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Subject: Renewable Heat Incentive - Phase 2 research
Date: 03 October 2012 15:42:00
Attachments: [TOR - RHI Phase 2.docx](#)
[Phase 2 Business Case - April 2012 template.docx](#)
[image001.png](#)

Sam,

We are finalising plans for work on phase 2 of the RHI (additional technologies, extension to domestic sector, additional bands etc). We hope to appoint external consultants to consider these issues, this work will inform a future policy consultation.

I have attached a draft Terms of Reference and business case for this work.

Grateful if you would consider and advise whether economics are content for this to go forward to the Minister for her consideration and approval.

Many thanks,

Peter

Peter Hutchinson

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The new website for the European Sustainable Competitiveness Programme for NI is now available - visit www.eucompni.gov.uk



www.ni2012.com

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TERMS OF REFERENCE

DEVELOPMENT OF PHASE 2 OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

General

1. The Department of Enterprise Trade and Investment (DETI) is responsible for the development and maintenance of an appropriate legislative and policy framework for energy in Northern Ireland and in September 2010 published the Strategic Framework for Northern Ireland to cover the next 5-10 year period. The vision is for a competitive, sustainable, reliable energy market at the minimum cost necessary. Four key policy goals have been identified to support this vision as follows
 - Competitiveness
 - Security of Supply
 - Infrastructure
 - Sustainability
2. Heating energy accounts for around half of all total energy consumed within Northern Ireland with over 98% of our heating fuels coming from imported fossil fuels. Renewable heat is simply heat produced from renewable sources such as solar radiation, biomass materials, heat pumps, geothermal energy and waste materials.
3. The EU Renewable Energy Directive (RED) (2009/28/EC) set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020 and Northern Ireland is expected to contribute to this share. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption are required for the UK to meet its requirements. £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.

Background

4. In 2010, DETI commissioned a study conducted by AECOM Ltd and Pöyry Energy Consulting – an Assessment of the Potential Development of Renewable Heat in Northern Ireland. The report concluded that a 10% target was achievable but would require significant Government intervention. The

report also indicated that an incentive scheme specific to Northern Ireland would be required.

5. The Strategic Energy Framework (SEF) was agreed by the Northern Ireland Executive in September 2010. The SEF includes four key energy goals: building competitive markets; ensuring security of supply; enhancing sustainability; and developing our energy infrastructure. The development of the renewable heat market locally will support the delivery of these energy goals, specifically in regards to Northern Ireland's sustainability and energy security. A target of 10% renewable heat by 2020 was included within the SEF; this is a challenging target given that the level in 2010 was 1.7%.
6. In order to achieve the renewable heat target, DECC introduced a GB Renewable Heat Incentive for the non-domestic market in November 2011. Northern Ireland was not included within that scheme because of the differences in the two heat markets. In GB the natural gas market is prevalent and accounts for 68.8% of heating demand with oil only accounting for 10%. This is very different from the situation in Northern Ireland where refined oil products account for around 77% of the overall heat demand, with natural gas accounting for 17% and the remaining heat demand met by electricity (1.2%), coal (3.2%) and renewables (1.7%).
7. It was therefore considered appropriate to separately assess how the NI renewable heat market could best be developed and the ¹Minister announced this publicly in September 2010 indicating that a NI RHI, that would support renewable heat installations commissioned from 1 September 2010, would be introduced if, after a full economic appraisal, it was considered to be viable and economic to do so.
8. Further to this, in October 2010, DETI was advised through a letter from the Chief Secretary to Treasury to the First and deputy First Minister that £25m of funding would be available to Northern Ireland should a NI RHI be introduced. This funding was incremental over the budget period (£2m/£4m/£7m/£12m).
9. DETI commissioned an economic appraisal to consider the available options and the final report – ²A Renewable Heat Incentive for Northern Ireland – was completed by the consultants, Cambridge Economic Policy Associates (CEPA) and AEA Technologies, in June 2011.

¹ <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-deti/news-deti-september-2010/news-deti-200910-foster-recognises-importance.htm>

² http://www.deti.gov.uk/economic_appraisal_into_the_northern_ireland_rhi_-_june_2011.pdf

10. The report provided the basis for a ³public consultation on the proposals for a Renewable Heat Incentive for Northern Ireland (RHI). The majority of respondents were supportive of the introduction of a RHI and acknowledged the importance of a specific NI approach. However, there were a number of areas where consultees were not in agreement with the proposals, in particular the proposed tariff structure and levels. DETI therefore asked CEPA/AEA to undertake some additional analysis in light of the information provided by respondents, in order to assess the additional evidence provided and to update the economic model where appropriate. This work was completed in February 2012 and informed the final policy position.

Developing the Northern Ireland Renewable Heat Market

11. The primary objective of the NI RHI is to increase the uptake of renewable heat to 10% by 2020 (baseline position 1.7% in 2010). The AECOM study showed the current heat demand in Northern Ireland to be 17.4 TWh per year. Looking forward to 2020, Northern Ireland's overall heat demand is predicted to drop to 16.7 TWh per year, with rises in demand from new development being outweighed by reductions in demand with efficiency improvements in the existing sector. The 10% for renewable heat therefore equates to 1.6TWh (or an additional 1.3 TWh when considering existing levels).

12. Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies. In order to help develop this market, DETI needs to consider the implementation of both policy instruments and financial incentives. Without these measures being put in place there is a risk of market failure and Northern Ireland will not achieve the targets set.

13. Financial incentives have already been successful within the Northern Ireland Renewable Electricity market. Since the introduction of the Northern Ireland Renewables Obligation (NIRO) in 2005, the level of electricity generated from renewable sources has increased from 3% to over 12%.

14. A Renewable Heat Strategy Group (a sub group of the Sustainable Energy Inter Departmental working Group (SEIDWG) has been set up with representatives from all the Departments with a role to play in the development of the renewable heat market. This group will develop a Renewable Heat Strategy road map and will consider issues such as maximising local biomass resource, identifying linkages with Green New Deal, skills development, renewable heat

³ http://www.detini.gov.uk/the_development_of_the_northern_ireland_renewable_heat_incentive.pdf

deployment in new housing schemes and within the public sector. This work will be undertaken alongside the introduction of the RHI.

The Northern Ireland Renewable Heat Incentive

15. Following the economic appraisal into the incentivisation of renewable heat, the following design of the Northern Ireland RHI has been developed. The scheme 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 installations following accreditation and the scheme will be open to new installations until 31 March 2020; this is in line with the GB RHI.
16. The RHI tariffs have been calculated to cover the cost difference between traditional fossil fuel heating systems and a renewable heat alternative. The tariffs account for the variances in capital costs, in operating costs, as well as seeking to address non-financial ‘hassle’ costs. The tariff is generated against a counterfactual position of heating oil; this is due to the fact that Northern Ireland is primarily dependent on oil and most of those switching to renewable heat will be oil consumers.
17. Tariffs vary depending on the type and size of technology to ensure that financial support is targeted for the specific installation and so over-compensation is avoided. Tariffs are paid for 20 years (the lifetime of the technology) and are ‘grandfathered’⁴; however they will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation.
18. The tariff setting methodology has three general principles:
 - Renewable installations are divided depending on the type of technology and size of installation;
 - Within each banding a reference technology⁵ is chosen to develop a consistent tariff across technologies and scales; and

⁴ Provides certainty for an investor by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews.

⁵ In order to set a fixed incentive rate for each band a ‘reference installation’ is chosen and the tariff set relates to this installation and provides appropriate subsidy to make it viable. In line with DECC’s methodology, the reference installation is chosen as the installation requiring a subsidy that would incentivise half of the total potential output from the technology that could be taken up across the period 2011-20 if that rate was offered to that band in every year. Total potential output is calculated as heat output that could be achieved if all technically viable segments within the band installed the technology.

- The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined.

19. The proposed tariffs are outlined below.

Technology	Size	tariff
Biomass	Less than 20kWth	6.2
	Between 20kWth and 100kWth	5.9
	⁶ Between 100kWth and 1000kWth	1.5
Biomethane	Biomethane all scales, biogas combustion less than 200kWth	3.0
Ground source heat pumps	Less than 20kWth	⁷ 8.4
	Between 20kWth and 100kWth	4.3
	Between 100kWth and above	1.3
Solar thermal	Below 200kWth	8.5

20. RHI payments will be made on a quarterly basis and are determined by multiplying the applicant's actual (metered) heat output with the relevant tariff level. Under the RHI only 'useful heat' is deemed eligible; this is defined as heat that would otherwise be met by fossil fuels, this excludes deliberately wasting or dumping heat with the sole purpose of claiming incentive payments.

Purpose of this assignment

21. Given the complexities and the need to introduce incentive measures in a timely manner DETI has taken a phased approach in introducing the RHI. This approach is as follows;

- Phase 1 – Introduction of long term incentives for non-domestic market (eligible technologies to include the most established technologies) and a short term grant scheme for domestic customers.
- Phase 2 – Opening the scheme to domestic consumers and assessing appropriate support levels for additional technologies (Air Source Heat Pumps, Deep Geothermal and Bioliquids etc).

⁶ The GB RHI has an open band above 1000kWth of 1p/kWh. Given the oil counterfactual it is deemed that Northern Ireland installations over 1000kWth are already cost-effective to 2020 and therefore do not require an incentive. If evidence to the contrary is provided by stakeholders this upper limit will be reviewed under Phase 2 of the RHI.

⁷ This tariff reflects a deeming approaching for the domestic sector. If a metered approach was introduced a tiered tariff would be more appropriate. This would be 9.3p/kWh for the first 1314 hours and then 4.9p/kWh after that.

22. This approach is similar to GB where *Premium Payments* were launched in July 2011 with the mainstream RHI beginning in November 2011. (probably want to say something about DECC Phase 2 – Summer 2013? – Consultations?)
23. DETI now wishes to appoint a consultant to consider and advise on issues relating to the launch of phase 2 of the Northern Ireland RHI. This assignment will relate to the assessment of appropriate levels of support for additional technologies; the treatment of large biomass installations; the extension of the scheme to the domestic market and the consideration of an incentive uplift for district or community heating schemes.

Contract Requirements

24. The appointed service provider will be expected to build upon;
- a. Research already carried out by the Department;
 - b. The details of the first phase of the NI RHI; this includes using consistent methodology and considering budgetary constraints, and;
 - c. Consider potential linkages with the GB RHI.
25. The key objectives of this assignment will include but should not be limited to the following;
- **Advise on the introduction of tariffs for additional technologies, to include direct air biomass heating, biogas above 200kw, air source heat pumps (air to air and air to water), deep geothermal energy, bioliquids and landfill gas.**
 - Gather data/evidence on each of the considered technologies.
 - Determine appropriate tariff levels for each of the considered technologies.
 - Consider appropriate tariff banding for these technologies.
 - Provide technical information on each of the assessed technologies.
 - Advise on eligibility standards or requirements for each of these technologies.
 - **Advise on the extension of the RHI scheme to the domestic sector.**
 - Advise on appropriate bands, tariff levels and tariff lifetime for technologies suitable for microgeneration.
 - Assess the costs of enforcing the installation of heat meters in this sector (to include the capex and opex regarding administration.)
 - Advise on an appropriate methodology that could be used to 'deem' payments to the domestic sector i.e. an annual payment made on expected, rather than actual, heat demand.

- Consider the cost / benefits of metering heat and deeming heat in this sector. Consider also the risks associated with either option.
- Recommend the appropriate method for extending the RHI scheme to the domestic sector.
- **Assess the need for financial support for large biomass installations (over 1MW) (including Combined Heat and Power systems).**
 - Gather evidence on the current costs of biomass in Northern Ireland.
 - Assess the appropriateness of a RHI tariff for biomass over 1MW in size.
 - Assess the need for a specific tariff for biomass CHP.
 - Consider the need for capital support for large biomass installations (if a RHI tariff is deemed inappropriate).
- **Consider the need for an additional ‘uplift’ for renewable heating applications that service more than one building or dwelling i.e. community or district heating.**
 - Assess costs involved in community / district heating schemes additional to similar sized applications that service one building or dwelling only.
 - Determine an appropriate level of incentive to be available to district heating schemes in addition to existing tariffs.
 - Advise on eligibility and standards for community / district heating scheme.
- **Provide a detailed analysis of the expected costs of each of the additional measures under phase 2 and the expected benefits in terms of renewable heat delivered and wider impacts.**
 - Costs should be provided for the extension of the scheme to domestics, the inclusion of additional technologies and the development of an uplift for district heating.
 - Costs should be for the whole-life of the RHI.
 - Assess the additional renewable heat delivered through each measure.
 - Assess wider benefits of each of the proposed actions under Phase 2, both monetary and non-monetary.
 - Consider displacement that the growth of the renewable heat market may have on existing energy sectors.
- **Make recommendations on the implementation of phase 2 of the Northern Ireland RHI based on analysis carried out, the expected costs of additional measures and the monetary and non-monetary benefits.**

Project Management and Timetable

- (i) The Project will be managed by DETI Sustainable Energy Branch in conjunction with DETI Economics Branch and the consultant will be asked to liaise closely and submit regular reports (frequency of written reports and meetings to be agreed) to enable the review of progress.
- (ii) It is anticipated that the appointed consultant will be available to commence work w/c **xxxxxxx** and provide a draft report by **xxxxxxx**, with a final report available by **xxxxxxxxx**.

Project Output

- (iii) Draft and final reports to be available electronically and in hard copy (4 hard copies of the final report required).

Monitoring and Evaluation

- (iv) The project will be monitored by Renewable Heat Branch in conjunction with DETI economics branch.

Project Funding and Payment

- (v) The economic appraisal will be funded from the EU Competitiveness Programme and as such the final report will have to meet the publicity requirements of the programme.
- (vi) Payment will be made in full, on satisfactory completion, production and acceptance by DETI, of the work undertaken.

Key Personnel Experience:

- (vii) Tenderers must clearly demonstrate that the key personnel who will be involved in delivering this contract i.e. Project Manager/leader of the team, principal/senior engineering staff and principal/senior economists have relevant experience within the last 3 years in providing technical, environmental and economic consultancy advice in relation to renewable energy.
- (viii) Tenderers must be able to demonstrate that key personnel have experience of cost benefit analysis / economic appraisal of major energy infrastructure projects on 2 relevant projects within the renewable energy field, within the last 3 years. This should include evidence of the collation and assessment of complex data in relation

to renewable energy. CV's must also be provided for each nominated individual.

- (ix) Each example must include the project title, year and value, the individual's role and responsibility within that project and details to explain how that example is relevant to the current work required.

Terms of Reference

- (x) In submitting an application tenderers must address the following:
- (i) Detail the proposed consultant / team to carry out this project and detail their previous relevant experience.
- (ii) Provide details of the proposed methodology to be employed in undertaking this project.
- (iii) Provide an estimate of cost and time required to complete the outlined project.

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Format of Response

- (xi) Details must be provided of the individuals who will be assigned to carry out the assignment to include:
- Consultant's name;
 - Consultant's grade. This should be limited to director / partner, lead consultant, senior consultant, consultant, junior consultant, trainee, researcher, research assistant, and analyst;
 - Number of days each consultant will spend on this assessment;
 - Daily rate;
 - Experience – relevant experience should be attached on no more than one A4 sheet per consultant.

Methodology:

- Tenderers must provide full details of the proposed approach to deliver each of the contract requirements as detailed in paragraphs 24 and 25 of the terms of reference.

Resource Allocation:

- Tenderers must provide details of how resources will be utilised to deliver service and how these will be allocated to the project requirements. This includes providing a timeline and schedule detailing the names and responsibilities of the staff involved in each key activity in the assignment.

Contract Management Arrangements:

Tenderers must provide details of:

- How they proposed to manage and supervise this contract
- contingency plans should any proposed member of the team for reasons of illness or otherwise be unable to complete the assignment

Evaluation Criteria

(xii) The evaluation criteria that will be used in the award of this contact will have a weighting as follows:

- Methodology (50%)
- Cost (30%)
- Resource Allocation (10%)
- Contract Management (10%)

Award of Contract

(xiii) The contract will be awarded to the consultancy that meets the terms of reference offering the best value for money along with appropriate relevant experience in respect of the evaluation criteria.

Intellectual property

(xiv) Any tender received by the Department shall remain the intellectual property of the tenderer. Once commissioned, however, all documents/results will become the property of the Department to be used as the Department see fit.

Equality considerations

(xv) DETI is committed to achieving a successful economy in Northern Ireland which will provide equal opportunities for all. To this end, Section 75 of the Northern Ireland Act 1998 sets out a number of obligations relating to the nine 'Section 75' categories as follows:-

- Religious belief;
 - Political opinion;
 - Racial group;
 - Gender;
 - Marital status;
 - Age;
 - Persons with disability
 - Persons with dependents; and
 - Sexual orientation.
- (xvi) DETI as a recognised public authority has an obligation under Section 75 as detailed in its Equality Scheme which can be accessed on the Department's website at [www.detini.gov.uk/Equality scheme](http://www.detini.gov.uk/Equality%20scheme) .
- (xvii) The study must therefore consider equality aspects relating to the nine 'Section 75' categories by considering available data, identifying any adverse impacts that may be present and proposing alternative measures/policies which might better achieve the promotion of equality of opportunity.
- (xviii) The evaluation must also consider the accessibility of the Strategy for all in line with the Disability Discrimination Act 1995.

BUSINESS CASE TEMPLATE FOR PROPOSAL TO ENGAGE AN EXTERNAL RESOURCE

Project Title: PHASE 2 OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

Prepared By: PETER HUTCHINSON **Date:**

Approved By: FIONA HEPPER

(Director of DETI Energy Division)

Signed: **Date:**

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 (April 2012).
- 1.2 The purpose of this assignment is to appoint external consultants to carry out an assessment of a range of issues relating to a second phase of the Northern Ireland Renewable Heat Incentive ¹(RHI). This is a specialist / technical task that requires the advice of specialist heat economists – these skills are not available within DETI. Consideration also be given to the appropriate levels of support for emerging and innovative renewable heating technologies and issues involved in extending the current RHI scheme to the domestic sector. This work will ensure that the heat market is encouraged in the most cost-effective way possible.

Strategic / policy context

- 1.3 In December 2010, DETI appointed Cambridge Economic Policy Associates (CEPA) and AEA Technologies to carry out an economic appraisal on a RHI for Northern Ireland. This work focused on how DETI could appropriately incentivize renewable heat technologies in Northern Ireland within a set funding envelope of £25m to 2015 (provided by Treasury). The RHI would be a key policy lever in reaching targets set by the EU, the Executive and DETI.
- 1.4 This work 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 renewable heat technologies. Details on the design, implementation, tariff levels and eligibility were later consulted on in February 2010 and confirmed in March 2011. The GB RHI scheme (applying to England, Scotland and Wales) was launched in November 2011.
- 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 As the RHI, only applied to England, Scotland and Wales and not Northern Ireland, the previous assignment considered the introduction of a similar scheme in NI. This was appropriate given the significant differences between the heat markets here and Great Britain.

¹ The 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.

- 1.7 The economic appraisal carried out by CEPA / AEA provided DETI with evidence to consult on a NI RHI scheme, this consultation was carried out in July 2011. Following the consultation the policy was finalized and approvals sought from the EU Commission, DFP and the DETI Minister. All approvals for the scheme are now in place and the first phase of the NI RHI is scheduled to launch in October/November 2012, subject to the passage of appropriate legislation.

What is the need for the assignment?

- 1.8 The NI RHI follows, in many ways, the approach taken by DECC in regards to the GB RHI. The NI RHI, in the first instance, seeks to incentivize the most well established technologies (biomass, heat pumps, solar thermal etc) in the most cost effective scenarios (i.e. non-domestic). This has been described as phase 1 of the scheme and will be used as a primer for the wider market.
- 1.9 DETI now needs to engage with consultants to assess options for phase 2 of the RHI scheme. It is expected that this work will assess the need and benefit of extending the scheme to the domestic sector, the development of tariffs for additional technologies and consideration of a number of other technical issues. A full terms of reference for the proposed project is attached at Appendix I. The appointed consultants will be expected to advise on the methodology, costs and benefits of extending the scheme to domestic customers; the need for additional tariff levels and appropriate levels; and the overall cost and benefits of the measures proposed under phase 2.
- 1.10 The work carried out under phase 2 will ensure that NI will remain in line with measures proposed by DECC for the GB scheme and will support the achievement of targets. The second phase of the scheme will further assist in the development of the renewable heat market in Northern Ireland and will provide opportunities for the exploitation of innovative renewable heating methods.

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

- 1.11 This assignment will determine the measures required under the second phase of the NI RHI, will outline how these measures should be introduced, advise and assess the cost/benefit.

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

- 1.12 There is no possibility in deferring this assignment. DECC intend to roll-out phase 2 of the GB RHI from June 2013 and will be shortly consulting of their proposals. 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, delay of the project would have an impact on expected levels of spend against budget and could lead to the overall renewable heat target being missed.
- 1.13 Following the completion of this assignment there will be a need for public consultation, development of legislation, EU commission clearance and financial approvals through DETI and DFP. Therefore, this analysis work must be completed as soon as possible. This will allow the Minister to make a final decision on the second phase of the NI RHI and allow a roll out as soon as possible.

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

- 1.14 As previously mentioned, an economic appraisal of the NI RHI have previously been undertaken. A post project evaluation (PPE) of the appraisal carried out by CEPA and AEA is attached at **Appendix II**.

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 that the analysis is completed 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 appropriate measures to be introduced under the second phase of the NI RHI. The work will also provide important technical advice on innovative technologies and extending the current scheme to the domestic sector. In addition, the work will assess the cost/benefit of each of the considered issues and advise on the most appropriate policy for phase 2. This approach will ensure that 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 2013 onwards as the number of installations begin to increase and new technologies are supported.
- 2.3 The long term benefit of undertaking this piece of work will be the development of a complete incentive scheme for renewable heat applications 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'.

What are the implications of the assignment not going ahead?

- 2.4 If this work did not go ahead then decisions on the development and extension on the NI RHI would either be taken without a firm evidence base or not taken at all.
- 2.5 The RHI, as it stands, is only available in the non-domestic sector and for well established technologies, without the extension of the scheme the domestic market will not be supported and innovative technologies not given the opportunity to compete with others. The extension of the scheme through phase 2 provides the opportunity for renewable heat applications to become more commonplace and will further support the achievement of set targets.
- 2.6 If the scheme is not extended or developed as proposed there would be significant criticism on the Department for reneging on previous statements. Further to this, the Northern Ireland industry is likely to be disadvantaged in comparison to GB counterparts.

Section 3: ASSESSMENT OF ALTERNATIVE OPTIONS

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

Option 1 – Do nothing

Doing nothing would result in the Department making a non-evidence based decision in regards to phase 2 of the NI RHI. . This could result in ineffective and costly options being employed or no decision being taken at all and therefore would have a detrimental impact on the Northern Ireland renewable heat market.

Option 2 - Complete assignment using in-house resources

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

Option 3 – Partial completion of assignment using in-house resources. While it may be accepted that resource constraints/skills shortages will not allow the full assignment to be completed in-house, the option of using in-house resources to produce an interim output supplemented by consultancy input should be assessed. In addition, the option to relax the time constraint to allow more of the outputs to be achieved by in-house resources albeit over a longer timescale should be assessed.

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

Option 4 – Use of internal Consultancy, for example, BCS, departmental economists, statisticians, etc.

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.

Option 5 – Staff substitution, for example, short-term/medium term secondment of industry expert(s).

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.

Option 6 – Use of External consultants – What is the rationale behind using external consultants as opposed to the alternatives considered?

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

- 4.1 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.
- 4.2 The successful consultant will be expected to undertake an independent assessment of issues that require consideration for phase 2 of the NI RHI. These include
 - Advise on the introduction of tariffs for additional technologies, to include air source heat pumps, deep geothermal energy, bioliquids and landfill gas.
 - Advise on the extension of the RHI scheme to the domestic sector.
 - Assess the need for financial support for large biomass installations (over 1MW).
 - Consider the need for an additional 'uplift' for renewable heating applications that service more than one building or dwelling i.e. community or district heating.
 - Provide a detailed analysis of the expected costs of each of the additional measures under phase 2 and the expected benefits in terms of renewable heat delivered and wider impacts.
 - Make recommendations on the implementation of phase 2 of the Northern Ireland RHI based on analysis carried out, the expected costs of additional measures and the monetary and non-monetary benefits.

- 4.3 A copy of the terms of reference for the proposed consultancy is attached at **Appendix I**.

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, to consider issues relating to innovative technologies and to assess the effectiveness and costs of the recommended approach. This expertise will be required to analyse the market, consider previous research carried out in this area, understand potential linkages with GB policy and provide the evidence base for a way forward.

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 cross-departmental renewable heat strategy.

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 innovative 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 more 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.

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

- 6.3 The assignment is estimated to take up to 85 consultancy days as follows:-

- Project Manager – 15 to 20
- Senior Consultant – 10 to 15
- Principal Economist – 15 to 20
- Technical Consultant – 15 to 20
- Economist / Researcher – up to 10

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 20 in-house staff days, estimated at 10 days at DP, 5 days at G7 and 5 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 £80,000 - £100,000. This assessment is based on previous experience of similar analytical projects.
- 7.2 Budget is available from the Energy Division Budget and the ERDF Competitiveness Programme.

In-House Costs

- 7.3 The in-house cost of 3 meetings, reading time and project management (detailed at para 6.4) for a G7, DP and Deputy Economist is in the region of £4000.

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 xx xxxxx 20xx with a final report due by xx xxxxxxxx 20xx.

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 the report, which has been approved by G5 Energy Division.

Comment [PH1]: To be inserted before submission to Minister

Comment [PH2]: To be inserted before submission to Minister

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 for measures to be introduced as part of phase 2 of the NI RHI. This information will be used to advise the Minister in advance of final policy decisions, public consultation and policy implementation.

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.
-

CONSULTANCY BUSINESS CASE CHECKLIST

Consultancy Business Case Checklist				
Title	Name of SRO			
Requirement <i>[a brief summary including purpose; terms of reference; context of work; expected benefits and deliverables.]</i>				
Is this a contract extension?	<i>[yes or no]</i>			
Duration				
Value (£) per year, and total value <i>(years are illustrative only – additional years may be required for some projects)</i>	Year 1	Year 2	Year 3	Total
	Confirmed? <i>[insert tick/ cross]</i>		Para. no/ page? <i>[insert from Business Case]</i>	
Is the strategic case clear and strong?	<i>[yes or no]</i>			
Is VFM being optimised including consideration of existing framework agreements?	<i>[yes or no]</i>			
Is there a robust cost/ benefit analysis?	<i>[yes or no]</i>			
Has the procurement strategy and sourcing option been signed off by the Head of Procurement of the relevant CoPE as being compliant with NI procurement policy, as well as providing the most appropriate VFM solution?	<i>[yes or no]</i>			
Have other possible sources of expertise been checked and ruled out ie in-house, secondment, etc?	<i>[yes or no]</i>			
For assignments which could be carried out by BCS does the business case reflect discussions with BCS and the rationale for choosing to use external resources instead?	<i>[yes or no]</i>			
Is the budget identified and secured / approved by Finance Director?	<i>[yes or no]</i>			
Is the deliverability confirmed? Is the level of risk acceptable?	<i>[yes or no]</i>			
Skills transfer considered / included in contract?	<i>[yes or no]</i>			
IPR assignment considered / included in contract?	<i>[yes or no]</i>			
Is exit strategy clear?	<i>[yes or no]</i>			

Departmental AO Approval (if applicable)	Date
Ministerial Approval (if applicable)	Date
DFP Approval (if applicable)	Date

TERMS OF REFERENCE

DEVELOPMENT OF PHASE 2 OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

General

1. The Department of Enterprise Trade and Investment (DETI) is responsible for the development and maintenance of an appropriate legislative and policy framework for energy in Northern Ireland and in September 2010 published the Strategic Framework for Northern Ireland to cover the next 5-10 year period. The vision is for a competitive, sustainable, reliable energy market at the minimum cost necessary. Four key policy goals have been identified to support this vision as follows
 - Competitiveness
 - Security of Supply
 - Infrastructure
 - Sustainability
2. Heating energy accounts for around half of all total energy consumed within Northern Ireland with over 98% of our heating fuels coming from imported fossil fuels. Renewable heat is simply heat produced from renewable sources such as solar radiation, biomass materials, heat pumps, geothermal energy and waste materials.
3. The EU Renewable Energy Directive (RED) (2009/28/EC) set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020 and Northern Ireland is expected to contribute to this share. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption are required for the UK to meet its requirements. £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.

Background

4. In 2010, DETI commissioned a study conducted by AECOM Ltd and Pöyry Energy Consulting – an Assessment of the Potential Development of Renewable Heat in Northern Ireland. The report concluded that a 10% target

Comment [PD1]: Would there be any potential conflicts of interest for these companies or Cambridge Economic Policy Associates (CEPA) and AEA Technologies tendering for this requirement?

was achievable but would require significant Government intervention. The report also indicated that an incentive scheme specific to Northern Ireland would be required.

5. The Strategic Energy Framework (SEF) was agreed by the Northern Ireland Executive in September 2010. The SEF includes four key energy goals: building competitive markets; ensuring security of supply; enhancing sustainability; and developing our energy infrastructure. The development of the renewable heat market locally will support the delivery of these energy goals, specifically in regards to Northern Ireland's sustainability and energy security. A target of 10% renewable heat by 2020 was included within the SEF; this is a challenging target given that the level in 2010 was 1.7%.
6. In order to achieve the renewable heat target, DECC introduced a GB Renewable Heat Incentive for the non-domestic market in November 2011. Northern Ireland was not included within that scheme because of the differences in the two heat markets. In GB the natural gas market is prevalent and accounts for 68.8% of heating demand with oil only accounting for 10%. This is very different from the situation in Northern Ireland where refined oil products account for around 77% of the overall heat demand, with natural gas accounting for 17% and the remaining heat demand met by electricity (1.2%), coal (3.2%) and renewables (1.7%).
7. It was therefore considered appropriate to separately assess how the NI renewable heat market could best be developed and the ¹Minister announced this publicly in September 2010 indicating that a NI RHI, that would support renewable heat installations commissioned from 1 September 2010, would be introduced if, after a full economic appraisal, it was considered to be viable and economic to do so.
8. Further to this, in October 2010, DETI was advised through a letter from the Chief Secretary to Treasury to the First and deputy First Minister that £25m of funding would be available to Northern Ireland should a NI RHI be introduced. This funding was incremental over the budget period (£2m/£4m/£7m/£12m).
9. DETI commissioned an economic appraisal to consider the available options and the final report – ²A Renewable Heat Incentive for Northern Ireland – was completed by the consultants, Cambridge Economic Policy Associates (CEPA) and AEA Technologies, in June 2011.

¹ <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-deti/news-deti-september-2010/news-deti-200910-foster-recognises-importance.htm>

² http://www.detini.gov.uk/economic_appraisal_into_the_northern_ireland_rhi_-_june_2011.pdf

10. The report provided the basis for a ³public consultation on the proposals for a Renewable Heat Incentive for Northern Ireland (RHI). The majority of respondents were supportive of the introduction of a RHI and acknowledged the importance of a specific NI approach. However, there were a number of areas where consultees were not in agreement with the proposals, in particular the proposed tariff structure and levels. DETI therefore asked CEPA/AEA to undertake some additional analysis in light of the information provided by respondents, in order to assess the additional evidence provided and to update the economic model where appropriate. This work was completed in February 2012 and informed the final policy position.

Developing the Northern Ireland Renewable Heat Market

11. The primary objective of the NI RHI is to increase the uptake of renewable heat to 10% by 2020 (baseline position 1.7% in 2010). The AECOM study showed the current heat demand in Northern Ireland to be 17.4 TWh per year. Looking forward to 2020, Northern Ireland's overall heat demand is predicted to drop to 16.7 TWh per year, with rises in demand from new development being outweighed by reductions in demand with efficiency improvements in the existing sector. The 10% for renewable heat therefore equates to 1.6TWh (or an additional 1.3 TWh when considering existing levels).
12. Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies. In order to help develop this market, DETI needs to consider the implementation of both policy instruments and financial incentives. Without these measures being put in place there is a risk of market failure and Northern Ireland will not achieve the targets set.
13. Financial incentives have already been successful within the Northern Ireland Renewable Electricity market. Since the introduction of the Northern Ireland Renewables Obligation (NIRO) in 2005, the level of electricity generated from renewable sources has increased from 3% to over 12%.
14. A Renewable Heat Strategy Group (a sub group of the Sustainable Energy Inter Departmental working Group (SEIDWG) has been set up with representatives from all the Departments with a role to play in the development of the renewable heat market. This group will develop a Renewable Heat Strategy road map and will consider issues such as maximising local biomass resource, identifying linkages with Green New

³ http://www.detini.gov.uk/the_development_of_the_northern_ireland_renewable_heat_incentive.pdf

Deal, skills development, renewable heat deployment in new housing schemes and within the public sector. This work will be undertaken alongside the introduction of the RHI.

The Northern Ireland Renewable Heat Incentive

15. Following the economic appraisal into the incentivisation of renewable heat, the following design of the Northern Ireland RHI has been developed. The scheme 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 installations following accreditation and the scheme will be open to new installations until 31 March 2020; this is in line with the GB RHI.
16. The RHI tariffs have been calculated to cover the cost difference between traditional fossil fuel heating systems and a renewable heat alternative. The tariffs account for the variances in capital costs, in operating costs, as well as seeking to address non-financial 'hassle' costs. The tariff is generated against a counterfactual position of heating oil; this is due to the fact that Northern Ireland is primarily dependent on oil and most of those switching to renewable heat will be oil consumers.
17. Tariffs vary depending on the type and size of technology to ensure that financial support is targeted for the specific installation and so over-compensation is avoided. Tariffs are paid for 20 years (the lifetime of the technology) and are '*grandfathered*⁴', however they will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation.
18. The tariff setting methodology has three general principles:
 - Renewable installations are divided depending on the type of technology and size of installation;
 - Within each banding a reference technology⁵ is chosen to develop a consistent tariff across technologies and scales; and

⁴ Provides certainty for an investor by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews.

⁵ In order to set a fixed incentive rate for each band a '*reference installation*' is chosen and the tariff set relates to this installation and provides appropriate subsidy to make it viable. In line with DECC's methodology, the reference installation is chosen as the installation requiring a subsidy that would incentivise half of the total potential output from the technology that could be taken up across the period 2011-20 if that rate was offered to that band in every year. Total potential output is calculated as heat output that could be achieved if all technically viable segments within the band installed the technology.

- The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined.

19. The proposed tariffs are outlined below.

Technology	Size	tariff
Biomass	Less than 20kWth	6.2
	Between 20kWth and 100kWth	5.9
	⁶ Between 100kWth and 1000kWth	1.5
Biomethane	Biomethane all scales, biogas combustion less than 200kWth	3.0
Ground source heat pumps	Less than 20kWth	⁷ 8.4
	Between 20kWth and 100kWth	4.3
	Between 100kWth and above	1.3
Solar thermal	Below 200kWth	8.5

20. RHI payments will be made on a quarterly basis and are determined by multiplying the applicant's actual (metered) heat output with the relevant tariff level. Under the RHI only 'useful heat' is deemed eligible; this is defined as heat that would otherwise be met by fossil fuels, this excludes deliberately wasting or dumping heat with the sole purpose of claiming incentive payments.

Purpose of this assignment

21. Given the complexities and the need to introduce incentive measures in a timely manner DETI has taken a phased approach in introducing the RHI. This approach is as follows;

- a. Phase 1 – Introduction of long term incentives for non-domestic market (eligible technologies to include the most established technologies) and a short term grant scheme for domestic customers.
- b. Phase 2 – Opening the scheme to domestic consumers and assessing appropriate support levels for additional technologies (Air Source Heat Pumps, Deep Geothermal and Bioliquids etc).

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⁶ The GB RHI has an open band above 1000kWth of 1p/kWh. Given the oil counterfactual it is deemed that Northern Ireland installations over 1000kWth are already cost-effective to 2020 and therefore do not require an incentive. If evidence to the contrary is provided by stakeholders this upper limit will be reviewed under Phase 2 of the RHI.

⁷ This tariff reflects a deeming approaching for the domestic sector. If a metered approach was introduced a tiered tariff would be more appropriate. This would be 9.3p/kWh for the first 1314 hours and then 4.9p/kWh after that.

22. This approach is similar to GB where *Premium Payments* were launched in July 2011 with the mainstream RHI beginning in November 2011. DECC is currently considering expanding the non domestic RHI and introducing a domestic incentive (details available on the DECC website).
23. DETI now wishes to appoint a consultant to consider and advise on issues relating to the launch of phase 2 of the Northern Ireland RHI. This assignment will relate to the assessment of appropriate levels of support for additional technologies; the treatment of large biomass installations; the extension of the scheme to the domestic market and the consideration of an incentive uplift for district or community heating schemes.

Contract Requirements

24. The appointed service provider will be expected to build upon;
- a. Research already carried out by the Department;
 - b. The details of the first phase of the NI RHI; this includes using consistent methodology and considering budgetary constraints, and;
 - c. Consider potential linkages with the GB RHI.
25. The key objectives of this assignment will include but should not be limited to the following;
- **Advise on the introduction of tariffs for additional technologies, to include direct air biomass heating, biogas above 200kw, biomass CHP, air source heat pumps (air to air and air to water), solar thermal above 200kw, deep geothermal energy, bioliquids (including microgeneration and bioliquid CHP) and landfill gas.**
 - Gather data/evidence on each of the considered technologies.
 - Determine appropriate tariff levels for each of the considered technologies.
 - Consider appropriate tariff banding and lifetimes for these technologies.
 - In addition to considering RHI tariffs for deep geothermal, consideration should be given to the appropriateness of alternative support such as a Challenge Fund scheme.
 - Provide technical information on each of the assessed technologies.
 - Advise on eligibility standards or requirements for each of these technologies.
 - **Advise on the extension of the RHI scheme to the domestic sector.**
 - Advise on appropriate bands, tariff levels and tariff lifetime for technologies suitable for microgeneration.

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- Assess the costs of enforcing the installation of heat meters in this sector (to include the capex and opex regarding administration.)
 - Advise on an appropriate methodology that could be used to 'deem' payments to the domestic sector i.e. an annual payment made on expected, rather than actual, heat demand.
 - Consider the cost / benefits of metering heat and deeming heat in this sector. Consider also the risks associated with either option.
 - Recommend the appropriate method for extending the RHI scheme to the domestic sector.
- **Assess the need for financial support for large biomass installations (over 1MW) (including Combined Heat and Power systems).**
 - Gather evidence on the current costs of biomass in Northern Ireland.
 - Assess the appropriateness of a RHI tariff for biomass over 1MW in size.
 - Assess the need for a specific tariff for biomass CHP.
 - Consider the need for capital support for large biomass installations (if a RHI tariff is deemed inappropriate).
- **Consider the need for an additional 'uplift' for renewable heating applications that service more than one building or dwelling i.e. community or district heating.**
 - Assess costs involved in community / district heating schemes additional to similar sized applications that service one building or dwelling only.
 - Determine an appropriate level of incentive to be available to district heating schemes in addition to existing tariffs.
 - Advise on eligibility and standards for community / district heating scheme.
- **Provide a detailed analysis of the expected costs of each of the additional measures under phase 2 and the expected benefits in terms of renewable heat delivered and wider impacts.**
 - Costs should be provided for the extension of the scheme to domestics, the inclusion of additional technologies and the development of an uplift for district heating.
 - Costs should be for the whole-life of the RHI.
 - Assess the additional renewable heat delivered through each measure.
 - Assess wider benefits of each of the proposed actions under Phase 2, both monetary and non-monetary.
 - Consider displacement that the growth of the renewable heat market may have on existing energy sectors.

- **Make recommendations on the implementation of phase 2 of the Northern Ireland RHI based on analysis carried out, the expected costs of additional measures and the monetary and non-monetary benefits.**

Project Management and Timetable

26. The Project will be managed by DETI Sustainable Energy Branch in conjunction with DETI Economics Branch and the consultant will be asked to liaise closely and submit regular reports (frequency of written reports and meetings to be agreed) to enable the review of progress.
27. It is anticipated that the appointed consultant will provide a draft report within 8 weeks of the date of appointment and a final report within 10 weeks of appointment.

Comment [PH3]: I have reworded as given delays in getting necessary approvals, by saying 8/10 weeks rather than dates it does not matter when consultants are appointed.

Deleted: will be available to commence work w/c 10 December 2012 and provide a draft report by 31 January 2013, with a final report available by 14 February 2013.

Project Output

28. Draft and final reports to be available electronically and in hard copy (4 hard copies of the final report required).

Monitoring and Evaluation

29. The project will be monitored by Renewable Heat Branch in conjunction with DETI economics branch.

Project Funding and Payment

30. The economic appraisal will be funded from the EU Competitiveness Programme and as such the final report will have to meet the publicity requirements of the programme.
31. Payment will be made in full, on satisfactory completion, production and acceptance by DETI, of the work undertaken.

Key Personnel Experience:

32. Tenderers must provide 2 examples, within the last 3 years, that clearly demonstrate that each of the key personnel who will be involved in delivering this contract i.e. Project Manager/leader of the team, principal/senior engineering staff and principal/senior economists have relevant experience in providing technical, environmental and economic consultancy advice in relation to renewable energy.

Comment [PD4]: Number of examples?

Comment [PH5]: Have reworded to highlight the need for 2 examples for each of the key personnel.

Grateful if you would consider.

Deleted: within the last 3 years

33. Tenderers must provide 2 examples of projects, completed within the last 3 years, that clearly demonstrate that each of the key personnel involved in this project have experience of cost benefit analysis / economic appraisal of major energy infrastructure projects within the renewable energy field, within the last 3 years. This should include evidence of the collation and assessment of complex data in relation to renewable energy.

Comment [PD6]: Number of examples?

Comment [PH7]: Have reworded to highlight the need for 2 examples for each of the key personnel.

Grateful if you would consider.

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Deleted: on 2 relevant projects

Comment [PH8]: Happy for this line to be deleted as per comment below.

Comment [PD9]: CV's cannot be asked for. Assessment will be based on meeting minimum standards of professional ability

Deleted: CV's must also be provided for each nominated individual

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34. Each example must include the project title, date and value, the individual's role and responsibility within that project and details to explain how that example is relevant to the current work required.

Terms of Reference

35. In submitting a tender submission, tenderers must address the following:

- (i) Detail the proposed consultant / team to carry out this project and detail their previous relevant experience.
- (ii) Provide details of the proposed methodology to be employed in undertaking this project.
- (iii) Provide an estimate of cost and time required to complete the outlined project.

Comment [PD10]: Tenderers will be asked to complete a return document to address experience requirements

Comment [PD11]: Tenderers are required to provide a fixed cost & time inputs. If any additional time is required it will be at consultants own cost.

Comment [PH12]: Content for this to be reworded by CPD as per your comments above.

Suggested wording below to replace para 35 and bull points.

"In submitting a tender submission tenderers must complete a return document to address the necessary experience requirements (i.e. for all key personnel 2 examples within the last 3 years of projects that have involved providing technical, environmental and economic consultancy advice in relation to renewable energy and 2 examples within the last 3 years of projects that have involved economic appraisal of major energy infrastructure projects within the renewable energy field, within the last 3 years.

Format of Response

36. Details must be provided of the individuals who will be assigned to carry out the assignment to include:

- Consultant's name;
- Consultant's grade / job title;
- Number of days each consultant will spend on this assessment;
- Daily rate for each consultant;
- expenses (including travel within NI and travel to NI if applicable). Please note, receipts for all travel expenses will be required;
- Experience – relevant experience should be attached on no more than one A4 sheet per consultant.

Comment [PD13]: Not clear if this is required. Para 32 refers to engineering st

Comment [PH14]: Happy to delete – have reworded "or Job Title".

Deleted: This should be limited to director / partner, lead consultant,

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Comment [PH15]: Should an overall cost estimate provide that includes exper

Comment [PD16]: Will be asked to complete a return document to ensure the

Comment [PH17]: As per comment above – happy to delete if not required?

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¶

Methodology:

37. Tenderers must provide full details of the proposed approach to deliver each of the contract requirements as detailed in paragraphs 24 and 25 of the terms of reference.

Resource Allocation:

38. Tenderers must provide details of how resources will be utilised to deliver service and how these will be allocated to the project requirements. This includes providing a timeline and schedule detailing the names and responsibilities of the staff involved in each key activity in the assignment.

Contract Management Arrangements:

39. Tenderers must provide details of:

- How they proposed to manage and supervise this contract
- contingency plans should any proposed member of the team for reasons of illness or otherwise be unable to complete the assignment

Evaluation Criteria

40. The evaluation criteria that will be used in the award of this contact will have a weighting as follows:

- Methodology (60%)
- Cost (40%)

This project will be part financed by the European Regional Development Fund under the European Sustainable Competitiveness Programme for Northern Ireland.

The maximum budget for this project is £85k.

Budget max of £85k – need to include wording here – gain competitive advantage/no bids over this will be considered etc

Award of Contract

41. The contract will be awarded to the consultancy that meets the terms of reference whilst offering the best value for money along with appropriate relevant experience in respect of the evaluation criteria.

Intellectual property

42. Any tender received by the Department shall remain the intellectual property of the tenderer. Once commissioned, however, all documents/results will become the property of the Department to be used as the Department see fit.

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Comment [PD18]: Would advise should be min of 40% & ideally 50%

Comment [PH19]: As suggested, a 60/40 split in favour of methodology should be used.

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Comment [PH20]: Have added some new wording – happy for you to tidy up and finalise as required.

Also need to add the EU logo as this will be funded by EU money. I will ask colleagues in EU about protocols and where the logo should be placed on the final tender documents.

Deleted: <#>Resource Allocation (10%)¶
<#>Contract Management (10%) ¶

Comment [PD21]: Wording needs looked at – should be based on the best combination of price and quality

Comment [PH22]: I am content that this wording reflects the comment above – however content if you wish to revise in anyway.

Equality considerations

43. DETI is committed to achieving a successful economy in Northern Ireland which will provide equal opportunities for all. To this end, Section 75 of the Northern Ireland Act 1998 sets out a number of obligations relating to the nine 'Section 75' categories as follows:-

- Religious belief;
- Political opinion;
- Racial group;
- Gender;
- Marital status;
- Age;
- Persons with disability
- Persons with dependents; and
- Sexual orientation.

44. DETI as a recognised public authority has an obligation under Section 75 as detailed in its Equality Scheme which can be accessed on the Department's website at [www.detini.gov.uk/Equality scheme](http://www.detini.gov.uk/Equality%20scheme) .

45. The study must therefore consider equality aspects relating to the nine 'Section 75' categories by considering available data, identifying any adverse impacts that may be present and proposing alternative measures/policies which might better achieve the promotion of equality of opportunity.

46. The evaluation must also consider the accessibility of the Strategy for all in line with the Disability Discrimination Act 1995.

VERSION 1

TERMS OF REFERENCE

DEVELOPMENT OF PHASE 2 OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

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was achievable but would require significant Government intervention. The report also indicated that an incentive scheme specific to Northern Ireland would be required.

5. The Strategic Energy Framework (SEF) was agreed by the Northern Ireland Executive in September 2010. The SEF includes four key energy goals: building competitive markets; ensuring security of supply; enhancing sustainability; and developing our energy infrastructure. The development of the renewable heat market locally will support the delivery of these energy goals, specifically in regards to Northern Ireland's sustainability and energy security. A target of 10% renewable heat by 2020 was included within the SEF; this is a challenging target given that the level in 2010 was 1.7%.
6. In order to achieve the renewable heat target, DECC introduced a GB Renewable Heat Incentive for the non-domestic market in November 2011. Northern Ireland was not included within that scheme because of the differences in the two heat markets. In GB the natural gas market is prevalent and accounts for 68.8% of heating demand with oil only accounting for 10%. This is very different from the situation in Northern Ireland where refined oil products account for around 77% of the overall heat demand, with natural gas accounting for 17% and the remaining heat demand met by electricity (1.2%), coal (3.2%) and renewables (1.7%).
7. It was therefore considered appropriate to separately assess how the NI renewable heat market could best be developed and the ¹Minister announced this publicly in September 2010 indicating that a NI RHI, that would support renewable heat installations commissioned from 1 September 2010, would be introduced if, after a full economic appraisal, it was considered to be viable and economic to do so.
8. Further to this, in October 2010, DETI was advised through a letter from the Chief Secretary to Treasury to the First and deputy First Minister that £25m of funding would be available to Northern Ireland should a NI RHI be introduced. This funding was incremental over the budget period (£2m/£4m/£7m/£12m).
9. DETI commissioned an economic appraisal to consider the available options and the final report – ²A Renewable Heat Incentive for Northern Ireland – was completed by the consultants, Cambridge Economic Policy Associates (CEPA) and AEA Technologies, in June 2011.

¹ <http://www.northernireland.gov.uk/index/media-centre/news-departments/news-deti/news-deti-september-2010/news-deti-200910-foster-recognises-importance.htm>

² http://www.detini.gov.uk/economic_appraisal_into_the_northern_ireland_rhi_-_june_2011.pdf

10. The report provided the basis for a ³public consultation on the proposals for a Renewable Heat Incentive for Northern Ireland (RHI). The majority of respondents were supportive of the introduction of a RHI and acknowledged the importance of a specific NI approach. However, there were a number of areas where consultees were not in agreement with the proposals, in particular the proposed tariff structure and levels. DETI therefore asked CEPA/AEA to undertake some additional analysis in light of the information provided by respondents, in order to assess the additional evidence provided and to update the economic model where appropriate. This work was completed in February 2012 and informed the final policy position.

Developing the Northern Ireland Renewable Heat Market

11. The primary objective of the NI RHI is to increase the uptake of renewable heat to 10% by 2020 (baseline position 1.7% in 2010). The AECOM study showed the current heat demand in Northern Ireland to be 17.4 TWh per year. Looking forward to 2020, Northern Ireland's overall heat demand is predicted to drop to 16.7 TWh per year, with rises in demand from new development being outweighed by reductions in demand with efficiency improvements in the existing sector. The 10% for renewable heat therefore equates to 1.6TWh (or an additional 1.3 TWh when considering existing levels).
12. Renewable heat technologies are currently unable to compete with existing fossil fuel alternatives given the often higher capital costs and also the lack of understanding and awareness amongst consumers of what are often seen as innovative technologies. In order to help develop this market, DETI needs to consider the implementation of both policy instruments and financial incentives. Without these measures being put in place there is a risk of market failure and Northern Ireland will not achieve the targets set.
13. Financial incentives have already been successful within the Northern Ireland Renewable Electricity market. Since the introduction of the Northern Ireland Renewables Obligation (NIRO) in 2005, the level of electricity generated from renewable sources has increased from 3% to over 12%.
14. A Renewable Heat Strategy Group (a sub group of the Sustainable Energy Inter Departmental working Group (SEIDWG) has been set up with representatives from all the Departments with a role to play in the development of the renewable heat market. This group will develop a Renewable Heat Strategy road map and will consider issues such as maximising local biomass resource, identifying linkages with Green New

³ http://www.detini.gov.uk/the_development_of_the_northern_ireland_renewable_heat_incentive.pdf

Deal, skills development, renewable heat deployment in new housing schemes and within the public sector. This work will be undertaken alongside the introduction of the RHI.

The Northern Ireland Renewable Heat Incentive

15. Following the economic appraisal into the incentivisation of renewable heat, the following design of the Northern Ireland RHI has been developed. The scheme 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 installations following accreditation and the scheme will be open to new installations until 31 March 2020; this is in line with the GB RHI.
16. The RHI tariffs have been calculated to cover the cost difference between traditional fossil fuel heating systems and a renewable heat alternative. The tariffs account for the variances in capital costs, in operating costs, as well as seeking to address non-financial 'hassle' costs. The tariff is generated against a counterfactual position of heating oil; this is due to the fact that Northern Ireland is primarily dependent on oil and most of those switching to renewable heat will be oil consumers.
17. Tariffs vary depending on the type and size of technology to ensure that financial support is targeted for the specific installation and so over-compensation is avoided. Tariffs are paid for 20 years (the lifetime of the technology) and are '*grandfathered*⁴', however they will be amended on a yearly basis, for existing installers and new schemes, to reflect the rate of inflation.
18. The tariff setting methodology has three general principles:
 - Renewable installations are divided depending on the type of technology and size of installation;
 - Within each banding a reference technology⁵ is chosen to develop a consistent tariff across technologies and scales; and

⁴ Provides certainty for an investor by setting a guaranteed support level for projects for their lifetime in a scheme, regardless of future reviews.

⁵ In order to set a fixed incentive rate for each band a '*reference installation*' is chosen and the tariff set relates to this installation and provides appropriate subsidy to make it viable. In line with DECC's methodology, the reference installation is chosen as the installation requiring a subsidy that would incentivise half of the total potential output from the technology that could be taken up across the period 2011-20 if that rate was offered to that band in every year. Total potential output is calculated as heat output that could be achieved if all technically viable segments within the band installed the technology.

- The net costs (difference between capital and operating costs of fossil fuel counterfactual and renewable alternative) are calculated and a tariff determined.

19. The proposed tariffs are outlined below.

Technology	Size	tariff
Biomass	Less than 20kWth	6.2
	Between 20kWth and 100kWth	5.9
	⁶ Between 100kWth and 1000kWth	1.5
Biomethane	Biomethane all scales, biogas combustion less than 200kWth	3.0
Ground source heat pumps	Less than 20kWth	⁷ 8.4
	Between 20kWth and 100kWth	4.3
	Between 100kWth and above	1.3
Solar thermal	Below 200kWth	8.5

20. RHI payments will be made on a quarterly basis and are determined by multiplying the applicant's actual (metered) heat output with the relevant tariff level. Under the RHI only 'useful heat' is deemed eligible; this is defined as heat that would otherwise be met by fossil fuels, this excludes deliberately wasting or dumping heat with the sole purpose of claiming incentive payments.

Purpose of this assignment

21. Given the complexities and the need to introduce incentive measures in a timely manner DETI has taken a phased approach in introducing the RHI.

This approach is as follows;

- a. Phase 1 – Introduction of long term incentives for non-domestic market (eligible technologies to include the most established technologies) and a short term grant scheme for domestic customers.
- b.** Phase 2 – Opening the scheme to domestic consumers and assessing appropriate support levels for additional technologies (Air Source Heat Pumps, Deep Geothermal and Bioliquids etc).

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⁶ The GB RHI has an open band above 1000kWth of 1p/kWh. Given the oil counterfactual it is deemed that Northern Ireland installations over 1000kWth are already cost-effective to 2020 and therefore do not require an incentive. If evidence to the contrary is provided by stakeholders this upper limit will be reviewed under Phase 2 of the RHI.

⁷ This tariff reflects a deeming approaching for the domestic sector. If a metered approach was introduced a tiered tariff would be more appropriate. This would be 9.3p/kWh for the first 1314 hours and then 4.9p/kWh after that.

22. This approach is similar to GB where *Premium Payments* were launched in July 2011 with the mainstream RHI beginning in November 2011. DECC is currently considering expanding the non domestic RHI and introducing a domestic incentive (details available on the DECC website).
23. DETI now wishes to appoint a consultant to consider and advise on issues relating to the launch of phase 2 of the Northern Ireland RHI. This assignment will relate to the assessment of appropriate levels of support for additional technologies; the treatment of large biomass installations; the extension of the scheme to the domestic market and the consideration of an incentive uplift for district or community heating schemes.

Contract Requirements

24. The appointed service provider will be expected to build upon;
- a. Research already carried out by the Department;
 - b. The details of the first phase of the NI RHI; this includes using consistent methodology and considering budgetary constraints, and;
 - c. Consider potential linkages with the GB RHI.
25. The key objectives of this assignment will include but should not be limited to the following;
- **Advise on the introduction of tariffs for additional technologies, to include direct air biomass heating, biogas above 200kw, biomass CHP, air source heat pumps (air to air and air to water), solar thermal above 200kw, deep geothermal energy, bioliquids (including microgeneration and bioliquid CHP) and landfill gas.**
 - Gather data/evidence on each of the considered technologies.
 - Determine appropriate tariff levels for each of the considered technologies.
 - Consider appropriate tariff banding and lifetimes for these technologies.
 - In addition to considering RHI tariffs for deep geothermal, consideration should be given to the appropriateness of alternative support such as a Challenge Fund scheme.
 - Provide technical information on each of the assessed technologies.
 - Advise on eligibility standards or requirements for each of these technologies.
 - **Advise on the extension of the RHI scheme to the domestic sector.**
 - Advise on appropriate bands, tariff levels and tariff lifetime for technologies suitable for microgeneration.

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- Assess the costs of enforcing the installation of heat meters in this sector (to include the capex and opex regarding administration.)
 - Advise on an appropriate methodology that could be used to 'deem' payments to the domestic sector i.e. an annual payment made on expected, rather than actual, heat demand.
 - Consider the cost / benefits of metering heat and deeming heat in this sector. Consider also the risks associated with either option.
 - Recommend the appropriate method for extending the RHI scheme to the domestic sector.
- **Assess the need for financial support for large biomass installations (over 1MW) (including Combined Heat and Power systems).**
 - Gather evidence on the current costs of biomass in Northern Ireland.
 - Assess the appropriateness of a RHI tariff for biomass over 1MW in size.
 - Assess the need for a specific tariff for biomass CHP.
 - Consider the need for capital support for large biomass installations (if a RHI tariff is deemed inappropriate).
- **Consider the need for an additional 'uplift' for renewable heating applications that service more than one building or dwelling i.e. community or district heating.**
 - Assess costs involved in community / district heating schemes additional to similar sized applications that service one building or dwelling only.
 - Determine an appropriate level of incentive to be available to district heating schemes in addition to existing tariffs.
 - Advise on eligibility and standards for community / district heating scheme.
- **Provide a detailed analysis of the expected costs of each of the additional measures under phase 2 and the expected benefits in terms of renewable heat delivered and wider impacts.**
 - Costs should be provided for the extension of the scheme to domestics, the inclusion of additional technologies and the development of an uplift for district heating.
 - Costs should be for the whole-life of the RHI.
 - Assess the additional renewable heat delivered through each measure.
 - Assess wider benefits of each of the proposed actions under Phase 2, both monetary and non-monetary.
 - Consider displacement that the growth of the renewable heat market may have on existing energy sectors.

- **Make recommendations on the implementation of phase 2 of the Northern Ireland RHI based on analysis carried out, the expected costs of additional measures and the monetary and non-monetary benefits.**

Project Management and Timetable

26. The Project will be managed by DETI Sustainable Energy Branch in conjunction with DETI Economics Branch and the consultant will be asked to liaise closely and submit regular reports (frequency of written reports and meetings to be agreed) to enable the review of progress.
27. It is anticipated that the appointed consultant will be available to commence work w/c 10 December 2012 and provide a draft report by 31 January 2013, with a final report available by 14 February 2013.

Project Output

28. Draft and final reports to be available electronically and in hard copy (4 hard copies of the final report required).

Monitoring and Evaluation

29. The project will be monitored by Renewable Heat Branch in conjunction with DETI economics branch.

Project Funding and Payment

30. The economic appraisal will be funded from the EU Competitiveness Programme and as such the final report will have to meet the publicity requirements of the programme.
31. Payment will be made in full, on satisfactory completion, production and acceptance by DETI, of the work undertaken.

Key Personnel Experience:

32. Tenderers must clearly demonstrate that the key personnel who will be involved in delivering this contract i.e. Project Manager/leader of the team, principal/senior engineering staff and principal/senior economists have relevant experience within the last 3 years in providing technical, environmental and economic consultancy advice in relation to renewable energy.

Comment [PD2]: Number of examples?

33. Tenderers must be able to demonstrate that key personnel have experience of cost benefit analysis / economic appraisal of major energy infrastructure projects on 2 relevant projects within the renewable energy field, within the last 3 years. This should include evidence of the collation and assessment of complex data in relation to renewable energy. CV's must also be provided for each nominated individual.

Comment [PD3]: Number of examples?

Comment [PD4]: Cv's cannot be asked for. Assessment will be based on meeting minimum standards of professional ability

34. Each example must include the project title, date, and value, the individual's role and responsibility within that project and details to explain how that example is relevant to the current work required.

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Terms of Reference

35. In submitting a tender submission, tenderers must address the following:

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- (i) Detail the proposed consultant / team to carry out this project and detail their previous relevant experience.
- (ii) Provide details of the proposed methodology to be employed in undertaking this project.
- (iii) Provide an estimate of cost and time required to complete the outlined project.

Comment [PD5]: Tenderers will be asked to complete a return document to address experience requirements

Comment [PD6]: Tenderers are required to provide a fixed cost & time inputs. If any additional time is required it will be at consultants own cost.

Format of Response

36. Details must be provided of the individuals who will be assigned to carry out the assignment to include:

- Consultant's name;
- Consultant's grade. This should be limited to director / partner, lead consultant, senior consultant, consultant, junior consultant, trainee, researcher, research assistant, and analyst;
- Number of days each consultant will spend on this assessment;
- Daily rate
- expenses (including travel within NI and travel to NI if applicable);
- Experience – relevant experience should be attached on no more than one A4 sheet per consultant.

Comment [PD7]: Not clear if this is required. Para 32 refers to engineering staff & economists also. Would delete

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Comment [PD8]: Will be asked to complete a return document to ensure that all tenderers respond on a like for like basis

Methodology:

37. Tenderers must provide full details of the proposed approach to deliver each of the contract requirements as detailed in paragraphs 24 and 25 of the terms of reference.

Resource Allocation:

38. Tenderers must provide details of how resources will be utilised to deliver service and how these will be allocated to the project requirements. This includes providing a timeline and schedule detailing the names and responsibilities of the staff involved in each key activity in the assignment.

Contract Management Arrangements:

39. Tenderers must provide details of:

- How they proposed to manage and supervise this contract
- contingency plans should any proposed member of the team for reasons of illness or otherwise be unable to complete the assignment

Evaluation Criteria

40. The evaluation criteria that will be used in the award of this contact will have a weighting as follows:

- Methodology (50%)
- Cost (30%)
- Resource Allocation (10%)
- Contract Management (10%)

Budget max of £85k – need to include wording here – gain competitive advantage/no bids over this will be considered etc

Comment [PD9]: Would advise should be min of 40% & ideally 50%

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Award of Contract

41. The contract will be awarded to the consultancy that meets the terms of reference offering the best value for money along with appropriate relevant experience in respect of the evaluation criteria.

Comment [PD10]: Wording needs looked at – should be based on the best combination of price and quality

Intellectual property

42. Any tender received by the Department shall remain the intellectual property of the tenderer. Once commissioned, however, all documents/results will

become the property of the Department to be used as the Department see fit.

Equality considerations

43. DETI is committed to achieving a successful economy in Northern Ireland which will provide equal opportunities for all. To this end, Section 75 of the Northern Ireland Act 1998 sets out a number of obligations relating to the nine 'Section 75' categories as follows:-

- Religious belief;
- Political opinion;
- Racial group;
- Gender;
- Marital status;
- Age;
- Persons with disability
- Persons with dependents; and
- Sexual orientation.

44. DETI as a recognised public authority has an obligation under Section 75 as detailed in its Equality Scheme which can be accessed on the Department's website at [www.detini.gov.uk/Equality scheme](http://www.detini.gov.uk/Equality%20scheme) .

45. The study must therefore consider equality aspects relating to the nine 'Section 75' categories by considering available data, identifying any adverse impacts that may be present and proposing alternative measures/policies which might better achieve the promotion of equality of opportunity.

46. The evaluation must also consider the accessibility of the Strategy for all in line with the Disability Discrimination Act 1995.