


BUSINESS CASE FOR PROPOSAL TO ENGAGE A CONSULTANT

**Project Title: ECONOMIC APPRAISAL OF A NORTHERN IRELAND
RENEWABLE HEAT INCENTIVE**

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Signed: 

Date: 18th November
2010.

Section 1: NEED FOR THE ASSIGNMENT

Background - Purpose of the assignment

- 1.1 This paper is prepared in line with the DFP Guidance for the use of external consultants (22 December 2009).
- 1.2 The purpose of this assignment is to appoint external consultants to carry out an economic appraisal for a Northern Ireland Renewable Heat Incentive ¹(RHI). This is a specialist one off task that requires the advice of specialist heat economists – these skills are not available within DETI. Consideration will also be given to the alternative methods of support to ensure that the heat market is encouraged in the most cost-effective way possible.

Strategic / policy context

- 1.3 In December 2009, DETI appointed AECOM Ltd and Pöyry Energy Consulting to carry out a significant piece of research into the nature of the heat market heat, the current levels of renewable energy, the potential development of the market and potential support measures to assist the reaching of a 10% renewable heat target.
- 1.4 This followed the Department of Energy and Climate Change (DECC) announcement in July 2009 that it intended to introduce a RHI to support the deployment of

¹ 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.

renewable heat technologies. Details on the design, implementation, tariff levels and eligibility were later consulted on in February 2010.

- 1.5 The RHI is the main UK policy driver to satisfy obligations under the EU Renewable Energy Directive and to support the achievement of their renewable heat target of 12% by 2020, and as such Northern Ireland is expected to contribute to this target.
- 1.6 The RHI, as it stands, only applies to England, Scotland and Wales and not Northern Ireland. The significant differences between the heat markets here and Great Britain meant that a separate assessment on the nature and growth potential of the Northern Ireland market was needed.

What is the need for the assignment?

- 1.7 The report produced by AECOM and Pöyry showed that whilst the current level of renewable heat in Northern Ireland is relatively low (1.7%) that there was potential to develop the market by using technologies such as biomass, biogas, biofuels, heat pumps, deep geothermal etc. The report demonstrated that 10% renewable heat by 2020 was achievable, however substantial Government support, in terms of policy and financial incentives, would be required. The research also highlighted that the GB RHI, as it stood, could be ineffective in Northern Ireland as it did not take account of the specific elements of the heat market here and **therefore to effectively incentivise the local market a Northern Ireland RHI should be developed.**
- 1.8 The DETI Minister, Arlene Foster MLA, made a statement to this effect on 20th September 2010, committing to developing and implementing a Northern Ireland RHI, should it prove economically viable to do so. In addition, a target of 10% renewable heat by 2020 was formally adopted by the Northern Ireland Executive as part of the DETI Strategic Energy Framework.
- 1.9 Following the Chancellor of the Exchequer's statement on the Spending Review in October 2010, that £860m of funding will be available for the RHI over the spending review period, the Chief Secretary to the Treasury informed the First and deputy First Minister that £25m of this (£2m/£4m/£7m/£12) would be available for a Northern Ireland RHI over the spending period.
- 1.10 Therefore, DETI now wishes to appoint a service provider to undertake an independent economic appraisal of a Northern Ireland specific renewable heat incentive. This is essential to ensure that the most cost effective structure of a RHI is implemented in Northern Ireland.

- 1.11 It has been demonstrated that a Northern Ireland RHI, developed with the local heat market specifically in mind, has the potential to support the deployment of renewable heat and assist in reaching the Executive endorsed target of 10% renewable heat by 2020. In order for the RHI to be designed and implemented it is necessary to carry out an Economic Appraisal to determine the most cost-effective structure for the scheme. This work will assess the RHI in comparison to other support measures, will develop possible scenarios for tariff levels, advise on the potential uptake and overall cost of a scheme and allow for a decision to be taken on the future design.
- 1.12 As detailed at para 1.9, HMT has indicated that funding will be available to Northern Ireland for a RHI, should one be developed. Without this piece of work it will not be possible to design such a scheme and would result in this funding being lost.

What is the scope of the assignment, i.e. tasks anticipated to provide desired outcomes?

- 1.13 This assignment will determine the need for a RHI in Northern Ireland, will outline the objectives for introducing such a scheme, advise on possible structures of a RHI and assess the cost/benefit. The assignment will also involve considering a range of methods for developing the heat market, either through the RHI structure or other means. This will ensure that the most cost-effective method of developing renewable heat is implemented.

Timing of assignment – when is the information required and is there any possibility of deferring the assignment?

- 1.14 There is no possibility in deferring this assignment. DECC intend to roll-out a RHI in GB from June 2011, by deferring this project there would be a significant delay in rolling out similar policy in Northern Ireland and therefore disadvantaging the renewable heat market here. Further to this HMT has indicated that funding for a Northern Ireland RHI is available from 2011/12, delaying this project would also lead to this money being unspent.
- 1.15 Following the completion of this assignment there will be a need for Executive approval, public consultation and development of legislation, therefore the Economic Appraisal must be completed as soon as possible. This will allow the Minister to make a final decision on renewable heat policy and enable a Northern Ireland RHI to be rolled out as close to June 2011 as possible.

Description of previous similar consultancy assignments, including an analysis of past expenditures (corresponding evaluations must be appended)

- 1.16 No economic appraisals of a Northern Ireland RHI have previously been undertaken. A post project evaluation (PPE) of the report into the potential for deployment of renewable heat (AECOM Ltd / Pöyry Energy Consulting 2010) is attached at **Appendix I.**

Section 2: BENEFITS AND THEIR TIMING

What are the projected outputs from the assignment?

- 2.1 The immediate output of the external consultancy exercise is the completed economic appraisal with the necessary level of independence and within the required short timescale.

What are the expected benefits to be delivered from the assignment and give an indication of when they are likely to accrue?

- 2.2 The immediate benefits of the consultancy appointment are the independent assessment of the need for Government support in the renewable heat market, the associated benefits and a detailed economic appraisal of implementing support mechanisms (namely a RHI). This approach will ensure that future policy decisions in respect of supporting the renewable heat market will be based on firm evidence with the expected costs and benefits known in advance. The immediate benefits will accrue initially from 2012 onwards as the number of installations begin to increase.
- 2.3 The long term benefit of undertaking this piece of work will be the development of the renewable heat industry in Northern Ireland. By increasing the uptake of renewable heat in Northern Ireland there are opportunities to reduce Northern Ireland's dependence on fossil fuels and therefore increasing fuel security and cutting carbon emissions. The development of the renewable heat industry also presents significant opportunities for 'green jobs' in the period 2012-2014 and beyond.

What are the implications of the assignment not going ahead?

- 2.4 If this work did not go ahead then decisions on the future shape of a policy to incentivise renewable heat in Northern Ireland would either be taken without a firm evidence base or not taken at all.

- 2.5 If a RHI went ahead without economic analysis then the most cost effective method may not be implemented and the tariff levels initiated may not be the most appropriate for Northern Ireland. This could lead to a costly, ineffective system which would not support the achievement of the 10% target.
- 2.6 If no decision on supporting renewable heat was taken then there would be significant criticism on the Department for reneging on previous statements. Further to this the Executive endorsed 10% would not be achieved and the funding allocated to Northern Ireland for this scheme would be lost.

Section 3: ASSESSMENT OF ALTERNATIVES OPTIONS

- 3.1 A number of alternative options to external consultancy have been considered;

i) Option 1 – Do nothing

Doing nothing would result in the Department making a non-evidence based decision in regards to supporting and developing the renewable heat market. This could result in an ineffective and costly option being employed or no decision on heat incentivisation being taken at all and therefore would have a detrimental impact on the Northern Ireland renewable heat market.

ii) Option 2 – Complete the analysis in-house

The necessary resources and technical expertise do not currently exist in-house in Energy Division as specialist heat economist input is required.

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

The necessary resources and technical expertise to develop appropriate support mechanisms for renewable heat and to advise on the potential cost / benefit do not currently exist in-house. In-house economists will be utilised in the quality assuring of the work by consultants, however they do not have the necessary technical experience in renewable heat to undertake this task.

iv) **Option 4 – Short/Medium term secondment of industry experts**

Whilst the secondment of industry experts would provide the necessary technical expertise the resources do not exist within energy division to either manage this secondment on a day-to-day basis or to house the seconded experts.

v) **Option 5 – Use of External consultants**

This is our preferred approach. This will ensure the appropriate level of expertise is available for this project and that it can be completed in a timely and cost-effective manner. This approach would also ensure that the assessment is independent and the conclusions based on economic analysis and evidence.

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.

- 4.1 The successful consultant will be expected to undertake an independent economic appraisal of a Northern Ireland specific renewable heat incentive. The Economic Appraisal will make recommendations, based on evidence gathered and the analysis carried out, on the most cost effective structure of a Northern Ireland RHI to increase the level of renewable heat to 2020. The economic appraisal will be carried out using the 10 steps outlined within the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEA) guidelines.
- 4.2 A copy of the terms of reference for the proposed consultancy is attached at **Appendix II.**
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Section 5: SKILLS TRANSFER***Outline the potential for skills transfer***

- 5.1 This piece of work requires a combination of both economic and energy, specifically renewable heat, expertise to understand the current heat market in terms of supply and demand and to assess the effectiveness and cost of the various support measures that will be considered. This expertise will be required to analyse the market and provide the evidence base for a way forward on an appropriate financial support mechanism for renewable heat.

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?

- 5.2 Throughout the project there will be some opportunity for skills transfer to Departmental staff, specifically in relation to energy economics and the cost/benefit of the various options considered. This knowledge and understanding will increase through close contact with the appointed consultants and can be maintained following the successful completion of the project.

When is it anticipated that knowledge and skills delivered by the consultancy will be transferred to internal staff?

- 5.3 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 in-house knowledge and support the development of a RHI and renewable heat route map.

What are the implications of skills transfer for future consultancy support?

- 5.4 Due to the highly technical nature of renewable heat, specifically the economics surrounding the various technologies, the skills transfer involved in the project will not mean that future consultancy won't be required. However, the transfer of skills, knowledge and understanding during this assignment will ensure that this work can be developed further in-house and that any future consultancy will be monitored and quality assured by knowledgeable and experienced staff.

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?

- 6.1 The external consultants will be required to provide the delivery of specific objectives as described in the terms of reference within the tender documentation.
- 6.2 In-house staff will be used to manage the delivery of the project, assisting consultants with minor queries if appropriate and providing the consultants with full and supporting background documentation to give contextual awareness of renewable heat in Northern Ireland. It is estimated that 2-3 meetings will be held with G7/DP throughout the project. The Departmental economists will provide a quality assurance check before the EA is signed off.

Provide indicative estimates of the number of consultancy days by consultancy grade.

- 6.3 The assignment is estimated to take up to 45 consultancy days as follows:-
- Principal Consultant – 10 to 15
 - Senior Consultant – 6 to 10
 - Principal Economist – 10 to 15
 - Economist / Researcher – up to 5

Provide indicative estimates of the expected number of in-house staff days by staff grade.

- 6.4 The assignment is estimated to take up to 12 in-house staff days, estimated at 6 days at DP, 3 days at G7 and 3 days at Deputy Economist.

Section 7: EXPECTED COSTS OF THE ASSIGNMENT

External Consultancy Costs

- 7.1 It is expected that the external consultancy costs for this project will be in the region of Sensitive commercial information. Budget is available from the Energy Division Budget and the ERDF Competitiveness Programme.

In-House Costs

- 7.2 The in-house cost of 3 meetings and reading time (detailed at para 6.4) for a G7, DP and Deputy Economist is in the region of Sensitive Commercial Information

Section 8: PROJECT MANAGEMENT / PERFORMANCE REVIEW ARRANGEMENTS***What are the proposed project management arrangements, including details of monitoring officers, draft reports, Steering Groups etc?***

- 8.1 The project will be managed by Sustainable Energy Branch with the successful consultants 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, specifically quality assuring the work of the consultants.

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.

- 8.2 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 draft report will be required by 18 February 2011 with a final report due by 28 February 2011.

Identify person/persons responsible for managing/delivering skills transfer.

- 8.3 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?

- 8.4 Payment will only be on completion of a satisfactory EA, which has been approved by dept economists.

Skills transfer should be pro-actively managed and monitored like any other consultancy benefit.

- 8.5 The appointed consultants will be expected to attend project management meetings, provide regular update reports and be contactable throughout the contract. Consultants will be expected to explain the analysis carried out and the evidence gathered so skills and knowledge will be transferred.

Section 9: IMPLEMENTATION AND EVALUATION PLAN

How will the results of the consultancy be implemented?

- 9.1 The results of this consultancy will be to provide an evidence base on the economics of a RHI in NI. This information will be used to advise the Minister in advance of a final policy decision in respect of a RHI rollout.

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.

- 9.2 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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