

From: [Brankin, Bernie](#)
To: [Cooper, Trevor](#)
Subject: FW: Budgetary issues associated with the administration of the RHI and RHPP
Date: 26 March 2012 17:05:22
Attachments: [TMT re RHI budgets.DOC](#)
Importance: High

Bernie Brankin

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From: Brankin, Bernie
Sent: 26 March 2012 13:43
To: McFarlane, Iain
Cc: Partridge, Jeff
Subject: FW: Budgetary issues associated with the administration of the RHI and RHPP
Importance: High

Iain

We have verbally (and in writing) put the case to Stuart Stevenson that the set up costs and operating costs for Ofgem to deliver the NI RHI and RHPP should not be classified as Admin but should be classified as Resource with the approval of DFP. This is on the basis that Ofgem's services are treated as a managed service and as the delivery of the NI RHI and RHPP is clearly contributing directly to front-line services it can with DFP approval be classed as resource. This classification is consistent with the approach currently agreed by DFP for professional services relating to EU funded projects, where there is also no Admin classification for EU funding (similarly, there is no Admin classification for AME funding for the RHI). Stuart has verbally agreed to this approach and we are awaiting written confirmation

The estimated costs are set out below.

	2012/13	2013/14	2014/15	2015/16
Operating Costs	136	157	198	249
Set-up costs	386			
TOTAL	522	157	198	249
Finance Reserve (433)				
Pressure to be addressed		89	157	198 249
Contingency	386			
<i>Potential Pressure</i>	475	157	198	249

There are operating costs for Ofgem's services and the set up costs which include the cost to Ofgem

of adapting their IT systems to read NI post codes and comply with the different incentive levels set for the NI RHI, for legal advice, to formulate processes and procedures, and to provide forms and guidance notes. The contingency relates to potential additional IT costs (131k), legal challenges (£200k) and other costs (£55k). We have a Resource reserve of £433k in 2012/13 which could be used to address this pressure and the remaining pressure could be met by reallocations in-year from de minimis reduced requirements.

The cost of two additional EO2 grades referred to in Fiona's note and Alan's response is approx £56k. This has been included in the latest Admin projections set out in the table below.

	2011/12	2012/13	2013/14	2014/15
Energy (2 x EO2s)		56,000	57,000	58,000
Analytic Unit		215,000	90,000	
Sub Total Pressures		271,000	147,000	58,000
Less Admin DEL Surplus plus deficit with 2.7% increase pa				(419,409)
	137,595	162,586		
(Surplus)/				
Deficit		(148,409)	9,405	220,586

We can deal with two additional EO2 in 2012/13 and 2013/14 but this would be dependent on no further significant Admin DEL posts being created (apart from the 2 SO's in Energy for which we have made allowance). Other variables include potential pay increases, which have been included in the table at 2.7% p.a for all staff. The pressure in 2014/15 could be met by using £221k of the annual Admin DEL payment that we make to NISRA and replacing it with Resource funding from de minimis reduced requirements. Another option would be to reclassify budget from Resource to Admin in light of the relaxation of Admin DEL controls which would require Ministerial approval.

In summary, with DFP approval to charge Ofgem's services to the Resource budget, the pressure would be manageable as de minimis in year bids and the Admin DEL pressure of two EO2 should also be manageable if there are no further significant pressures on the Admin DEL budget going forward.

Bernie

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From: McFarlane, Iain
Sent: 16 March 2012 11:09
To: Partridge, Jeff
Subject: FW: Budgetary issues associated with the administration of the RHI and RHPP

Jeff,

Can you give me a line please on the pressures going forward on the RHI scheme. The cost of OFGEM and any additional staff (as Alan has commented on below).

Thanks

Iain McFarlane

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From: Lamont, Alan
Sent: 15 March 2012 18:22
To: Cooper, Trevor
Cc: Sterling, David; Thomson, David; McFarlane, Iain; Hill, Janice; Trimble, Beverly
Subject: FW: Budgetary issues associated with the administration of the RHI and RHPP

Trevor

The staffing requirements related to this initiative appear to be fairly modest. If in the event Energy need one or two additional bodies, provided the finance is available, we should be able to source the staff, particularly at EOII level as we will be in a supply position.

If you require any further information I will be happy to provide or discuss.

Alan

Alan Lamont

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From: Cooper, Trevor
Sent: 15 March 2012 15:46
To: Sterling, David; Thomson, David
Cc: McFarlane, Iain; Lamont, Alan
Subject: RE: Budgetary issues associated with the administration of the RHI and RHPP

David, David

As Fiona notes, I thought it important that a formal sign-off of the administrative commitments around this scheme be provided in context of the previous Resources Group discussions on future administration and staffing resource.

Ian and Alan should be able to update with a one-liner on the headroom/pressure that the agreement of this will leave going forward - can I ask that this be provided asap pls.

Trevor

Trevor Cooper

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From: McCoy, Laura **On Behalf Of** Hepper, Fiona
Sent: 15 March 2012 15:33
To: Sterling, David; Thomson, David; Cooper, Trevor
Cc: McCutcheon, Joanne; Hutchinson, Peter
Subject: Budgetary issues associated with the administration of the RHI and RHPP

RESTRICTED - POLICY

To: TMT

Please see attached from Fiona Hepper.

Regards,

Laura McCoy

Personal Secretary

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From: Fiona Hepper

Date: 15 March 2012

To: Top Management Team: David Sterling
David Thomson
Trevor Cooper

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BUDGETARY ISSUES ASSOCIATED WITH THE ADMINISTRATION OF THE NORTHERN IRELAND RENEWABLE HEAT INCENTIVE (RHI) AND RENEWABLE HEAT PREMIUM PAYMENTS (RHPP)

As you may be aware, Energy Division presented the proposed Renewable Heat Incentive scheme for scrutiny at Casework Committee on Friday 10 March. An action flowing from this, requested by Trevor Cooper (Chair of Casework Committee), was that I draw to TMT's attention the budget requirements for the administration of the scheme over the next four years. To place this in context, and for ease of reference, I have provided an over view of the constituent parts of the scheme.

Background

2. The EU Renewable Energy Directive (RED) (2009/28/EC) set a binding target that 20% of the EU's energy consumption should come from renewable sources by 2020. The UK share of this target commits the UK to increasing the share of renewable energy to 15% by 2020 and Northern Ireland is expected to contribute to this share. The Department of Energy and Climate Change (DECC) has indicated that renewable heat levels of around 12%, coupled with 30% renewable electricity consumption, are required for the UK to meet its requirements and a target of 10% renewable heat for NI by 2020 was therefore included within the Strategic Energy Framework. There is an interim target of 4% renewable heat by 2015 in the Programme for Government. These are challenging targets given that the current level in Northern Ireland is 1.7%.
3. £860million has been made available from central Government funding to support the introduction of a Renewable Heat Incentive (RHI) in GB over the period 2011-2015; HMT has notified the Northern Ireland Executive that £25million of funding is available for a NI RHI over the same period (£6m in 2012-13, £7m in 2013-2014 and £12m in 2014-2015). However, it has been stipulated that this funding is for the actual incentive and **cannot** be used for administrative costs.
4. The Department for Energy and Climate Change (DECC) introduced a GB RHI in November 2011. Given the very different heat market in Northern Ireland, it was agreed that it would be appropriate to separately assess how the NI renewable heat market could best be developed.

NI Renewable Heat Incentive (NI RHI)

5. Following an economic appraisal and a public consultation, Energy Division is proposing the introduction of a NI specific RHI. The proposal represents a long term approach to developing the renewable heat market by providing consistent, secure, long term payments for renewable heat generation. The incentivisation involves payments to installers of renewable heat technologies, with tariffs dependent on the type and size of technology installed, and in the form of pence per kilo watt hour (p/kWh) for heat generated. Payments will be made quarterly over a 20 year period for all eligible installations (following accreditation).
6. The NI RHI will be introduced in two phases. Phase 1 will commence as soon as possible after 1 April 2012 and will be for non domestic installations and particular technologies. Phase 2 will commence as soon as possible after 1 April 2013 and will extend the scheme to domestic customers; it may also extend the list of eligible technologies. This phasing is in line with the scheme in GB.
7. It is expected that the NI RHI will be open to new installations until 2020, meaning the final payment from the scheme will be in 2040. The NI RHI will have scheduled reviews built-in to the scheme to allow DETI to ensure that the scheme remains fit for purpose and value for money for the duration.
8. Commencement in NI is dependent on both DFP and State Aid approval. Following DETI Casework Committee, we are finalising the papers to seek DFP approval and the State Aid papers were submitted last December.

Renewable Heat Premium Payments (RHPPs) for the domestic sector

9. As the incentive scheme will not be immediately available to domestic installations, it is proposed to introduce a RHPP for the domestic market. These one off grant payments will assist in the capital costs of the renewable heat installation. Again, this proposal is in line with GB.
10. Those availing of the RHPP will remain eligible for a longer term tariff when Phase 2 of the RHI commences. However, the lifetime of the tariff under the RHI will be reduced accordingly so that all customers are equally incentivised. For example, a domestic customer who has availed of the RHPP will only receive 18 years of an RHI rather than the standard 20 years (the value of the RHPP has been set at the equivalent of 2 years RHI payments).
11. Customers will apply direct to the Department, where an initial assessment of eligibility will be undertaken. Successful applicants will then be issued with a voucher guaranteeing the RHPP once the technology is installed subject to terms and conditions. Once the installation is completed it will be inspected and payment made. Vouchers will not be redeemable beyond 31 March 2013.

Development of administrative systems

12. With a budget of £25m over the next four years it is vital that both the RHI and the RHPP scheme have proper administrative management systems in place. The RHPP scheme will be administered within DETI Energy Branch. It is difficult to predict the level of uptake but, based on the experience of the GB scheme, we

might expect to issue between 250-300 vouchers and have about half of them redeemed. At this level, it is hoped the scheme can be managed within existing resource. However, if the number of applications were to be higher than the above estimates then additional resource (probably around EOII- EOI level) would be required.

13. The RHI requires a system capable of managing enquiries and applications, accrediting installations, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments, preventing fraud and providing management information. The expertise required to develop such a system is not available within Energy Division, nor is there the resource to operate the scheme on an on-going basis. The Office of Gas and Electricity Markets (Ofgem) has developed a bespoke system for DECC and is already managing the administration of the GB RHI. In addition, it has experience of delivering other large scale incentive schemes such as the Renewables Obligation, (including the NI Renewables Obligation for DETI), and the Feed-in-Tariff.
14. It was considered that there could be significant advantages in utilising the existing systems and a feasibility study was undertaken to assess if and how the DECC GB RHI system could be used as the basis for an administrative system for the NI RHI. 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 (plus £386K contingency). 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.**
15. Exploiting synergies with the GB RHI will drive down the costs of administering the scheme whilst maintaining a high quality service to generators. For example, using the existing Customer Relationship Management (CRM) Software will save NI an estimated £100-150K, while using the existing SUN system to make generator payments, instead of a payment service provider, could save in the range of £100 - 500K. In addition, using the main existing RHI register instead of commissioning a bespoke IT system is expected to save between £2m and £3m. Overall, it is estimated that using Ofgem's existing systems could save somewhere between £3.2million and £5.15million with additional ongoing operational savings.
16. The completion of this feasibility study provides clear evidence that there are substantial gains (both in terms of efficiency and cost) to be had from utilising the existing GB system. Looking forward, there is the additional advantage that we would only be required to pay our share of any future development or enhancement costs. I will therefore be seeking approval from the Accounting Officer to appoint Ofgem as the administrator of the NI RHI under a Direct Award Contract (DAC). The papers on this will issue shortly.

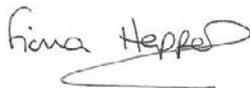
Budget Requirements

17. The money provided from HMT (£25m) **cannot** be used to cover the administration of the scheme and **there is currently no provision within Energy Division's budgets for this work**. I will therefore need to bid for the money at the appropriate in year monitoring round. The estimated costs associated with the administration of the NI RHI (as per the feasibility study) for the next four years are 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

In addition, there will be further development costs associated with Phase 2 of the scheme. This expenditure will be at the end of 2012/2013 or start of 2013/2014. At this stage we are uncertain of how many (if any) additional technologies will be added or what other amendments we might need to make and so it has not been possible to get an estimate of costs. However, by undertaking this work at the same time as DECC, we will only bear our share (3%) of the development costs.

18. I appreciate that the above costs will add pressures within the DETI system and it is unfortunate that HMT stipulated that the £25m could not include a (small) element for administration. However, it is the case that if the money for administration is not made available we will not be in a position to deliver the RHI; the £25m will have to be returned to HMT (as it was ring-fenced solely for this purpose); we will also fail to meet the Executives PfG and SEF targets as well as fail to contribute to the UK's binding EU targets (and have to thereby take responsibility for any share of an infraction that may result).
19. I would appreciate confirmation that TMT is either content that I proceed, or, that I advise the Minister that funding is a potential difficulty and you have instructed that work stops at this point.
20. Happy to discuss.



FIONA HEPPER
Ext 29215

cc: Joanne McCutcheon
Peter Hutchinson