

From: [Cooper, Trevor](#)
To: [Dolan, Elaine](#)
Subject: FW: RHI : Update to Casework Committee
Date: 07 January 2013 16:31:47
Attachments: [RHI update to casework.DOC](#)
Importance: High

Elaine

I sent to Fiona earlier by mistake - sorry.
Trevor

Trevor Cooper

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From: Cooper, Trevor
Sent: 07 January 2013 15:11
To: Hepper, Fiona
Subject: FW: RHI : Update to Casework Committee
Importance: High

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From: Hepper, Fiona
Sent: 21 December 2012 11:29
To: Cooper, Trevor; Murphy, Shane
Cc: McCutcheon, Joanne; Hutchinson, Peter; Hepper, Fiona
Subject: RHI : Update to Casework Committee
Importance: High

Trevor
Shane

See attached and grateful if you could confirm that you are content

Regards
Fiona
<<...>>

Fiona Hepper

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From: Fiona Hepper
Date: 21 December 2012
To: RHI Casework Committee members: Trevor Cooper
 Shane Murphy

Copy Distribution List Below

Update on the NI Renewable Heat Incentive Scheme Administrative Costs

Background

You met as a Casework Committee on 9 March 2012 to consider the NI Renewable Heat Incentive Scheme. The forecasted costs presented at that time were as follows:-

Year	Development Costs	Operating costs	Total Costs
2012-2013	£386K (plus £386K contingency)	£136K	£522K (plus £386K contingency)
2013-2014		£157K	£157K
2014-2015		£198K	£198K
2015-2016		£249K	£249K

Para 38 of the Synopsis provided for the meeting stated (when referring to the Feasibility Study undertaken) :

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

Current Position

1. The original feasibility study which was what was presented to Casework was based on the NI RHI launching in April 2012 (and no later than June 2012). However, the commencement of the scheme was delayed due to time taken to secure State Aid approval and the need to lay legislation in the Assembly. As a result, the testing of the NI system no longer dove-tailed with work on the GB system and this has impacted on both the development and operational costs for this year and has meant that some of the contingency has had to be used. The

updated costs for 2012/13 are given in the following table.

Development and Operational costs 2012/13

Delivery Component	Cost (£)
New Scheme Development delivery team (including: Band C Operational Manager – recruitment process & Stakeholder engagement costs)	£96,000
Internal Ofgem legal costs	£67,000
IT delivery costs	£190,000
Independent risk assessment	£5,000
Overheads	£75,000
Total:	£433,000
Operational Costs	Cost (£)
Revised 2012/13 operational costs (pre IT delay)	£121,000
Additional 2012/13 operational costs due to delay to IT launch	£19,000
Total:	£140,000
Total 2012-13 forecast costs:	£573,000

- You will wish to note that the £433K development costs are inclusive of £49K contingency.
2. Ofgem has also recently provided updated forecasts of the operational costs for the years 2013/14 to 2015/16 and they are as follows:

Financial years	2013/14	2014/15	2015/16
NIRHI Estimated costs	£164,636	£223,809	£341,639

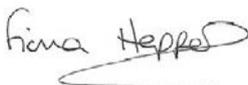
- The above figures are current estimates and are still based on NI accounting for 3% of the total scheme operating costs.
- The higher forecasts are due to the fact that Ofgem now has a clearer idea of the times taken to process applications (the GB scheme has now been running for over a year).

3. Ofgem has always said it will charge NI a proportion of the actual costs of running the two schemes, including apportioned overheads. The forecasts above have used 3% as an approximation of the NI share of costs based on the anticipated volume of installations.
4. The uptake of the scheme is unpredictable and neither we nor Ofgem can be sure at this stage whether NI will comprise more or less than 3% of the volume of applications. However, it is likely given the nature of the heat market that the average NI installation will be smaller than the average GB one.
5. The Ofgem resource required to administer an installation is closely correlated with the size of the installation and for this reason Ofgem has proposed that the most equitable way to apportion the costs is to charge DETI according to the following formula (rather than a straight 3%).

DETI costs = Total RHI operating cost* Value of NI tariff payments / Value of Total (NI+GB) tariff payments.

The value of tariff payments will therefore depend on both the volume and the size of the installation rather than simply the volume and I am of the view that this offers the best option for NI.

6. As stated above the current figures are only forecasts and the actual figures will be calculated annually on the basis of the formula given. We will work closely with DECC to ensure that the total RHI operating cost each year is closely monitored; I would anticipate that colleagues in DECC will be particularly keen to ensure these costs are kept to a minimum given that they will be contributing in the region of 97%. You will also wish to note that our Agreement with Ofgem is such that we can terminate the administrative arrangement with 60 days notice.
7. I would be grateful if you could consider this further clarification on funding and indicate if you are content. I am of course happy to discuss further.



FIONA HEPPER
Ext 29215

cc: Joanne McCutcheon
Peter Hutchinson