

Commercial in Confidence

Northern Ireland Renewable Heat Incentive

Initial Delivery Proposal

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Executive Summary:

Ofgem E-Serve is pleased to respond to the request from the Department of Enterprise, Trade and Investment (DETI) to put forward a proposal for a feasibility study on developing and operating the Northern Ireland Renewable Heat Incentive (NIRHI). We are also proposing as part of this feasibility stage to undertake a legal review of the draft regulations. The total budget needed for these activities is £98,000. With our track record of successfully administering environmental and social programmes for government, including the GB Renewable Heat Incentive, we aim to use our expertise and experience to provide excellent value for money in meeting your requirements.

The information and costs included in this document are based on the details that you have been able to provide to date. We are assuming we will use the operational approach and systems and processes of the GB RHI as far as possible, which has enabled us to bring down the costs of this feasibility study. We would be happy to work with DETI to refine the scope (and cost) where appropriate.

1. Meeting Your Requirements

1.1. We note that, in order to meet the Northern Ireland Executive agreed target of 10% renewable heat by 2020, compared to 1.7% today, DETI recommend the introduction of a “Northern Ireland Renewable Heat incentive”. This will be similar to the GB RHI scheme, providing a set level of financial support paid to generators of renewable heat at a given £/MWh depending on the technology type and capacity of the installation. You have asked us to submit a proposal to assess the feasibility of Ofgem operating this scheme.

1.2. In administering the NI RHI we recognise that these responsibilities are likely to include:

- Assessing applications for accreditation, preliminary accreditation, and registered participants (of biomethane and dealing with amendments), and dealing with amendments to these
- Assessing proposed Fuel Measurement and Sampling procedures
- Reviewing generation data and Fuel Measurement and Sampling data
- Calculating and making payments,
- Calculating and publishing tariff amounts each year,
- Operating an enquiries line,
- Operating a statutory review process to review decisions when requested by participants,
- Undertaking fraud prevention and detection activities,
- Operating and maintaining a Central Register, and
- Providing data and reports.

1.3. The responsibilities may also include undertaking enforcement where conditions of the scheme are not adhered to. We propose that arrangements for enforcement be discussed and recommended as part of the feasibility study process.

1.4. Ofgem E-Serve has a continuing commitment to delivering environmental and social programmes. We can make use of skills and experience obtained from developing schemes such as the Northern Ireland Renewables Obligation and in particular the Great Britain RHI. Where possible we will look to utilise existing processes and IT systems to reduce costs.

1.5. The first step towards establishing administrative activities for the NI RHI is to produce a feasibility study, an outline of which can be found below in Table A. In parallel with this we also propose to undertake a legal review of the draft regulations, to advise DETI what changes may be needed to improve the practical implementation of those regulations and achieve the policy intent, and to assess the ability of Ofgem to take on this function in order to advise our Authority accordingly.

1.6. Ofgem E-Serve recognises the need for a robust mechanism that is both fit for purpose and provides a cost-effective IT system to manage the number of applications expected to be made once the scheme goes live. In addition, it will need to incorporate some flexibility to allow for further legislative changes in future. We will aim to meet these requirements by working with our colleagues in the GB RHI Team, policy staff within New Scheme Development (NSD), Legal, IT and Procurement to assist us in our development.

1.7. The GB RHI scheme currently has its own bespoke IT system, which facilitates many functions including participant registration, submission and checking of applications for accreditation of installations and registration of biomethane participants, submission and checking of generation data, amendments to accreditation and generation data, calculation of payment amounts and records of payment history, compliance checks and reporting mechanisms. This system, together with the payments system (modelled on our established SUN based supplier payments system), detailed guidance, internal procedures and the experienced administrative team that operates the scheme, are potentially key enablers to delivering a cost effective implementation and administration of the NIRHI.

1.8. We will invoice DETI on a monthly basis. The total will be capped at the level indicated in this proposal, but invoicing will be on actual costs incurred on the project. Therefore, DETI will pay a lower amount than indicated in this proposal if our actual costs are lower than proposed.

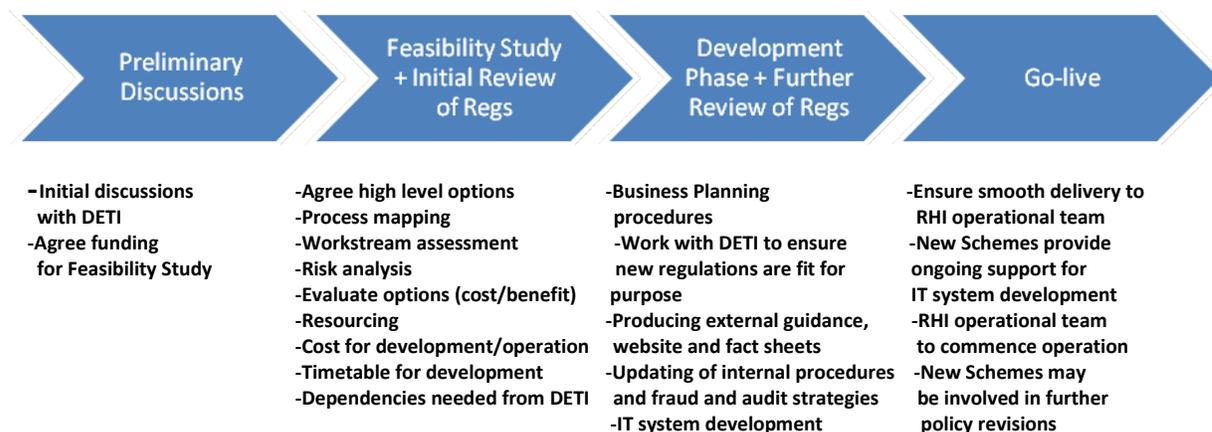
2. Key assumptions and dependencies

2.1. Our proposal has been made based on the following assumptions:

- We will be able to use the operational approach and systems and processes developed for GB RHI as far as possible. The feasibility study will therefore take the approach of investigating amending the GB RHI systems and processes for use for the NI RHI wherever possible.
- We will assess the feasibility of operating the NI RHI scheme as proposed in the NI RHI consultation document (except where indicated below).
- NIRHI will be available to all those in the non-domestic sector (but with eligibility restricted/not allowed for a defined list of around 15 large industrial sites) and will support installations commissioned after the *1 September 2010*.
- We will look at including the following eligible technologies in the NI RHI which are the same as the GB RHI: solid and gaseous biomass, solar thermal, ground and water source heat-pumps, on site biogas, geothermal, energy from waste and injection of biomethane into the grid. We will also investigate the feasibility of including air source heat pumps (although these are not proposed to be included in the GB RHI scheme until October 2012). As agreed we will not investigate the inclusion of bioliquids. Instead we will include a section referring to the cost effectiveness of including bioliquids from the start of the NI RHI launch versus the cost effectiveness of including it at the same time as it becomes included in the GB RHI scheme (currently proposed for October 2012) considering the modelling DETI has provided suggests no uptake until 2013.
- Other differences between the GB RHI scheme and the NI RHI scheme will potentially be different tariff rates and different tariff bands.
- This feasibility study will not address the future inclusion of domestic installations in the NI RHI. This may be the subject of a separate exercise, to be agreed at a later date.
- It will be DETI's responsibility to ensure that the powers necessary to develop and operate the scheme are provided for in legislation and that legislation is compatible with any legal requirements specific to Northern Ireland.
- DETI will provide Ofgem E-serve with an updated draft set of regulations by Friday 16 September 2011.
- The DETI consultation proposes a launch date of 1 April 2012 for the NI RHI. However this is a very challenging timeline which may not be achievable. The feasibility study will assess what go-live date would be achievable, with a view to launching on 1 April 2012 or soon after if at all possible. We will need to consider options for temporary administrative processes on go-live, a phased approach and/or a differed launch date as part of this assessment.
- Final agreement to undertake any work with DETI beyond the feasibility study phase will be subject to Authority approval.

3. Scheme Delivery and Operation

3.1. The flow chart at **Figure 1** outlines the high level steps that we believe need to be taken to meet your requirements. From here we have scoped out options around resources and associated costing in pages 4, 5 and 6.



3.2. Feasibility Study

3.3. A focused feasibility study will provide a detailed evaluation of preferred options to implement the NIRHI. In doing so we will achieve the following:

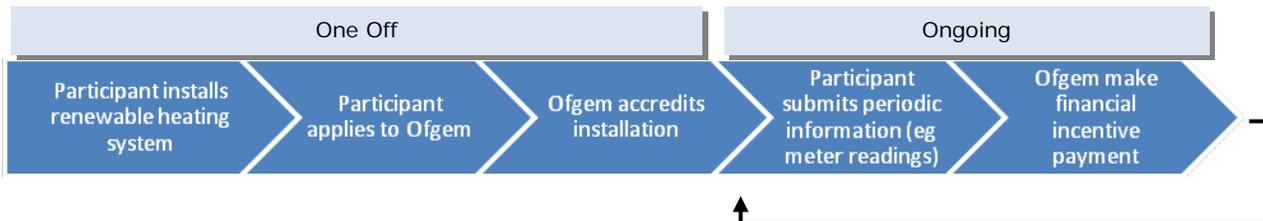
Table A: Areas covered by the Feasibility Study

Key working Assumptions	Establish and agree key assumptions for the design and operation of the scheme, expanding on the list in this document and expanding on and clarifying items documented in the consultation document
Governance	A high level structure between E-Serve and DETI to oversee development and operational phases
	Reporting requirements, both during the development phase and the operational phase
Option Analysis	Use a cost/benefit analysis of different implementation options to identify the most effective internal process options. To include an overall option analysis of high level options and an option analysis for implementation of IT changes/functionality
	Assess options for undertaking compliance and enforcement functions (DETI/NIAUR/Ofgem)
Process Design/Process Mapping	A process design for the each element of the proposal, including process maps showing how it may work in practice (to focus on differences between the NI RHI and GB RHI)
Risk Assessment	Risk analysis of risk associated with operation of the NI RHI (focusing on the differences between the NI RHI and GB RHI) - and proposed mitigation

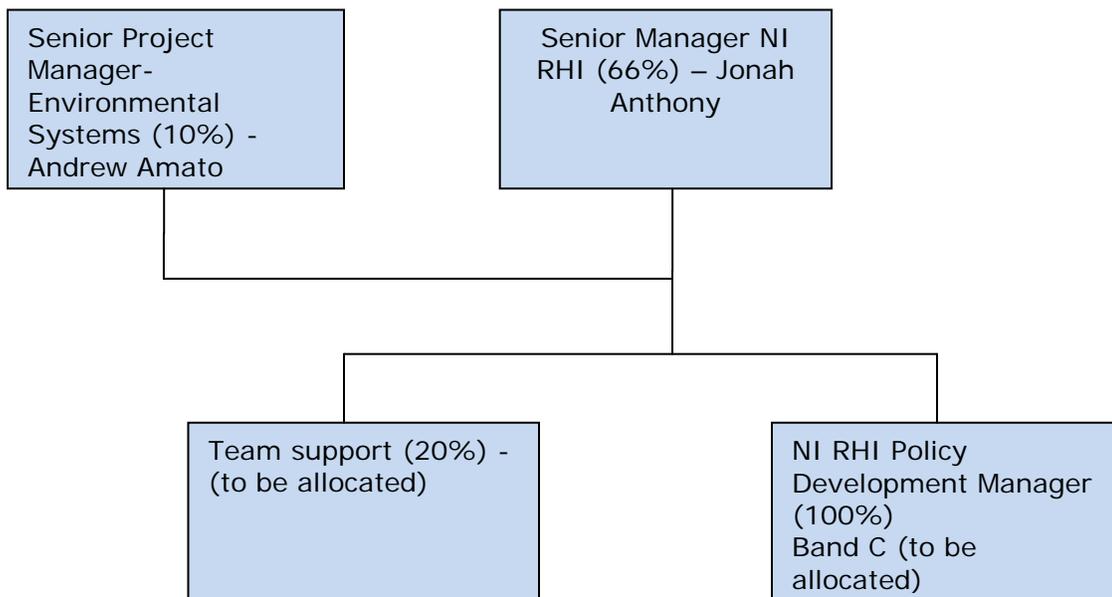
Identification of Key Legal Issues	To be either incorporated into the process design/process mapping or to be included as a stand alone section as appropriate
Resourcing of Recommended Delivery Approach	Identify key workstreams for development and operational phases
	Resource plan for development and operations
	Identification of efficiencies
	Detailed costings for the development and operational phases
Delivery Timetable	A full timetable of the scheme delivery

A focussed IT feasibility study will provide a full evaluation of the recommend option.

3.4. The following flow diagram (**Figure 2**) outlines the expected administration process for the NIRHI to be administered by the operational team:



3.5. We propose to organise the feasibility study team as set out in **Figure 3** below. Using our experience of delivering major projects such as Feed-in Tariffs, RHI GB and the Warm Home Discount scheme, we are confident that we can target resources around workstreams to maximum effect. We envisage three key delivery pillars based around policy development, IT and fraud and compliance.

Figure 3 - Feasibility Team

3.6. The core team will liaise directly with colleagues in IT and Legal for relevant parts of the feasibility study.

3.7. The core team will also be assisted by senior management, who will oversee delivery functions, and draw on the experience of the wider New Scheme Development Team including GB RHI.

3.8. Initial Review of Regulations

3.9. We also propose to undertake a legal and development team review of the draft regulations. This will be one review of the revised draft regulations (to be delivered to us by 16 September 2011).

3.10. This will help advise DETI what changes may be needed to allow Ofgem to administer the scheme effectively, to improve the practical implementation of those regulations and to achieve the policy intent. We will of course assume that DETI are obtaining their own legal advice to ensure that the regulations are appropriately drafted. This includes ensuring that the regulations are compatible with Northern Ireland statute.

3.11. Our review of the regulations is also necessary to enable us to assess our ability to take on this function in order to advise our Authority accordingly.

4. Project Management and Timeline

4.1. Ofgem E-Serve's approach to Project Management aligns with Government best practice and is monitored by major external bodies such as the Major Projects Authority and the National Audit Office.

4.2. We will set up a high level Project Board to oversee development and delivery of NIRHI. We will also establish appropriate engagement with DETI programme boards.

Timing assumptions

4.3. We have provided costs for the feasibility study. To provide those numbers we have had to make some base assumptions including:

- We have assumed a start date for the feasibility phase of the scheme of 1 September 2011.
- We have assumed a start date for the operational phase of 1 April 2012 (although we may need to consider delays or phased implementation for parts of the scheme operations)
- We would explore the possibility of interim solutions, particularly in the event of delays to go-live or because of tight deadlines

Figure 4 - The proposed timeline for feasibility phase is shown below:



5. Resourcing and Costs

5.1. *Cost* - Our primary aim is to deliver the right scheme for DETI, industry and most importantly for consumers. We aim to deliver the scheme for the lowest possible cost to all stakeholders without endangering delivery or effectiveness. This will be largely incremental to the GB RHI work which will therefore significantly lower the cost of development. We would supplement this with outsourcing of specific administrative or customer relationship management where most cost effective to do so.

5.2. *Legal expertise* - The Ofgem E-Serve legal team have vast experience of dealing with energy regulations and implementing new energy schemes. They are able to highlight potential problem areas with the legislation, but also provide innovative solutions to legal issues. In this phase they will concentrate on reviewing the preferred process design, reviewing the risk log and assessing further legal resourcing needs for development and operational phases. They will also have an initial review of the proposed draft regulations for the purpose of assessing the differences with the GB RHI regulations and any implementation issues that may arise for Ofgem E-Serve in administering the NIRHI.

5.3. *IT* - We have experience of specifying, delivering and operating IT systems, including the GB RHI system and supporting CRM system, the Renewables and CHP Register (which covers the Renewables Obligation, CCL Levy Exemption Certificates, and Renewable Electricity Guarantees of Origin) and the Feed-in Tariff Central Register. Here we have shown that we are flexible and responsive to reducing development time and cost to new schemes.

5.4. Table B: Summary Table of Costs

	Feasibility Study	Legal review of regulations	Commentary
Staff costs	£36,500	£7,500	- Development team, legal team and management support - Salary and NI & Pensions contribution -Travel and subsistence
IT	£19,500		-IT component of feasibility study -Options for utilising existing GB RHI system
Risk Assessment	£10,000		-External independent risk analysis
Other cost	£5,000		-Travel, expenses, etc*
Subtotal	£78,500		
Overheads	£19,500		- Corporate overheads (HR, finance, IT support, procurement, building facilities, senior management)
Total	£98,000		

* Ofgem E-serve costs only. DETI costs incurred when visiting Ofgem will need to be covered by DETI.

Appendix 1: Provisional timeline for feasibility study

NIRHI Feasibility Study Phase		September				October				
	Week commencing	5 th	12 th	19 th	26 th	3 rd	10 th	17 th	24 th	31 st
PROJECT PLANNING	Draft Project Initiation Document									
	Approve Project Initiation Document									
OPTIONS ANALYSIS	Draft high level delivery options paper									
	Submit to DETI									
	Instruct IT based on options paper									
	Agree delivery options with DETI									
ASSESS REGULATIONS	Compare RHI NI and GB RHI									
	DETI provide updated Regs by 16 th									
	Legal Review Regulations (2 weeks)									
	Share review and comparisons with DETI									
IT SCOPING EXERCISE	Set out IT recommendations (incl. costs and timelines)									
	Agree delivery timelines and costs									
BUSINESS PROCESSES	Draft business process maps based on options paper									
	Legal review proposed business processes									
RISK ASSESSMENT	Procure risk assessment									
	Kick off meeting with risk team									
	Risk assessment and draft report									
	Finalise report and incorporate into study									
RESOURCE PLAN	Identify resource requirements and costs									
	Finalise requirements and costs									
FEASIBILITY STUDY COMPLETION	Draft delivery and implementation plan									
	Finalise delivery plan									
	Draft Feasibility Study									
	Submit to DETI									

Key

	Ofgem E-Serve		Ofgem Legal		Ofgem IT		DETI
	key milestones						