

ofgem E-Serve

Promoting choice and value

for all gas and electricity customers

Commercial in Confidence

Northern Ireland Renewable Heat Incentive

Initial Delivery Proposal

Issue date: August 2011**Contact:** xx**Team:** New Schemes Development**Tel:** 020 7901 xx**Email:** xx@ofgem.gov.uk

Executive Summary:

Ofgem E-Serve is pleased to respond to the request from the Department of Enterprise, Trade and Investment (DETI) to put forward a proposal for a feasibility study on developing and operating the Northern Ireland Renewable Heat Incentive (NIRHI). With our track record of successfully administering environmental and social programmes for government, including the GB Renewable Heat Incentive, we aim to use our expertise and experience to provide excellent value for money in meeting your requirements.

The information and costs included in this document are based on the details that you have been able to provide to date. We would be happy to work with DETI to refine the scope (and cost) where appropriate.

1. Meeting Your Requirements

- 1.1. We note that, in order to meet the Northern Ireland Executive agreed target of 10% renewable heat by 2020, compared to 1.7% today, DETI recommend the introduction of a "Northern Ireland Renewable Heat incentive". This will be similar to the DECC proposals, providing a set level of financial support paid to generators of renewable heat at a given £/MWh depending on the technology type and capacity of the installation.
- 1.2. In performing the administration role we recognise that these responsibilities will include dealing with applications, accrediting eligible installations, making payments and ensuring that the conditions of the scheme are adhered to.
- 1.3. Ofgem E-Serve has a continuing commitment to delivering environmental and social programmes. We can make use of skills and experience obtained from developing schemes such as the Northern Ireland Renewables Obligation and in particular the Great Britain RHI. Where possible we will look to utilise existing processes and IT systems to reduce costs.
- 1.4. Ofgem recognises the need for a robust mechanism that is both fit for purpose and provides a cost-effective IT system to monitor the high number of applications expected to be made once the scheme goes live. In addition, it will need to incorporate further reviews and legislative changes to the policy. We will aim to meet these requirements by working with our colleagues in the GB RHI Team, policy staff within New Scheme Development (NSD), Legal, IT and Procurement to assist us in our development.
- 1.5. We will ensure effective and efficient scheme delivery by taking in to account the needs of the NIRHI policy, both in its similarities to GB RHI and building on our existing expertise, in addition to incorporating the differences and applying these to the scheme design. We will also be able to make use of our relationship with existing Ofgem stakeholders and our knowledge of energy regulation to ensure the smooth transition from implementation to delivery.
- 1.6. We understand that NIRHI is to be implemented by way of an amendment to the 2011 Energy Bill. If that is the case, Ofgem would look at how and where enforcement powers could be administered. We will work directly with DETI and the NIAUR to look at how the power and responsibilities may lie or whether these powers could be implemented in secondary legislation. Ofgem is able to provide advice and assistance to DETI in relation to the existing GB regulatory scheme and our relationship with the NIAUR in administering the Northern Ireland Renewables Obligation (NIRO).
- 1.7. The GB RHI scheme currently has its own bespoke IT system, which provides a range of functions including participant registration, applying to join the scheme, accreditation of installations, compliance and reporting mechanisms. These systems, together with the established payments system, detailed guidance, internal procedures and the experienced administrative team that operates the scheme, are key enablers to delivering a cost effective implementation and administration of the NIRHI.

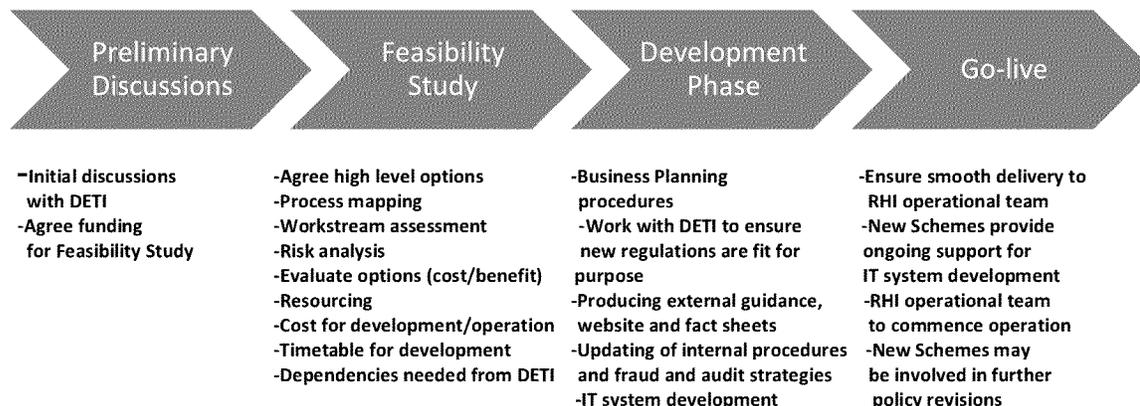
Key Assumptions for NI RHI including differentials from GB RHI

Our proposal has been made based on these assumptions:

- NIRHI will be available to all those in the non-domestic sector (with specific eligibility standards for large industrial sites) and will support installations commissioned after the *1 September 2010*.
- Eligible technologies include solid and gaseous biomass, bioliquids, solar thermal, ground air source heat-pumps, on site biogas, geothermal, energy from waste and injection of biomethane into the grid.
- A support scheme for the domestic sector will be available from October 2012. Existing gas consumers will not be eligible for renewable Heat Premium Payments. Those who are awarded support under this scheme would remain eligible for NIRHI at reduced rate.
- Payments will be made on a quarterly basis over 20 years, tariff levels will be grandfathered and payments guaranteed for 20 years.
- DETI will not implement any changes to support levels for good quality CHP until April 2014 at the earliest.
- NI RHI will be in place by 1 April 2012
- NI RHI will be open to new applicants until 31 March 2020

2. Scheme Delivery and Operation

2.1. The flow chart at **Figure 1** outlines the high level steps that we believe need to be taken to meet your requirements. From here we have scoped out options around resources and associated costing in pages 4, 5 and 6.

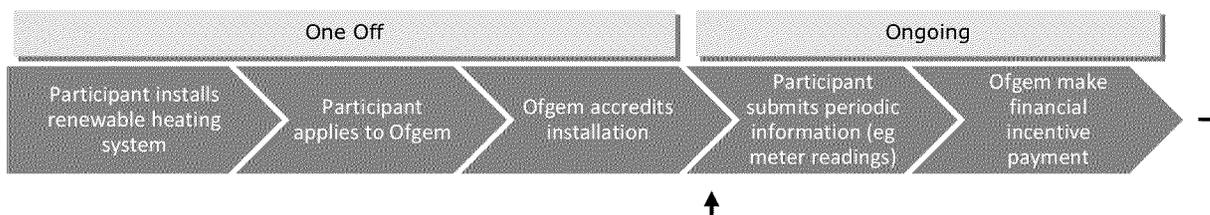


2.2. A focused feasibility study will provide a detailed evaluation of preferred options to implement the NIRHI. In doing so we will achieve the following:

- A high level structure between E-Serve and DETI
- A process design for the policy and how it will work in practice
- Identified key workstreams and resources required
- Use a cost/benefit analysis to identify the most effective internal process options
- Legal input on policy and design requirements
- Comprehensive risk analysis and proposed mitigation
- Detailed cost of the development and implementation phase
- A full timetable of the scheme delivery

A focussed IT feasibility study will provide a full evaluation of the recommend option.

2.3. The following flow diagram outlines the expected administration process for the NIRHI to be administered by the operational team:



2.4. Given the very challenging deadlines involved in launching the NI RHI on 1 April 2012 (or soon after that date) we propose that we begin part of the Development Phase as soon as the feasibility phase has been completed. This will save valuable time, in particular with IT development and legal review, but can only be undertaken if appropriate funding can be agreed now.

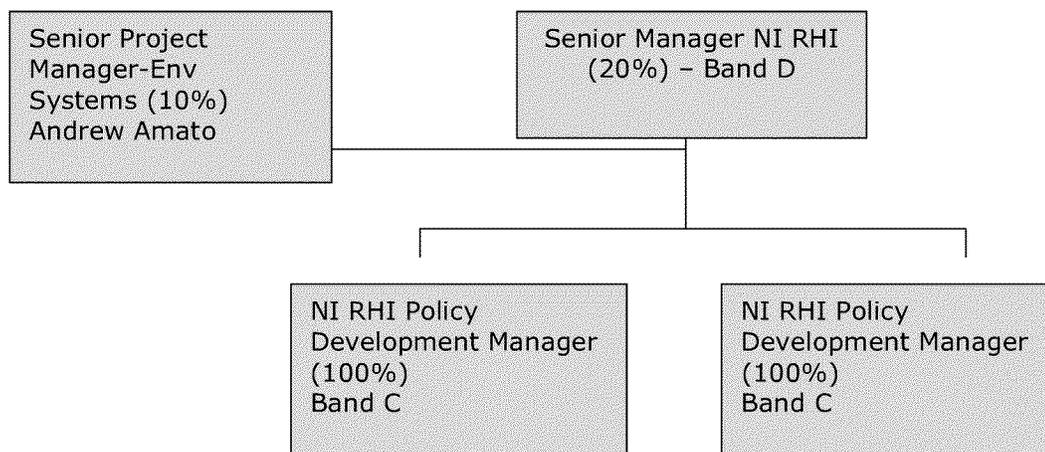
2.5. We therefore propose to split the Development Phase into two, as follows:



- | | |
|--|--|
| <ul style="list-style-type: none"> - Legal review of final proposed regulations - Business planning - High level IT design and detailed requirements based on consultation document (to be completed by 30 November) - Begin IT system change request based on response to DETI consultation | <ul style="list-style-type: none"> - Legal review of implementation processes - Completed Business Plan - Produce external guidance, website, factsheets - Updating internal procedures and audit and fraud strategies - IT development and build |
|--|--|

2.6. Funding for the Stage One development phase will need to be agreed with this proposal. Funding for the Stage Two development phase will be sort when the feasibility study is submitted, and must be agreed by Friday 25 November 2011 if the NI RHI is to be launched in Spring 2012.

Feasibility Team Organogram



2.7. In addition the core team will be assisted by Ofgem legal and senior management who will oversee delivery functions. The team will also draw on the experience of the wider New Scheme Development Team including GB RHI, development and operation.

3. Project Management and Timeline

- 3.1. Ofgem’s approach to Project Management aligns with Government best practice and is monitored by major external bodies such as the Major Projects Authority and the National Audit Office.
- 3.2. We will set up a high level Project Board to oversee development and delivery of NIRHI. We will also establish appropriate engagement with DETI programme boards.
- 3.3. Timing assumptions

We have provided costs for the feasibility study. To provide those numbers we have had to make some base assumptions including:

- We have assumed a start date for the feasibility phase of the scheme of 1 September 2011.
- We have assumed a start date for the operational phase of 1 April 2012 (although we may need to consider phased implementation for parts of the scheme operations)
- We would expect to explore delivery options at the Stage One phase.
- We would explore the possibility of interim solutions, particularly in the event of delays to go-live or because of tight deadlines

The proposed timeline for feasibility phase and Stage One development phase is shown below:



***these are dependent on the approval of funding for both the feasibility phase and the Stage One development phase. We will not be able to start either phases until funding has been agreed.**

4. Resourcing and Costs

- 4.1. *Cost* - Our primary aim is to deliver the right scheme for DETI, industry and most importantly for consumers. We aim to deliver the scheme for the lowest possible cost to all stakeholders without endangering delivery or effectiveness. This will be largely incremental to the GB RHI work which will therefore lower the cost of development. We would supplement this with outsourcing of specific administrative or customer relationship management where most cost effective to do so.
- 4.2. *IT* - We have experience of specifying, delivering and operating IT systems, including the GB RHI system and supporting CRM system, the Renewables and CHP Register, CCL Levy Exemption Certificates (LEC), Renewable Electricity Guarantees of Origin (REGO) schemes and Feed-in Tariffs (FITs). Here we have shown that we are flexible and responsive to reducing development time and cost to new schemes.
- 4.3. *Legal expertise* - The Ofgem legal team have vast experience of dealing with energy regulations and implementing new energy schemes. They are able to highlight potential problem areas with the legislation, but also provide creative solutions to development and policy issues. They will also provide a useful quality assurance check throughout the project to ensure the processes and systems put in place for a new scheme meets proposed legislative requirements and are consistent with our powers.

4.4. Summary Table of Costs

Stage One development phase



	Feasibility Study	Legal review of regulations	IT high level design and detailed requirements	Commentary
Staff costs (incl) Legal	£54K	£13k		-Salary and NI & Pensions contribution -Travel and subsistence
IT	£20K		£46k	-IT feasibility study -Options for utilising existing GB RHI system
Risk Assessment	£10K			-External independent risk analysis
Legal Consultancy		£20k		-Technical consultants for areas such as bioliquids
Subtotal	£84K	£33k		
Overheads	£21K	£9k	£12k	- Corporate services - Building facilities
Total	£105K	£42k	£58k	

Appendix 1

Proposed timeline for feasibility study (sent as a separate attachment)

RHINI

OFGEM- Rob t Hull

	2011-12												2011-12 Total	2012-13 Total	Total	
	Apr	May	Jun	Jul	Aug	Feasibility Stage			Development Stage							
						Sep	Oct	Nov	Dec	Jan	Feb	Mar				
FEASIBILITY STUDY																
Actual Costs and Latest Forecasts (can be broken down further depending on specific scheme requirements)																
Staff Costs																
Employment Costs	-	-	-	-	-	12,047	18,513	12,246	-	-	-	-	-	-	-	42,805
Recruitment	-	-	-	-	-	6,000	-	-	-	-	-	-	-	-	-	6,000
Training	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total						18,047	18,513	12,246								48,805
Consultancy																
Consultancy Actual (See table L for breakdown)	-	-	-	-	-	-	10,000	-	-	-	-	-	-	-	-	10,000
Consultancy Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total							10,000									10,000
IT						12,990	6,495	-	-	-	-	-	-	-	-	19,485
Events						-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	1,313	1,313	1,313	-	-	-	-	-	-	-	3,938
Subtotal: Pre Overheads						32,349	36,321	13,559								82,228
Overhead Charge						8,087	9,080	3,390								20,557
Total: Including Overheads						40,436	45,401	16,948								102,785

LEGAL REVIEW OF REGS

Actual Costs and Latest Forecasts (can be broken down further depending on specific scheme requirements)																
Staff Costs																
Employment Costs	-	-	-	-	-	6,467	-	6,467	-	-	-	-	-	-	-	12,933
Recruitment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Training	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total								12,933								12,933
Consultancy																
Consultancy Actual (See table L for breakdown)	-	-	-	-	-	10,000	-	10,000	-	-	-	-	-	-	-	20,000
Consultancy Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total								20,000								20,000
IT							15,155	30,310								45,465
Events																
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Pre Overheads						16,467	16,467									32,933
Overhead Charge						4,222	4,222									8,444
Total: Including Overheads						20,583	20,583									41,158

IT DESIGN & REQUIREMENTS

Actual Costs and Latest Forecasts (can be broken down further depending on specific scheme requirements)																
Staff Costs																
Employment Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recruitment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Training	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total																
Consultancy																
Consultancy Actual (See table L for breakdown)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consultancy Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total																
IT							15,155	30,310								45,465
Events																
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Pre Overheads						15,155	30,310									45,465
Overhead Charge						3,789	7,578									11,367
Total: Including Overheads						18,944	37,888									56,831

TOTAL

Actual Costs and Latest Forecasts (can be broken down further depending on specific scheme requirements)																
Staff Costs																
Employment Costs	-	-	-	-	-	18,513	18,513	18,712	-	-	-	-	-	-	-	55,738
Recruitment	-	-	-	-	-	6,000	-	-	-	-	-	-	-	-	-	6,000
Training	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total						24,513	18,513	18,712								61,250
Consultancy																
Consultancy Actual (See table L for breakdown)	-	-	-	-	-	10,000	10,000	10,000	-	-	-	-	-	-	-	30,000
Consultancy Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total								30,000								30,000
IT						12,990	21,650	30,310								64,950
Events																
Other	-	-	-	-	-	1,313	1,313	1,313	-	-	-	-	-	-	-	3,938
Subtotal: Pre Overheads						48,816	51,476	60,333								160,623
Overhead Charge						12,204	12,869	15,084								40,157
Total: Including Overheads						61,019	64,344	75,417								200,780