat Incentive Ofgem.pdf](#)
Importance: High

David

Please see attached the submission seeking Accounting Officer approval for the appointment of Ofgem, as discussed. This replaces the submission of 16 March. You will see attached (pdf) the form submitted to CPD - this is the standard request for procurement advice for a DAC - which we were advised to send - and the view and approval of CPD that this can proceed on the basis that it is not a DAC, but that a direct approach to Ogem through a Service Level Agreement is appropriate. This is signed at Grade 6 and Grade 5 level by CPD.

As Ofgem have several months work to do to get the system fully up and running, I would appreciate your consideration of this as soon as possible. If/when content, could you then pass this to Private office for the Minister's consideration (and cc back to me when doing so).

Happy to speak

Fiona

Fiona Hepper

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**From: Fiona Hepper
Energy Division**

Copy Distribution List Below

Date: 18th April 2012

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

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

Issue:	This submission seeks the mandatory internal approval to appoint The Office of Gas and Electricity Markets (Ofgem) to administer the Northern Ireland Renewable Heat Incentive (RHI) and to act as an External Delivery organisation on behalf of DETI.
Timing:	Desk Immediate – Ofgem’s work must commence immediately if we are to minimise the delay in the start of the scheme.
Need for referral to the Executive:	Not applicable
Presentational issues:	The appointment of Ofgem may attract some comment from local stakeholders.
FOI implications:	Some elements may be exempt under of the Freedom of Information Act.
Financial Implications:	The development of the administrative system is expected to cost £386K; the ongoing operational costs for the next four years are estimated to be £136K, £157K, £198K and £249K respectively
Legislation Implications:	N/A
PSA/PFG Implications:	None

Statutory Equality None.
Obligations:

Recommendation:

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

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

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

Background

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

Administrative System

2. The introduction of a NI RHI requires an administrative system capable of managing enquiries and applications, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments as outlined above, preventing fraud and providing management information.

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

Central Procurement Directorate (CPD)

8. Energy Division has discussed the award of the contract to Ofgem with colleagues in CPD who in turn have consulted the Departmental Solicitor's Office. DSO indicated that three tests should be applied to decide whether the proposed contract with Ofgem involved 'public bodies sharing in such a manner that the procurement regulations do not apply'. Having received information on the status of Ofgem, its funding arrangements and procurement procedures, CPD is content

that the proposed agreement would pass all three tests. CPD have confirmed, in writing, that appointing Ofgem would be acceptable and that a formal arrangement with Ofgem through a Service Level Agreement is appropriate, without the need for a call for competition (pdf of signed form is attached).

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

Ofgem as an External Delivery Organisation

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

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

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

12. The **Departmental Accounting Officer** is asked to consider this proposal and give approval to the appointment of Ofgem as an External Delivery Organisation.
13. In addition, it should be noted that Finance Division have been alerted to the scale of the set up and ongoing costs as laid out in para 5 above and have undertaken to manage these internally via deminimus bids in the appropriate monitoring rounds. Energy Division will therefore keep in close contact with Finance Division and will make in year bids as required.

Recommendations

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

(signed)
FIONA HEPPER
Energy Division
(Ext 29215)

cc: David Thomson
Trevor Cooper
Iain McFarlane
Bernie Brankin
Terry Coyne
Joanne McCutcheon
Peter Hutchinson
Jill Hawthorne
Glynis Aiken
Sam Connolly
Susan Stewart
Sandra Thompson

**DETI Economic Appraisal Pro Forma
(Expenditure between £250k and £1m)**

(It is expected that the level of detail required is proportionate with the level of expenditure)

Division Energy Division

Branch Renewable Heat Branch

Project Title Administration of Renewable Heat Incentive

Date March 2012

1. Strategic Context

This section should refer to the underlying policy or strategy that the project 'fits' within. It should indicate how the project is expected to contribute to the relevant objectives of the strategies identified.

In September 2010, DETI published the Strategic Energy Framework (SEF) which had been agreed and endorsed by the Executive. The SEF included a target of 10% renewable heat by 2020; this is **required to meet a EU Renewable Energy Directive (RED) (2009/28/EC)** as well as 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 that DETI would seek to introduce a Renewable Heat Incentive (RHI) in Northern Ireland should one be economically viable (GB had already announced plans to introduce a GB RHI). The **Programme for Government** contains an interim target of 4% renewable heat by 2015.

In October 2010, Her Majesty's Treasury allocated DETI £25m (2011-2015) 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 of a RHI. The work by CEPA/AEA has shown that the introduction of a specific NI RHI is the best way to develop the renewable heat market in NI and achieve the targets outlined above.

The NI RHI represents a long term approach to developing the renewable heat market by providing consistent, secure, long term payments for renewable heat generation. The incentivisation involves payments to installers of renewable heat technologies, with tariffs dependent on the type and size of technology installed, and in the form of pence per kilo watt hour (p/kWh) for heat generated. Payments will be made quarterly over a 20 year period for all eligible installations (following accreditation).

The introduction of a NI RHI requires an administrative system capable of

managing enquiries and applications, accrediting installations, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments, preventing fraud and providing management information. The Office of Gas and Electricity Markets (Ofgem) has developed such a system for DECC and is already managing the administration of the GB RHI.

2. Assessment of Need

Establish the need for the expenditure on the project by identifying current deficiencies in provision and analysing future demand; the proposed level of service provision etc. should be quantified and justified. Where the project involves funding the non-government sector, the rationale for government intervention should be explained. Additionality should be addressed i.e. would the project go ahead without assistance (whether at a different time / location or on a different scale)? Displacement should be considered.

With a budget of £25m over the next four years and payments 'grandfathered' for 20 years, it is vital that the NI RHI scheme is properly administered. A sophisticated system, incorporating both IT systems and manual operations, and capable of managing the various stages of the scheme (managing applications; accreditation; payment processing; monitoring, forecasting and fraud detection) is required.

The resource to develop such a system, both in terms of number of personnel and expertise, is not available within Energy Division. Similarly there is insufficient resource to manage the system on an ongoing basis.

The NI RHI cannot proceed without an administrative system being put in place.

Objectives

Objectives must be set for the project and should be quantified through the use of targets, which should be monitored and ultimately evaluated. Targets should be SMART, i.e. Specific, Measurable, Agreed, Realistic and Time-dependent. The relative priority of individual objectives should be identified.

The objectives for the project are as follows:-

To develop an administrative system for the NI RHI

- Recruit and train staff
- Develop Guidance Material for scheme
- Develop Standard Operating Procedures for the scheme
- Develop Call scripts for contacts team
- Develop training materials for operations staff
- IT systems development
- Systems testing
- Communications strategy

**To manage the administration of the NI RHI on an ongoing basis
(initially for 4 year period)**

- Processing applications
- Accreditation of Generators
- Customer relationship management including processing payments
- Maintenance of Central register
- Auditing and assurance
- Prevent fraud and manage compliance
- Provide management information

3. Identification and sifting of Options

Identify and describe a range of options to meet the projects stated aims and objectives. The options examined should include a base case, or status-quo option and an appropriate range of alternative options. If appropriate, options may be rejected before full appraisal but the reasons behind the rejection of particular options should be clearly detailed and evidenced where appropriate. A sufficient range of options to allow for meaningful comparison should be carried forward to full appraisal (at least a base case and 2 alternatives should be taken forward).

The options considered are as follows:

Option 1 – Do nothing

Doing nothing would result in the Northern Ireland RHI not going ahead due to a lack of administration. The scheme cannot run unless it is properly administered. Failure to deliver a RHI would result in the loss of allocated funding, criticism from stakeholders and failure to achieve Executive and EU targets (with potential for the UK, as Member State, passing on a share of any infraction costs to NI). **This is not a viable option.**

Option 2 – Undertake the administration in-house

The necessary resources and technical expertise do not exist in-house in Energy Division or in the wider Department. The team responsible for renewable heat (as well as other related and unrelated activities) consists of a PT Grade 7, 1.5 DP's and 0.5 SO. As well as the introduction of Phase 1 of the RHI, this team will be managing and running the interim Renewable Heat Premium Payment scheme; as well as developing policy and making legislation for Phase 2 of the RHI (to commence 2013) as well as providing briefing, answering AQs and dealing with correspondence cases. They are also responsible for sustainable energy messaging. There is absolutely no spare capacity within the Division. As above, targets will be missed and **this is not a viable option.**

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

The necessary resources and technical expertise to administer the Northern Ireland RHI do not currently exist in-house. The option of obtaining additional staff resource and completing part of the work in house has been considered. However, following the feasibility study, it is clear that the system provided by Ofgem is a total solution and the work would not easily divide between Ofgem and DETI. Indeed, dividing the work would almost certainly increase the costs and would definitely increase the risk of incorrect or inappropriate payments. **For this reason this is not a viable option.**

Option 4 – Short/Medium term secondment of industry experts

The administration of the RHI requires a long term approach and therefore the short/medium term secondment of industry experts **is not a viable option.**

Option 5 – Use of external body to manage the administration

A body with appropriate resource and experience in developing and implementing this type of administrative system is **the only feasible option**. Ofgem, through its experience of working with DECC in designing and implementing the GB RHI, would be able to deliver the scheme in a timely and effective manner. DETI asked Ofgem to undertake a feasibility study to consider the viability and costs associated with adapting the GB RHI system to manage the NI RHI. **This is the only viable option.**

4. Monetary Costs & Benefits

Clearly identify and quantify all the monetary costs that are associated with each of the options under consideration; both capital costs and recurrent costs should be disaggregated to an appropriate level. Recurrent costs and benefits should be provided on an annual basis, shown at current market prices. Opportunity costs and residual values for all assets employed should be included. In accordance with HM

Treasury guidance assumptions about costs, benefits and timing should be adjusted for optimism bias¹.

The study concluded that Ofgem had the operational structures in place to deliver an administrative system, tailored specifically for NI, following a development phase of approximately 4 months. The cost of the development work would be £386K. Forecasts of operating costs for the next four years are £136K, £157K, £ 198K and £249K based on NI accounting for a 3% share of the workload. In any case, Ofgem has confirmed that it will only pass through actual costs to DETI.

The economic appraisal for the RHI scheme, prepared by external consultants, considered that the likely cost of administering an RHI scheme could be 10% of total funding. With total funding of £25m over the 4 years, the estimates provided by Ofgem appear to be value for money.

The feasibility study also shows that exploiting synergies with the GB RHI will drive down the costs of administering the scheme whilst maintaining a high quality service to generators. For example, using the existing Customer Relationship Management (CRM) Software will save NI an estimated £100-150K, while using the existing SUN system to make generator payments, instead of a payment service provider, could save in the range of £100 -500K. In addition, using the main existing RHI register instead of commissioning a bespoke IT system is expected to save between £2m and £3m. **Overall, it is estimated that using Ofgem's existing systems could save somewhere between £3.2million and £5.15million with additional ongoing operational savings.**

5. Appraise risks associated with each option

Identify the main risks associated with the various options. Consider how risks compare under the different options identified.

¹ Optimism bias is the tendency for project appraisers to be overly optimistic i.e. by overstating benefits and understating timescales and costs, both capital and operational.

The main risk with this option is that the Ofgem will fail to deliver either at the development phase or at the operational stage. This risk is low given that it is currently delivering the GB scheme and has a good track record in delivering other schemes including the Northern Ireland Renewables Obligation.

The risk will also be managed through on going performance monitoring. An Administration Board will be setup with the DETI Director of Energy as the Senior Responsible Owner and Joint Chair. The board will initially meet on a fortnightly basis before moving to a monthly cycle once the scheme is established. This will be supplemented with regular contact between the DETI project team and the Ofgem project manager.

6. Calculate Net Present Values

Identify phasing of monetary costs and benefits. Calculate NPV of each option using correct discount rate (usually 3.5%). Include spreadsheets detailing the calculations as an annex.

n/a

7b. Sensitivity Analysis

Sensitivity analysis should be carried out to test variations in key assumptions; this will include the impact of price and volume changes. (Relevant spreadsheets should be included an annexes)

n/a

7. Non-Monetary Costs & Benefits

Identify relevant non-monetary benefits and costs. Describe how these costs and benefits compare under the different options being appraised and quantify when possible (If costs/benefits are quantified in monetary terms they

should not be included in this section but in section 5). Alternatively, use an appropriate technique such as an 'impact statement' or 'weighting and scoring' to assess how each option performs. Rank each option in relation to how it performs against the identified non-monetary costs and benefits.

As well as the significant cost benefit in using Ofgem, there is the additional benefit of getting a sophisticated bespoke system. By building on the existing GB system we are maximising the technical functionality we can purchase with our budget. Furthermore, the system is already tested and functioning so the risk is minimised. Ofgem has a good track record of delivering similar schemes both in GB and NI, for example, the roll out of smart metering, the Feed-in-Tariff and the Renewables Obligation (including the NI element).

With the similarities between the GB and NI schemes, consistency of approach may also be important thus minimising the potential for confusion among stakeholders or errors in administration.

Using Ofgem to adapt an existing system is also likely to be significantly quicker. This is important as the NI RHI cannot be introduced until the system is ready. We are already behind GB in the introduction of the scheme and any further delay must be minimised to avoid negative feedback from stakeholders.

9. Assess the balance between options and identify preferred option.

The following summary table should be completed detailing the results of the analysis of costs and benefits, non-monetary factors, the assessment of risk and uncertainty (taking into account optimism bias), viability, cost effectiveness and efficiency (DCF test to include optimism bias-adjusted NPV).

Summary Table	Option 1	Option 2	Option 3	Option 4
NPV (£)				
Non-Monetary Benefits/Costs Ranking				
Overall Risk Assessment (low, med, high)				

Based on these summary results, a preferred option should be identified.

The only viable option is to appoint an external body to administer the RHI.

The preferred option is to appoint Ofgem as the administrator. Ofgem is already providing the administration for the GB RHI and the cost of tailoring that existing system to accommodate the NI RHI is considerably less than developing a new system. It also carries less risk than commissioning an entirely new system.

10. Financing, Monitoring & Post Implementation Evaluation and Management Considerations

The proposed sources of funding should be shown (The funding provision for a project should be sufficient to cover expenditure after adjustment for optimism bias). Consider the affordability of the preferred option and whether it represents value for money. Details of any conditions attached to the proposed support should also be documented.

Funding will be through Divisional budgets with in year monitoring bids as appropriate.

Arrangements for project monitoring and evaluation should be documented. Monitoring indicates how the proposed option will be monitored during and after implementation. Evaluation should check the extent to which project objectives, costs and benefits have been achieved as planned once the preferred option is running for a specified period. The arrangements for evaluation should indicate the factors to be evaluated, when any evaluation is to be carried out and who will be responsible for ensuring an evaluation is completed (The officials project sponsor or approver should not carry out the Post Project Evaluation).

There will be a signed agreement between Energy Division and Ofgem which will clearly state expected outputs, targets and costs for both the

development and operational phases. Arrangements for monitoring of the project against the targets are as laid out in para 6 above. Evaluation of the development and operation will be separate. The development evaluation will take place shortly after the system becomes operational. The evaluation of the operational part of the contract will be at the end of the first year of operation.

Please set out the management considerations that need to be taken into account if the anticipated benefits for this project / programme are to be realised including details of project personnel, procurement, timetable, staffing issues and highlight how risks will be managed. If support is to a TPO / TSO confirm that TPO guidance has been followed and highlight relevant monitoring and control issues.

n/a

**10. Recommendations
DECLARATION**

I am satisfied that all factors of all feasible options have been considered in this appraisal and that the recommended option is the optimum.

Signed.....

Position.....

Date.....

APPROVAL

I am satisfied that all factors of all feasible options have been considered in this appraisal and that the recommended option represents best value for money.

Signed.....

Position.....

Date.....

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).

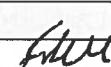
Ofgem has considerable in house expertise and this team will be mainly used in delivery of the NI project. If additional legal or financial expertise is required by Ofgem this will be procured via the OGC Framework Agreement to engage external services. This would be work specifically required by Ofgem 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: