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**To:** [McCutcheon, Joanne](#)  
**Cc:** [Hutchinson, Peter](#); [Gareth John](#); [Jacqueline Balian](#)  
**Subject:** Revised costing letter  
**Date:** 13 March 2014 16:17:42  
**Attachments:** [image003.jpg](#)  
[NIRHI costings 2013 14 March 2014.pdf](#)

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Hi Joanne

As discussed, I'm attaching a revised letter for you to discuss with John tomorrow.

As I mentioned previously, I would welcome the opportunity to introduce you to my new Associate Director, Gareth John and Deputy Managing Director, Chris Poulton. They are very keen to come across and meet yourselves and John. We can also use the opportunity to finalise costings and discuss other ongoing points such as carbon trust and data sharing.

Please can you arrange some suitable dates and I will organise their calendars.

Regards

Teri

**Teri Clifton**

Senior Manager RHI Enquiries and Assessments

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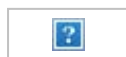
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Date: 13 March 2014

Dear John,

## **NIRHI – Operational funding for 2013/14**

As you are aware, we have been trying to finalise the costings for 2013/14 . I am writing to provide you with some further analysis of NIRHI scheme costs to date based on actual figures.

### **Previous agreed funding formula and funding estimate**

The Baseline scope provided in 2012 set out estimated costs for the operational aspects of NIRHI at the following amounts:

<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>£164,636</b>	<b>£223,809</b>	<b>£341,629</b>

It also provided the following formula for determining what Ofgem would charge DETI for the administration of the NI RHI:

*"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."*

Matthew Harnack's letter of the 13 May 2013 drew attention to the issues with this original calculation. As can be seen below from the costs to date, it is now clear that it is not appropriate either for this year or for future years. The timing of tariff payments lag significantly behind much of the work carried out by the operational team. Payments are not usually made for several months after the enquiry and application handling stage. This depresses charges in any year in which the number of applications is growing.

You have asked for an illustration of what the costs to DETI would have been under the payment based calculation. On this basis, the scheme costs for 2013/14 would be £26,581.

An alternative calculation based on the original estimate of a likely attribution of 3 per cent of GB costs to NI has been carried out.

Based on the cumulative number of accreditations and applications for the 2013/14 financial year, the percentages are broken down as follows:

	NI		GB	
	Applications	Accreditations	Applications	Accreditations
<b>April 2013 – Feb 2014</b>	<b>108</b>	<b>74</b>	<b>2990</b>	<b>2283</b>
<b>Forecast for year (For NI numbers Assumption NI receive the same submissions and approvals as February)</b>	<b>119</b>	<b>83</b>	<b>3360</b>	<b>2633</b>

	NI % of GB		NI % of UK (GB & NI)	
	Applications	Accreditations	Applications	Accreditations
<b>April 2013 – Feb 2014</b>	<b>3.6</b>	<b>3.2</b>	<b>3.5</b>	<b>3.1</b>
<b>Forecast for year 2013/14 ( as above)</b>	<b>3.5</b>	<b>3.1</b>	<b>3.4</b>	<b>3.1</b>

As you can see, based on the numbers above, the application and accreditation numbers are running at over 3% of both the GB scheme and the combined GB and NI scheme.

Three per cent of GB operating costs at the current run rate equate to **£183,275.72** for 2013/14.

The 3% cost relates to costs in operating the scheme as outlined originally in the Baseline scope. It does not include any scheme-specific development costs.

In all previous correspondence, Ofgem advised that the estimated cost for 2013/14 would be **£164,636** including overheads and we will honour this amount for this year.

In order to achieve the cost reduction from £183,275 to £164,636, it has been agreed that we will not bill you for the cost, in the current financial year, of improving our IT systems and processes. This work has benefitted both GB and NI applicants and will continue to reduce DETI costs in the future. Further process improvements are planned within the budget for future years, and it is expected that a proportion of this cost will be met by DETI.

### Next steps

To enable us to finalise the costings for the next financial year, we are currently preparing a change control so that both parties can agree costs up-front for next year. These will be reviewed quarterly to ensure we remain on track and that the operating costs are still being met.

Please can you confirm you are happy with this approach so that payment for this financial year can be made as soon as possible. Once we receive your formal acceptance, we will raise an invoice to send to you.

If you have any further queries, please give me a call.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Teri Clifton', written over a horizontal line.

Teri Clifton  
Senior Operations Manager