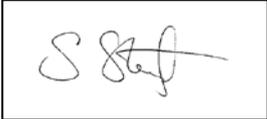
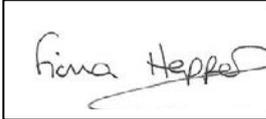


POST PROJECT EVALUATION

Title of Consultancy Assignment:	Further analysis on the Economic Appraisal of a Northern Ireland Renewable Heat Incentive		
Name of Consultant Appointed:	Cambridge Economic Policy Associates in conjunction with AEA Technologies		
Cost of Consultancy:	Sensitive commercial information redacted by the RHI Inquiry		
Prepared By:	Susan Stewart	Approved By:	Fiona Hepper
Signed:		Signed:	
Date:	26 October 2012	Date:	29 October 2012

Section 1: Background***Provide a brief description of the assignment including:***

- ***What was the purpose of the assignment?***
- ***What was the need for the assignment?***
- ***Who was the appointed consultant and when were they appointed?***

Purpose of the assignment

The purpose of the assignment was to carry out further essential analysis on the potential design of a Renewable Heat Incentive (RHI) for Northern Ireland. 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. This required the advice of specialist heat economists as the skills needed to deliver this project were not available within DETI.

Cambridge Economic Policy Associates (CEPA) and AEA Technologies undertook a previous assignment was carried out between February – June 2011 that designed a proposed RHI for Northern Ireland, and assessed the potential costs, risks and impact. This analysis supported the development of an appropriate NI RHI scheme. The further assignment was a follow up to that previous research and analysis.

Need for the assignment

During the RHI consultation a number of issues were raised which required further consideration by the Department before the final design option for the RHI could be decided upon. Some of the issues included:

- The proposed banding of the tariffs - A number of consultees argued that the banding overly favoured smaller, less-cost effective installations and should be revised.
- Tariff levels and technology assumptions - A number of respondents were concerned that tariff levels were lower than GB equivalents. There were also concerns raised about some technology assumptions and specifically increases in the cost of biomass.
- Treatment of large industrial sites - It was suggested that these sites should be excluded from the RHI because of a number of factors (economics, technical capacity, biomass sustainability and potential impact on gas).

It was also necessary to undertake a final assessment of the scheme which would include the costs, the impact, the associated benefits and the displacement on other energy markets. This was completed as part of the follow-up assignment.

Appointed Consultants

The Department suggested that a contract was put in place via a Direct Award Contract (DAC) with external consultants, Cambridge Economic Policy Associates Limited (CEPA), in conjunction with AEA to carry out this work in December 2011 with the aim for completion by January 2012. It was considered that CEPA and AEA should be re-appointed to continue with the work as they had already undertaken the previous work and analysis on the RHI. This would ensure the project was carried out in a timely manner and at lower cost, given the expertise and knowledge already built up through the initial study. The DAC was approved on the Accounting Officer on 13 December 2011 and was given Ministerial clearance on 15 December 2011.

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

The Department estimated that this follow up work would cost in the region of £[REDACTED]. The budget was available from the Energy Division Budget.

CEPA's costs of carrying out further analysis on the economic appraisal were estimated at £[REDACTED] (excl. VAT). CEPA undertook and completed the economic appraisal for £[REDACTED] (excl. VAT). The economic appraisal was therefore estimated and costed correctly.

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 project proposal document, were as follows;

The external consultants had to consider a range of issues that were raised directly by the RHI consultation and would have an impact on previous assumptions, modelling and tariffs developed. The issues included:

- Consideration of updated costs on Northern Ireland biomass and the associated impacts;
- design additional banding levels to support medium and large scale commercial applications;
- assessment of the need to support large industrial sites and an associated tariff if required;
- analysis of the impact of the final policy in terms of renewable heat delivered, costs and unintended impacts (i.e. displacement of gas).

The external consultant's work was deemed to be consistent, sufficiently detailed, and in keeping with what was asked for in the project proposal document.

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?***
- ***Reasons for any delays and the impact on expected benefits should be explained.***
- ***Was the consultancy assignment used for the purpose originally intended?***
- ***How were the outputs delivered by the assignment used?***

The obvious benefits from the assignment was that there was an independent assessment and advice provided on the final design of the NI RHI. In addition there was consideration of a range of complicated issues raised throughout the consultation and revision of technology assumptions used in the initial analysis. This approach ensured that the final policy position was evidence based and fully costed, to allow final decisions to be taken. In turn, this supported the introduction of the NI RHI and the uptake of renewable heat technologies from 2012 onwards.

The contract was awarded on 16 December 2011. The external consultants estimated that the report would be finalised week commencing 23 January 2012 however the final report was received on 16 February 2012. This had limited impact and the final report is of a good standard with excellent detail.

The further analysis has informed the final design of the Northern Ireland Renewable Heat Incentive decisions and has formed the basis of the Department's final design of the NI RHI scheme. The analysis was also vital in the Department's application to the EU Commission seeking approval for the scheme.

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 the further analysis stated that in-house staff would be used to manage the delivery of the project, assisting consultants with queries if appropriate and providing the consultants with full and supporting background documentation to give contextual awareness of renewable heat in Northern Ireland, specifically this will be to provide an update on issues and concerns raised by stakeholders. In addition, the business case estimated that 2-3 meetings would be held with G7/Deputy Principal throughout the project (via teleconference)

and that the Departmental economists would provide a quality assurance check before the further analysis was signed off.

A number of conference calls were held throughout the project, as well as continual communication via telephone and email. As the project was over a short timescale, it was considered unnecessary for the external consultants to provide update reports however a final draft was submitted and considered in advance of a final draft being agreed.

Section 6: Skills Transfer

- ***What mechanisms were put in place to allow the transfer of skills and knowledge to happen?***
- ***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?***
- ***Has the need for future consultancy support diminished as a result of skills transfer?***

The further analysis required specialist and technical skills within the field of energy economics. There has been some opportunity for the transfer of knowledge within the Department, as the final report has been made available to other staff. However, it must be recognised that research at this level was completed by technical consultants, and opportunity for transfer of much of the technical knowledge must therefore be somewhat limited within the general Civil Service.

It is envisaged that future detailed technical work for large energy projects or studies would be carried out by external consultants due to a lack of Departmental staff, qualified to a sufficient level in specialist energy economics related fields.

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?***
- ***Was there an opportunity to influence performance interim stages?***
- ***Was the project managed effectively?***

The Department managed the progress, objectives, and financial monitoring of the further analysis work. The consultants, CEPA/AEA, reported to the Department on progress and provision of the draft versions of the analysis report. Representatives from DETI were engaged in monitoring progress of the further analysis work through e-mail and telephone correspondence with the consultants to ensure that the work was completed in accordance with the project proposal document and to try to ensure that the further analysis would be completed on schedule. The Department was kept informed of progress and were able to offer appropriate support and advice as appropriate. Departmental staff also kept senior officials informed about the progress of the further analysis.

The final report was deemed to be comprehensive and sufficiently detailed and was accepted by Renewable Heat Branch and the Departmental Economics Branch.

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 further analysis has been used by the Department has formed the basis for the Department's final design of the NI RHI scheme. The recommendations from the further analysis have been provided to the Minister and the EU Commission.

The contract was put in place via a Direct Award Contract (DAC) with external consultants, Cambridge Economic Policy Associates Limited (CEPA), in conjunction with AEA to carry out this work as the consultants had already undertaken the previous work and analysis on the RHI. This would ensure the project was carried out in a timely manner and at lower cost, given the expertise and knowledge already built up through the initial study.

The RHI further analysis report helped to advise on the final design of the RHI scheme for the Department. Therefore it is considered that the project has been successfully concluded.

Recommendations

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

The external consultants' work in completing the further analysis work on the NI RHI was deemed to be consistent, sufficiently detailed, and in keeping with what was asked for in the project proposal document. As this was a continuation of the initial project on the economic appraisal of a NI RHI, the project was relatively small and no noteworthy problems were encountered.