

minutes: for your consideration and if
cost approval please.



Department of
Enterprise, Trade
and Investment
www.deti.gov.uk

From: Fiona Hepper
Head of Energy Division

Elaine Doyle
31/10/12

Date: 30 October 2012

- To: 1. David Sterling [Approved 30/10/12]
- 2. Andrew Crawford
- 3. Arlene Foster, MLA

*Agree that work needs to be carried out -
Can we reduce the cost of this work? DL 6/11
copy distribution list below.*

DETI SUB 516/2012

** A 9/11 content re spread comments*

BUSINESS CASE FOR PROPOSAL TO ENGAGE CONSULTANTS TO ASSIST IN DEVELOPMENT OF PHASE 2 OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE

** Response to query attached on left hand side. 12/11/12*

Issue:

AA
19/11
nm

This submission seeks the mandatory internal approvals, ahead of an approach to DFP Supply, to appoint external consultants to undertake work in relation to the development of Phase 2 of the Northern Ireland Renewable Heat Incentive (RHI).

Elaine Doyle
12/11/12
DL

Timing:

URGENT – work on phase 2 of the NI RHI must begin as soon as possible in order to align as closely as possible with the GB scheme.

Need for Referral To the Executive:

The second phase of the RHI scheme will be a DETI initiative and therefore will not require referral to the Executive. However the Executive will need to be consulted on the second phase of the Renewable Heat Strategy, which will be cross-cutting in nature. Issues regarding legislation may also require Executive approval.

Presentational Issues:

Not at this stage, however there is likely to be increased interest from MLAs, industry and media as this work progresses.

FOI Implications:

Exempted under Section 35 of the Freedom of Information Act.

Programme for Govt/ PSA Implications:

None at present, but it is likely that new PSA targets in relation to renewable heat will have to be developed.

Financial Implications:

The assignment is estimated at between £80,000 and £120,000.

- Legislation Implications:** Not at this stage, but it is likely that subordinate legislation will have to be implemented to introduce the measures proposed by the second phase of the Renewable Heat Strategy.
- Statutory Equality Obligations:** An equality screening exercise will be undertaken when implementing legislation for the second phase of the Renewable Heat Strategy.
- Recommendation:** That the Departmental Accounting Officer and Minister consider and approve the business case for the appointment of consultants, at an estimated cost of between £80,000 and £120,000 to assist in the development of Phase 2 of the renewable heat strategy for Northern Ireland. Once approval has been obtained, DFP Supply approval to incur the expenditure will be sought.

Background

You will be aware through previous submissions that the Northern Ireland Renewable Heat Incentive will shortly be implemented following the passage of subordinate legislation in the NI Assembly. The RHI will initially only be open to non-domestic consumers and will incentivise the most well established renewable heating technologies.

2. This first phase of the scheme will act as a primer for the market in advance of the scheme being extended to the domestic sector and additional technologies being supported. For phase 2 to be implemented economic analysis and technical research is required to assess issues pertaining to the domestic sector and additional innovative technologies. I am therefore seeking your approval to commence this work.

Renewable Heat - Drivers

3. The key driver for developing the renewable heat market in Northern Ireland is the EU Renewable Energy Directive (RED), which sets challenging renewable energy targets for all EU Members States. The UK renewable energy target is 15% consumption from renewable sources by 2020, in order to support this target the Department of Energy and Climate Change (DECC) has adopted a target of 12% renewable heat by 2020. In addition to the set targets, the development of the renewable heat market will support increased energy security, assist in reducing emissions and provide opportunities for 'green jobs'.
4. You will be aware that in order to achieve this target, DECC introduced a RHI in GB from November 2011 that will reward new renewable heat installations by a tariff depending on the size and type of technology installed. DECC is currently consulting on proposals for introducing the GB RHI to the domestic sector and extending the non-domestic scheme to include additional technologies.

Need for Consultants

5. Energy Division now wishes to appoint external consultants to carry out an assessment of a range of issues relating to a second phase of the Northern Ireland RHI scheme. This is a specialist task that requires the advice of specialist heat economists as well as technical advice from energy consultants.
6. Consideration must 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.

Objectives of the Assignment

7. The work carried out under phase 2 will ensure that Northern Ireland 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.
8. The key objectives for phase 2 of the NI RHI are:
 - consideration on the introduction of tariffs for additional technologies, to include air source heat pumps, deep geothermal energy, bioliquids and landfill gas;
 - consideration on the extension of the RHI scheme to the domestic sector;
 - assessment of evidence of need for financial support for large biomass installations (over 1MW);
 - consideration of the need for an additional 'uplift' for renewable heating applications that service more than one building or dwelling i.e. community or district heating;
 - provision of 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;
 - 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.
9. The terms of reference, drafted with input from DETI Economics Branch, is at **Appendix I** and is included within the Business Case attached at **Annex A**.

Cost and Timing

10. The cost of engaging external consultants to undertake this work is estimated to be in the region of £80,000 - £120,000. It is proposed to utilise Divisional funding from EU ERDF, on the basis that renewable heat supports sustainable development in Northern Ireland and has the potential to contribute to Priority 3 of the EU Competitiveness Programme – "Improving accessibility and Protecting and Enhancing the Environment".

○ The tendering process with Central Procurement Directorate, DFP, will commence once final approvals are secured from DFP Supply. Energy Division will work closely with CPD to ensure that all established protocols are followed.

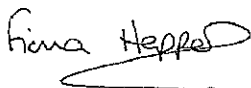
12. The introduction of Phase 2 is planned for summer / autumn 2013. However, this is a very tight schedule as we essentially need to repeat the Phase 1 process – develop proposals, conduct a public consultation, review proposals and develop a final policy position prior to obtaining approvals including State Aid clearance so it is possible that there may be some slippage. Therefore it is essential that this project goes ahead as soon as possible. This work will advise on the appropriate next steps and inform a consultation process on the design and implementation of Phase 2 of the NI RHI scheme. HMT allocated £25million of funding for a Northern Ireland RHI from 2011 to 2015. To ensure this money is fully utilised, the development work for Phase 2 must go ahead.

Recommendation

13. The Department does not have the relevant technical expertise to carry out an assessment of a range of issues relating to a second phase of the Northern Ireland RHI scheme. Whilst this project will be managed by Sustainable Energy Branch, with input from Economics Branch, it is necessary to appoint an external consultant to take this work forward and advise on the most appropriate way to develop Phase 2 of the RHI for Northern Ireland.

14. I therefore recommend that the Departmental Accounting Officer and Minister:

- i. approve the attached business case for the appointment of consultants estimated at between £80k - £120k; and
- ii. note that approval will subsequently be sought from DFP Supply to incur the expenditure.



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