

From: [Hepper, Fiona](#)
To: [Sterling, David](#); [Thomson, David](#); [Lewis, Colin](#)
Cc: [Cooper, Trevor](#); [Hepper, Fiona](#); [Murphy, Shane](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#)
Subject: Budgetary Issues associated with administration of the Renewable Heat Incentive
Date: 19 December 2012 17:47:29
Attachments: [RHI Costs TMT.DOC](#)
Importance: High

TMT

Please see attached for consideration asap

Thanks

Fiona

Fiona Hepper

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From: Fiona Hepper

Date: 19 December 2012

To: Top Management Team: David Sterling
David Thomson
Colin Lewis

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

You will recall that in March 2012 I briefed you on the budget requirements for the administration of the NI RHI over the next four years. At that time the forecasted costs associated with the administration of the NI RHI (as per the feasibility study) for the next four years were 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

Ofgem was already administering the GB RHI and these costs were based on NI accounting for 3% of the overall costs of both schemes.

Current Position

- The original feasibility study was based on the NI RHI launching in April 2012 (and no later than June 2012). However, the commencement of the scheme was delayed due to time taken to secure State Aid approval and the need to lay legislation in the Assembly. As a result the testing of the NI system no longer dove-tailed with work on the GB system and this has impacted on both the development and operational costs for this year. The updated costs for the scheme are given in the following tables.

Development and Operational costs 2012/13

Delivery Component	Cost (£)
New Scheme Development delivery team (including: Band C Operational Manager – recruitment process & Stakeholder	£96,000

engagement costs)	
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

- You will wish to note that the £433K development costs are inclusive of £49K contingency.

Estimated Operational Costs 2013/14 – 2015/16

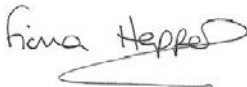
Financial years	2013/14	2014/15	2015/16
NIRHI Estimated costs	£164,636	£223,809	£341,639

- The above figures are current estimates based on NI still accounting for 3% of the total scheme operating costs. These costs are higher than the original forecasts due to the fact that Ofgem now has a clearer idea of the times taken to process applications (the GB scheme has now been running for over a year).
- However, Ofgem proposes to actually charge DETI on the following basis:-

DETI costs = Total RHI operating cost* Value of NI tariff payments / Value of Total (NI+GB) tariff payments.
- If NI volumes are more than 3% of the total scheme, we anticipate that NI will have smaller installations compared to GB which are quicker to process, resulting in reduced accreditation time/ resources required. This means that the 3% would still be a reasonable maximum estimate.
- Should any additional funding be required this will need to be agreed via the Change Control process.

- All the above costs relate only to Phase 1 of the scheme; further funding will need to be secured to cover the development and operating costs for Phase 2.
3. With a budget of £25m over the next four years it is vital that the RHI has a proper administrative management system in place, 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. I consider that Ofgem remains best placed to provide the most cost effective and efficient solution for the administration of the NI scheme.
 4. Energy Division will liaise with counterparts in DECC (who will be paying approximately 97% of the costs) to ensure everything possible is done to minimise costs going forward.
 - 5 I have copied to Trevor and Shane who were on the RHI Casework Committee (alongside Philip Angus), an action from which was to confirm budget arrangements with TMT – hence my original note to you of March 2012 which you agreed. This note is an update. **I would appreciate confirmation that TMT is content as I need to finalise the Agreement between DETI and Ofgem by Friday of this week so that Ofgem can process the applications to the scheme.**

Happy to discuss.



FIONA HEPPER
Ext 29215

cc: Trevor Cooper
Shane Murphy
Joanne McCutcheon
Peter Hutchinson

From: [Lewis, Colin](#)
To: [Hepper, Fiona](#); [Sterling, David](#); [Thomson, David](#)
Cc: [Cooper, Trevor](#); [Murphy, Shane](#); [McCutcheon, Joanne](#); [Hutchinson, Peter](#)
Subject: RE: Budgetary Issues associated with administration of the Renewable Heat Incentive
Date: 20 December 2012 08:39:35

Fiona,

Thank you for your note.

I really have to defer to my colleagues on this one as I was absent from the office in OPONI in March 2012.

However, I am aware that a renewable heat target is a Programme for Government target that requires the introduction of a Renewable Heat Incentive and the Renewable Heat Premium Payment Scheme. Therefore, on the assumption that Ofgem is the preferred provider, and there is no intention to look again at this procurement, there really is no option but to note the increase in future operating costs.

Colin Lewis

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Importance: High

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Fiona

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