

**From:** [Hepper, Fiona](#)  
**To:** [McCutcheon, Joanne](#); [Hutchinson, Peter](#)  
**Cc:** [McCoy, Laura](#)  
**Subject:** Fw: request for funding for the NIRHI for 2012/13  
**Date:** 31 October 2012 07:46:44  
**Attachments:** [image002.png](#)  
[NI RHI outyear cost forecasts 30 October 2012.ppt](#)

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Joanne

Peter

Could you consider please and we can discuss tomorrow when I am back from Co. F.

Thanks

F

Laura \_ could you print pl. Thanks F

This was sent from my Blackberry Device.

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**From:** Matthew Harnack [mailto:[Matthew.Harnack@ofgem.gov.uk](mailto:Matthew.Harnack@ofgem.gov.uk)]  
**Sent:** Tuesday, October 30, 2012 09:25 PM  
**To:** Hepper, Fiona; McCutcheon, Joanne  
**Cc:** Robert Hull <[Robert.Hull@ofgem.gov.uk](mailto:Robert.Hull@ofgem.gov.uk)>; Mary Smith <[Mary.Smith@ofgem.gov.uk](mailto:Mary.Smith@ofgem.gov.uk)>; Keith Avis <[Keith.Avis@ofgem.gov.uk](mailto:Keith.Avis@ofgem.gov.uk)>; Hutchinson, Peter  
**Subject:** RE: request for funding for the NIRHI for 2012/13

Hi Fiona,

Please find attached our revised forecast of outyear operating costs, along with an explanation of the reasons for the revisions to the forecast, and our proposed cost allocation methodology. I trust that this is relatively self explanatory but I'd be more than happy to talk about it once you've had time to digest it.

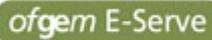
We believe we'll be able to address all the feedback that Joanne has given us on the 2012/13 feasibility study update and the Administrative Arrangements. We're also just needing to check for consistency across the two documents and may have some fine tuning to ensure they're both consistent as a result. We're hoping to send you revised documents around midday tomorrow.

We're looking forward to the launch on Thursday. I think it would be good to catch up over the phone tomorrow to make sure everything is OK for launch. I am free between 10:30 and 1:30 at this stage. I will be working from home so I can be reached on Personal information redacted by the RHI Inquiry I'd be grateful if you could call me when you're able.

Regards

Matthew

**Matthew Harnack**  
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**From:** Hepper, Fiona [mailto:Fiona.Hepper@detini.gov.uk]  
**Sent:** 29 October 2012 15:47  
**To:** Matthew Harnack; McCutcheon, Joanne  
**Cc:** Robert Hull; Mary Smith; Keith Avis; Hutchinson, Peter  
**Subject:** RE: request for funding for the NIRHI for 2012/13

Thanks Matthew - I have already spoken to Joanne and am aware of the ongoing discussions in my absence and am up to speed on these. The next step is for you to provide the outstanding information so that final agreements can be reached.

regards  
Fiona

### Fiona Hepper

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*The new website for the European Sustainable Competitiveness Programme for NI is now available - visit [www.eucompni.gov.uk](http://www.eucompni.gov.uk)*



[www.ni2012.com](http://www.ni2012.com)

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**From:** Matthew Harnack [mailto:Matthew.Harnack@ofgem.gov.uk]  
**Sent:** 29 October 2012 15:44  
**To:** Hepper, Fiona; McCutcheon, Joanne  
**Cc:** Robert Hull; Mary Smith; Keith Avis; Hutchinson, Peter  
**Subject:** RE: request for funding for the NIRHI for 2012/13

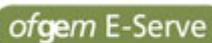
Hi Fiona,

We will do what we can but it will most likely be tomorrow until we can send this to you. We have had a few discussions with Joanne while you were away about the items you mentioned in relation to the administration arrangements. These may take some time to work through, and I'd suggest you speak with Joanne to get up to speed on where we are placed on each of them, but of course please contact me if you still have any concerns at this stage. We are also working through the other questions raised on the feasibility update earlier today, as well as the

interaction between the funding agreement and administration arrangements, so we may have an update on those tomorrow too.

Regards,  
Matthew

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**From:** Hepper, Fiona [<mailto:Fiona.Hepper@detini.gov.uk>]  
**Sent:** 29 October 2012 15:27  
**To:** Matthew Harnack; McCutcheon, Joanne  
**Cc:** Robert Hull; Mary Smith; Keith Avis; Hutchinson, Peter; Hepper, Fiona  
**Subject:** RE: request for funding for the NIRHI for 2012/13  
**Importance:** High

[Matthew](#)

Thank you for the e-mail below and the attachments.

The figures in Bob Hull's letter are in line with what you and I discussed on the telephone before I went on leave. However, there are a number of items/issues outstanding from the Ofgem end which DETI needs to see before I can give a formal reply. I appreciate that you have requested a response by close today - and, if you can send the following through by close today we can, hopefully, get everything squared off in the morning. The items required are : the final draft of the admin agreement plus the covering letter - which I believe it was agreed would include - performance targets, right of audit entry and the change control procedures. In addition, as we discussed in our last telephone conversation, you were to send me the financial projects for the forthcoming years.

If you could send this information by close today - copied to Joanne McCutcheon and Peter Hutchinson, that would be most helpful.

Regards

[Fiona](#)

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**From:** Matthew Harnack [<mailto:Matthew.Harnack@ofgem.gov.uk>]  
**Sent:** 26 October 2012 18:29  
**To:** Hepper, Fiona; McCutcheon, Joanne  
**Cc:** Robert Hull; Mary Smith; Keith Avis  
**Subject:** request for funding for the NIRHI for 2012/13  
**Importance:** High

Dear Fiona and Joanne,

Please find attached an update to the 2012/13 sections of the NIRHI feasibility study, along with a request for funding for the costs arising from this for 2012/13. I am sending this on behalf of our Managing Director, Bob Hull. My apologies for sending it so late in the day. We had expected to be able to send it this morning but unfortunately Bob has not been contactable most of the day as he has been in Glasgow.

Please note that we are seeking confirmation of funding by COP Monday, to ensure that we are able to start operating the scheme on Thursday. We look forward to your prompt reply.

Regards,  
Matthew

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# **Northern Ireland Renewable Heat Incentive Scheme**

**Forecast of 2013/14 – 2015/16 Operating Costs**

## Northern Ireland RHI: Reasons for Reviewing Outyear Forecast Costs (1)

Since the original NIRHI feasibility study was completed in December 2011 there have been a number of factors which have changed which have given need to revise forecast 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. This is due to:

- Complexity of regulations, particularly around metering and biomass boiler requirements, to ensure public money is being appropriately spent
- Need for checks to ensure robustness against fraud and error
- Industry immaturity leads to poor quality applications lacking in the necessary detail and poor quality metering installations
- More time is also having to be spent on communications, industry training and education, and actions to address metering error and enable industry best practice as a result of the above
- Time needed to implement initiatives to address emerging issues e.g. heat losses in pipe work and treatment of ground source heat pumps

Improvements have been identified to address the above:

- We have already cut average accreditation times by approximately one hour per accreditation
- Further efficiency gains of 30% are expected to be achieved and these have been built into outyear forecasts (these include proposals to simplify metering requirements in the regulations, and to strengthen the reliability of independent metering reports and MCS accreditation covering metering installation)

## Northern Ireland RHI: Reasons for Reviewing Outyear Forecast Costs (2)

The Feasibility Study also did not include the anticipated legacy applications from the Northern Ireland Renewable Heat Premium Payments Scheme – applications as at 10 October 2012 number 309. These have been built into revised application projections (see below).

Current potential volume projections compared with original Feasibility Study			
	2013/14	2014/15	2015/16
NI Installation Numbers (i.e. Applications for Accreditation) in Feasibility Study	776	1,408	2,602
NI Renewable Heat Premium Payment Scheme (NIRHPPS) legacy numbers (total of 309 applications, split over first two outyears)	155	154	0
<b>Total Revised NI installation numbers (Feasibility Study plus NIRHPPS legacy)</b>	<b>931</b>	<b>1,562</b>	<b>2,602</b>
GB Installation Numbers at time of Feasibility Study	25,867	46,933	86,733
Current Revised GB Installation Numbers	12,800	25,000	31,200
Current NI percentage against GB Installations	7%	6%	8%

## Northern Ireland RHI: Assessment of Appropriate Charging Methodology

- Since the original feasibility study, DECC have also revised down their volume projections. As a result of this and the inclusion of legacy projections, there is currently a potential mismatch between budget and projections – budget is 3% of DECC's but current volume projections range from 7- 8% of GB's applicant figures. This suggests that either:
  - Actual tariff payments will exceed budget. We assume that this will not be the case for the purpose of our methodology, but will revisit in a year;
  - Actual installation volumes are lower than assumed, justifying using 3% – current GB figures are significantly lower than originally anticipated, demand could also be actively reduced with less awareness raising carried out; or
  - Both budget and projections are right but NI will have smaller installations compared to GB which are quicker to process, resulting in reduced accreditation time/ resources required and justifying using 3%.
- Based on the above, and assuming that our other assumptions remain valid, we anticipate costs for RHI will be around 3% of total scheme operating costs – costs are detailed in the following slide.
- As a result we propose to charge DETI on the following basis:  
$$\text{DETI costs} = \text{Total RHI operating cost} * \text{Value of NI tariff payments} / \text{Value of Total (NI +GB) tariff payments}$$
- Important to note that these costs **do not** include development costs or any supplementary operational costs for phase 2 and other future changes to the Northern Ireland RHI scheme. These will be scoped out once you make known your intentions for these changes to us.

## Northern Ireland RHI: Costs Assuming Tariff Payments are 3% of RHI Scheme Payments

Set Against current GB RHI scheme operational costs			
	2013/14	2014/15	2015/16
Total scheme operational cost*	£5,487,867	£7,460,300	£11,387,967
NI RHI Percentage costs (3% of RHI scheme)	£164,636	£223,809	£341,639

\* Figures based on draft RHI Corporate Plan estimate as at 10/10/2012, without legacy spend but includes legal staffing costs, IT operational costs and 24% overheads.

## Northern Ireland RHI: Change Arrangements

- We will need to review and agree revised funding arrangements if assumptions change (as costs may go up or down if these change)
- Assumptions are contained in the original feasibility study (December 2011), the updates to the feasibility study (October 2012), and this slidepack
- The main assumptions include:
  - NI RHI scheme is the same design as GB RHI (apart from tariff rates)
  - Volumes are as stated
  - Installations are smaller and therefore simpler to process than GB installations