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Northern Ireland Renewable Heat Incentive Scheme Baseline Scope

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Overview:

This document sets out the baseline scope and assumptions for the NIRHI scheme, the proposed costs and change control process. This should be read in conjunction with the original feasibility study.

Context

The original feasibility study for the NIRHI was conducted in December 2011 anticipating an April 2012 launch. However, due to a combination of the delay in the launch of this scheme and more certainty as to how the scheme will be administered than when the original feasibility study was submitted to DETI, the scope and plan for delivery has been updated. This report confirms the scope, resourcing, delivery timings and cost.

The scope has changed since the original feasibility study and is now more in line with that seen on the GB RHI scheme. The inclusion of Air Source Heat Pumps (ASHPs) as an eligible technology has now been removed from the draft NI regulations as has the inclusion of the 17 heavy industrial sites in Northern Ireland.

As the delivery of the project moved out to 1 November, the NIRHI development team have reassessed the costs for delivery, these are discussed in detail within this document.

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Executive Summary

- i. As a result of the delay in the original launch date for the NIRHI scheme and due to changes in scope, we have developed this baseline study to confirm the scope, resourcing, delivery timings and costs building on the original NIRHI Feasibility Study, submitted to DETI in December 2011.
- ii. The core of the deliverables and activities stated in the original Feasibility Study, submitted to DETI in December 2011, are still valid but with some changes. In reviewing these, we have also taken account of our improved knowledge of scheme operations and costs since the original study was completed. These changes include:
 1. DETI have confirmed that there will be no separate treatment of large industrial customers and that air source heat pumps will not yet be included in the RHI, but also that biomass installations above 1MW will be ineligible;
 2. In order to contain IT costs, changes to the RHI Register (IT system) will still need to be done in conjunction with changes being made to the GB RHI. These changes are expected to take place in January-February 2013 and so in the interim period between 'go-live' and February 2013 we will be running a manual administration process. This is covered in more detail in Chapter 4;
 3. As forecast in the feasibility study, the IT cost forecast has decreased from £286,000 (£143,000 plus 100% contingency) down to £190,000 (including 33% contingency). This is because we have been able to scope the IT requirements in more detail, having received confirmation of policy from DETI. We will need to receive agreement to the full £190,000 in order to deliver IT changes for the end of January 2013.
 4. We have been able to revise legal costs downward from £186,000 (£62,000 plus 200% contingency) to £67,000. This represents a £5,000 increase on the original legal forecast, but we have managed to reduce other development costs by £5,000, in effect meaning that contingency funding is not needed for any development costs other than IT development costs. In total we have therefore reduced the forecast funding required from £772,000 (£386,000 plus 100% contingency) down to £433,000;
 5. 2012/13 operating costs are forecast at £140,000 (a £5,000 increase). As a result of the delay in starting the scheme, operating costs have been revised down by almost £15,000. However, this has been offset, partly by an increase in application processing time than was previously envisaged, but primarily due to the impacts of operating without an IT system. The net effect is a small increase of £4,340 to the 2012/13 operating costs against the original feasibility study.
 6. Outyear costs for the financial years 2013/14-2015/16 are estimated at £730,084. These projections include staff costs, consultancy, legal consultancy and recruitment. All costs also include overheads charged at 24%.
 7. The change control process is designed to deal with any changes to the scope, cost or timescales that have been agreed between DETI and Ofgem.
 8. Details of the payment process.

1. Key working assumptions

Chapter Summary

This chapter confirms the key working assumptions of the work we were to undertake for the development and implementation of the NIRHI and sets out the key assumptions on which costs are based.

Legal framework

- 1.1. The costs and delivery timeframes cited in this paper are in line with the regulations brought into place in time for scheme go live on 1 November 2012.

Cost Assumptions

- 1.2. Proposed costs have been developed taking account of the following:

- the number of installations are as set out in paragraph 1.5 of this document;
- Northern Ireland will have smaller installations compared to GB, so applications under the NI RHI Scheme relating to them are quicker to process;
- costs do not include development costs for other phases of the scheme, or any additional operational costs resulting from those;
- the NI RHI Scheme does not differ from the GB RHI Scheme in a significant number of respects;
- no provision has been made for resources to follow up any cases of fraud should any be found;
- no provision for legal costs associated with preparing for, or participating in a Judicial Review has been included;
- we will not be required to meet any other cross-Government or cross scheme requirements that we have not already made provision for; and
- there are no further issues within the Regulations that would impact on our IT or manual system, internal procedures or external guidance.

Scope

- 1.3. As set out in the original feasibility study the broad approach is consistent with the GB RHI scheme, broadly that Ofgem will have direct responsibility for the accreditation of generators, development and operation of the IT system, making payments to generators at all scales. However there are some key differences from that outlined in the Feasibility Study:

- we are no longer developing solutions to the inclusion of Air Source Heat Pumps (ASHPs) and the 17 Heavy Industrial Sites; and
- Technologies using biomass >1MW are excluded from the NIRHI scheme. Deep geothermal including CHP and heat pumps if >1MW are not excluded.

Scale

- 1.4. The expected volume of generators for the NIRHI scheme is difficult to predict and the uptake from generators will very much depend on the level of tariffs set, the administration systems for the scheme, the efficiency of the scheme and, of course, the desire for renewable technology.
- 1.5. For the purposes of this document the uptake figures remain consistent with those provided in the original Feasibility Study and are listed in Table 1 below. The Feasibility Study figures were shown as being cumulative year on year, whereas table 1 shows the same figures without the cumulative total (i.e in year). It must be noted that these figures used the GB projections at the time as a baseline, DECC have since projected down their forecast numbers. This should not impact on the cost apportionment for the NIRHI as costs will still be charged on a proportion of the GB scheme.

Table 1: Forecast NIRHI scheme uptake

NIRHI	2012/13	2013/14	2014/15	2015/16
Total Non Domestic installations	247*	251	433	697
Domestic installations	390*	525	975	1,905
Total NI RHI installations	637*	776	1,408	2,602

* figures could be revised down to reflect part year operation of the scheme in 2012-13 period (5 months)

2. Key Dependencies

Chapter Summary

This chapter sets out the key dependencies that form the basis on which we have developed this scheme.

2.1. As per the feasibility study our actions have been drafted based on assumptions agreed with DETI and we have commenced operation of the scheme from 1 November 2012 on the understanding that the following conditions will be met:

- **DETI will have affirmed their NIRHI regulations in parliament and they will be brought into force by 1 November 2012;**
- **DETI will confirm, in writing, their agreement to the Administrative Arrangements between Ofgem and DETI;**
- **we can draw down adequate funds from DETI to cover all tariff payments on time by 1 February 2013;**
- **DETI will confirm their commitment to cover the development costs of the scheme, £433,000, and the agreed administration costs for the ongoing administration of the scheme, £140,000 for 2012-13.**

3. Manual Solution

Chapter Summary

This chapter maps out how we will administer the NIRHI scheme manually until an effective IT system can be implemented.

Context

- 3.1. DECC have announced that they will be making amendments to the GB RHI legislation in 2013 to primarily streamline the accreditation process for generators and will include significant extensions to the scheme, such as regarding air quality, biomass sustainability and substituting long term cost control provisions for the interim ones that come into force in July 2012.
- 3.2. In order to maintain NIRHI development costs close to the Feasibility Study forecast, we will need to administer the scheme manually until the existing GB RHI IT system can be amended to incorporate the changes listed above. By 'piggybacking' the NIRHI IT system changes on those being made by the GB scheme we are able to reduce standalone release costs by £35,000. It should be noted that it is possible that there could be legal issues surrounding DECC's owned intellectual property and IT infrastructure, however as both sources of funding for the GB and NI RHI schemes originate from HM Treasury and that the likelihood of Government Departments bringing legal action against each other is minimal, the risk of there being a legal barrier is negligible.

The Manual Process

Accreditation

- 3.3. The manual application and preliminary application forms have both been developed previously for the GB scheme as contingency measures if the IT system failed or for applicants with no online access, they will be emailed or posted out to applicants when they contact us. We have adapted these forms to be appropriate to the NIRHI scheme.
- 3.4. NIRHI applicants will need to contact us in order to get an application form, this is so that we can track applicants with an interim NIRHI number until the IT system is operational. At the same time applicants will be sent a Fuel Measurement System Questionnaire (FMSQ) and a Guide to supporting information to provide. All of these forms must be completed and returned to us.
- 3.5. The completed application will be manually reviewed by us, using a newly developed review tracking database. We will then pick up on any noted queries and points of clarification with the applicant. We will assess the application against the eligibility criteria for a final decision from Senior Management.

Internal data entry

- 3.6. We will store all communications and documentation in a Customer Relationship Management (CRM) system.

- 3.7. We will fill in the internal tracking spreadsheet with the interim NIRHI number, date of submission and a link to where the application is stored on CRM;
- 3.8. NIRHI participant posts bank details and ID to the Fraud and Compliance team;
- 3.9. Our Generation team conduct their level 1, 2 and 3 reviews of the application form while communicating directly with the participant in order to solve outstanding issues;
- 3.10. Once Fraud and Compliance team have confirmation that all the bank details and ID are correct they will provide a sign off sheet to the operations manager with delegated authority for approval (Lindsay Goater);
- 3.11. Our Generation team will alert Lindsay Goater that all reviews of an application have been completed and Lindsay will complete the final review and sign off. At this point Lindsay Goater will mark a password protected checkbox in the internal spreadsheet;
- 3.12. Our Generation team will regularly check the internal spreadsheet and upon seeing the signed off application, will send out an email confirming that the participant is now an accredited NIRHI user. The email will also explain that they will need the interim NIRHI reference number for all future communications and will need to use the email address stated on the application form for all electronic communications. The NIRHI user will also be informed that the NIRHI reference number is only for an interim period and they will be asked to set up an online account once the IT system is functional – expected early 2013

Periodic Data Submission

- 3.13. All NIRHI Participants are required to make a Periodic Data Submission (PDS) to us, and some Participants must also submit information about Fuels and Sustainability.
- 3.14. NIRHI participants will need to email in all their periodic data in a spreadsheet, the template can be found on our website, 3 months after their official accreditation date.
- 3.15. PDSs will be tracked on a spreadsheet to support later review and upload to the IT system when that becomes available.
- 3.16. We will then calculate payments against NI tariff levels and complete the payment cycle.
- 3.17. We confirm that an IT system will be operational by 1 February 2013, based on current timings for DECC's legislative amendments; as covered in paragraph 3.19 there is risk that legislative amendments are delayed which could impact on this date.

Additional Operating Cost

- 3.18. Manually operating the accreditation and periodic data collection elements of the scheme increases the operational costs (estimated at an additional £4,750 per month on top of the forecast operational costs in the Feasibility Study). An IT system can automatically generate payments data, data downloads for Fraud and

Compliance checks and regular reporting. All of these elements will need to be generated manually which incurs additional staff costs.

- 3.19. There is a risk that DECC's legislative amendments are delayed and changes are not made in January 2013 to the GB scheme. Should this be the case a standalone IT release cost would be incurred to bring the NI RHI IT system online. The alternative would be extending the additional monthly operational costs until such time as the IT system can be amended in conjunction with GB changes. In addition to the ongoing manual cost extra funding would be needed to develop and operate a system of manual payments from 1 February onwards, until such time that it automated solution is in place.

4. Resources, Legal and IT Costs

Chapter Summary

This chapter sets out the justification for the proposed resources, legal and IT costs.

Resource Costs

- 4.1. Resources for the development of the scheme are as set out in section 11 of the original feasibility study, apart from increasing the allocation of the scheme manager's time from 50% to 100% to ensure that the complex deliverables and tight deadlines are achieved.

Legal Costs

- 4.2. The costs for legal resource have increased by just over 8% to £67,000 compared to the original feasibility study due to factors including two full legal reviews of the guidance materials development and time spent to date on the NI regulations development in association with DETI.
- 4.3. An exacerbating factor for legal costs is that half of the NIRHI project team's allocated legal resource was sourced externally at a higher unit cost than our internal legal staff. This is an unavoidable consequence of workload and changing project timescales.

IT Costs

- 4.4. As we are delaying the amendments to the RHI IT system until changes can be made in conjunction with the GB scheme, we have been able to remain in line with the forecast cost in the Feasibility Study of £143,000. As there is now more certainty regarding the detailed requirements of the NIRHI scheme, the contingency necessary has reduced from 100% to 33%; this 33% is no longer considered contingency but rather core funding needed to achieve this development work. This 33% equates to an additional £47,000 making the total projected for IT development £190,000. This is dependent upon there being no change in the scope of the detailed requirements compared to what we currently understand is required.
- 4.5. A detailed breakdown of the IT development requirements can be seen in Appendix 1.

5. Proposed Budget

Chapter Summary

This chapter summarises and breaks down the proposed budget for development of the NIRHI scheme and the estimated operational costs for 2012-13, 2013-14 - 2015-16.

Development Costs Forecast

- 5.1. The following forecasts have been put together based on the available material and assumptions. This budget forecast includes savings and efficiencies that have been achieved through planned resource allocation.
- 5.2. Our legal costs have increased by £5,000 since the original feasibility study, however we have found cost savings of £5,000 through pooling our resources with the GB RHI scheme on an independent risk assessment that is to be carried out shortly.
- 5.3. The IT costs remain unchanged but we require from DETI an additional 33% (£47,000). We hope not to spend this additional funding but there is a risk that the GB RHI release is delayed beyond January (as set out in paragraph 3.19). If this were the case, it will be necessary to deliver the most cost effective solution for the ongoing administration of the scheme. Should there be any further unanticipated costs that arise as part of the process of delivering this functionality we will contact you to seek additional funding in line with the change control process as set out at paragraph 5.16.
- 5.4. Should the GB scheme changes be delayed beyond January 2013, DETI would incur additional costs if we are to progress with a standalone IT release to make the online NI scheme operational.

Operational Costs Forecast

- 5.5. We have also now revised our 2012/13 operating cost forecast (from the original feasibility study) to take into account the part year operations, as well as taking into account our experience on the GB scheme with administration processing time.
- 5.6. As a result we have been able to revise down the base operating costs by almost £15,000, although this is offset by a need to increase operating costs due to the impacts of operating without IT until January. The net effect is a small increase of £4,340 to the 2012/13 operating costs so that total operating costs for 2012/13 are now forecast at £140,000. There is no legal contingency included in these costs.
- 5.7. The part year costs can be broken down as follows:
 - Original FS operating costs - £135,660
 - Revised part year operating costs - £121,000
 - Additional staff costs due to delayed IT launch - £19,000

- Updated operational costs (i.e. part year operating costs plus additional staff costs due to delayed IT launch) - £140,000

5.8. The revised part year operating cost (£121,000) is based around the projected number of applications mapped as a percentage of the GB RHI scheme. Actual costs will be charged in line with the calculation at paragraph 5.12. Ofgem will track the take up for both schemes and the amount charged will be the actual costs incurred by DETI. Within the £121,000 figure, funding will be required for short term New Scheme Development team staffing resource needed to ensure that the IT functionality is delivered on time and is fit for purpose, covering issues such as User Acceptance Testing.

Table 2: Development Costs Forecast

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

Outyear Operational Cost Calculation

- 5.9. Since the original NIRHI feasibility study was completed there have been a number of factors which have changed which have given need to revise forecast outyear operating costs. Experience with the GB scheme shows that the time taken for us and applicants to process applications for accreditation is greater than assumed in the original study.
- 5.10. Improvements have been identified to address these issues. We have already cut down on average accreditation times by approximately one hour per accreditation. Further efficiency gains are expected to be achieved and these have been built into staffing models.
- 5.11. The total costs for the financial years 2013/14-2015/16 are estimated at £730,084. These projections include staff costs, consultancy, legal consultancy and recruitment. All costs also include overheads charged at 24%. A table which shows the estimated cost for each outyear is as follows:

Table 3: Operations Costs Forecast Table

Estimated outyear costs for operation of the Northern Ireland RHI scheme			
Financial years	2013/14	2014/15	2015/16
NIRHI Estimated costs	£164,636	£223,809	£341,639

- 5.12. Based on the above figures and our assumptions set out in paragraph 1.2 we anticipate costs for NIRHI will be around 3% of total scheme operating costs. As a result, we propose to charge on the following basis that DETI costs = Total RHI operating cost* Value of NI tariff payments / Value of Total (NI+GB) tariff payments.
- 5.13. If volumes are more than 3% of total scheme operating costs we anticipate that NI will have smaller installations compared to GB which are quicker to process, resulting in reduced accreditation time/ resources required and justifying using 3%.
- 5.14. It is important to note that these costs **do not** include development costs or any supplementary operational costs for phase 2 of the Northern Ireland RHI scheme. These will be scoped out once you make known your intentions for phase 2 to us.
- 5.15. Any additional funding sought will be done via the Change Control process.

Change Control Process

- 5.16. The change control process is designed to deal with any changes to the above scope, cost, assumptions or timescales set out in this document. The proposed process is outlined below; where any potential changes are identified, the Ofgem Project Manager (currently Keith Avis) will manage the process. Once agreed, the process may then be amended from time to time by written agreement between DETI and Ofgem

Key Phase	Description
Project Initiation	Capturing a basic definition of the scope to create a baseline of what is to be delivered. This phase has been completed for NIRHI and the scope was described in the NIRHI Feasibility Study (published December 2011) and in this document.
Change Identification	Identifying a change and initial identification of the potential outcomes.
Impact Assessment	Assessing the impact of implementing the suggested change to understand how the change will affect cost, quality and timescales.

Change Recording	Completing a Change Request Form (this will be provided separately) to capture a request for change. This should describe what the change is, why it is needed and what benefits it will bring. All raised Change Requests will be documented in the Change Request Log.
Ofgem/ DETI Approval	Reviewing the Change Request and impact assessment, assessing an appropriate course of action and approving or rejecting the change at the correct level of authority.
Change Implementation	Updating relevant documentation and communicating these changes to all stakeholders and impacted parties.

Payment of Operational Costs

- 5.17. The Parties agree that prior to and during the term of the Arrangements GEMA will invoice DETI for all costs incurred to date and on a monthly basis in respect of the operational costs incurred by GEMA in the immediately preceding calendar month, and DETI will pay GEMA the amount of each invoice within 30 days of the date of the invoice.
- 5.18. If any dispute arises as to the amount of operational costs payable by DETI to GEMA in relation to a given month, the parties intend to comply with the following process –
- (a) The dispute will first be discussed by key Ofgem New Schemes Development and DETI working level contacts (to be agreed separately) and, as necessary will be discussed by the Senior Responsible Owner at Ofgem and the Director of Energy at DETI;
 - (b) If the accounting officers are unable to resolve the dispute themselves within two weeks of being notified thereof, they will then each escalate the dispute to the Senior Civil Service or Director level of each of the organisations for final resolution.

Drawdown of Funds

- 5.19. The parties will agree in advance a sum which will be paid into the GEMA bank account from which all periodic payments to participants are made during the term of the arrangements. Monthly returns of receipts and payments transactions pertaining to the account, incorporating bank reconciliations, will be done by GEMA and a request for top-up of bank balance will be made monthly to DETI by GEMA if required; such a request for top up will be provided by GEMA no later than five working days prior to the beginning of the calendar month in which the payments to the participants concerned are to be made.
- 5.20. On receipt of the notice referred to in paragraph 5.19, DETI will transfer to GEMA the sum specified in the notice as soon as reasonably practicable, and in any event by no later than the 27th of the calendar month in which that notice is provided to DETI.
- 5.21. Any monies transferred to GEMA will be held in a bank account established solely for the purpose of making periodic support payments.
- 5.22. Where the Arrangements are terminated, either in accordance with paragraph 6 of the Arrangements or otherwise, GEMA will arrange for any monies

(including any interest that may have accrued thereon) held in the account to be returned to DETI as soon as reasonably practicable.

- 5.23. For the avoidance of doubt, GEMA will not use funds transferred to it under this drawdown of funds section) other than for the purpose of making periodic support payments.

Appendix 1 – Detailed Breakdown of IT Costs

Task	Analyse		Design		Implement		Test		Infrastructure		Total
Project / Phase Setup	11	£4,664	0	£0	13	£5,512	0	£0			£10,176
Feature 2	5.55	£2,353	1	£424	1.5	£636	3	£1,272			£4,685
Feature 3	2.855	£1,211	0.5	£212	2	£848	1.05	£445			£2,716
Feature 4	5.3	£2,247	4.5	£1,908	13.5	£5,724	0	£0			£9,879
Feature 5	5.925	£2,512	4.5	£1,908	11.75	£4,982	3	£1,272			£10,674
Feature 6	0.625	£265	1	£424	2	£848	0.75	£318			£1,855
Feature 7	3.45	£1,463	5	£2,120	12.5	£5,300	2	£848			£9,731
Feature 8	4.855	£2,059	4.5	£1,908	16.5	£6,996	2.55	£1,081			£12,044
Feature 9	1.9	£806	1	£424	1	£424	2	£848			£2,502
Feature 10	8.1125	£3,440	3.25	£1,378	2.5	£1,060	0.375	£159			£6,037
Feature 11	2.725	£1,155	1.25	£530	1	£424	0	£0			£2,109
Feature 12	0.25	£106	0	£0	0	£0	0	£0			£106
Feature 13	7.31	£3,099	1.5	£636	8.75	£3,710	2.85	£1,208			£8,654
Feature 14	3.775	£1,601	0.5	£212	4.75	£2,014	0	£0			£3,827
									21.2	£8,988.80	£8,989
Testing for three cycles	0	£0	0	£0	0	£0	14.2	£6,021			£6,021
Release	6	£2,544	0	£0	16.5	£6,996	0	£0			£9,540
	69.6325	£29,524	28.5	£12,084	107.25	£45,474	31.775	£13,473	21.2	£8,989	
	20.88975	£8,857	8.55	£3,625	32.175	£13,642	9.5325	£4,042	6.36	£2,697	
		£0		£0		£0		£0			
	90.52225	£38,381	37.05	£15,709	139.425	£59,116	41.3075	£17,514	27.56	£11,685.44	

335.86475

£142,406.65