

To: Peter Rice[Peter.Rice@ofgem.gov.uk]
From: Robert Hull
Sent: 2012-08-30T18:37:33Z
Importance: High
Subject: FW: NI RHNI budgetary position
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Peter
As discussed
Bob

From: Matthew Harnack
Sent: 30 August 2012 18:13
To: Milton James; Andy Luckhurst; Keith Avis; Luis Castro; Rita Chohan; Paul Heigl; Richard Kayan
Cc: Robert Hull
Subject: NI RHNI budgetary position
Importance: High

Hi all,

I had to speak with Fiona Hepper of DETI this afternoon rather than Monday because she needed to discuss budgetary issues before they "make their return on budget lines" tomorrow (they advised that changes to budget would become even more difficult after tomorrow). Joanna McCutcheon also sat in on the call.

Key points:

- DETI were quite frankly furious to be told of such a significant increase in costs. DETI were also very unhappy about the long time taken to confirm costs (they asked us to confirm these back in May). As a result they feel that they are being put between a rock and a hard place on this, adding to their anger.
- It was difficult to get them to acknowledge the contingency point, particularly because they pointed to minuted meetings that they had with our staff around June and July where (according to them) we gave assurances that costs would not be above £386k. I put this down to a misunderstanding, in that our staff were no doubt indicating that costs were unlikely to be above that in the feasibility study (i.e. including contingency).
- I noted that at this stage the budget needed was looking like it was around £700k, though this had not been internally reviewed so could go up as well as down. I noted that this was within the 100% contingency that we had indicated. I noted the key areas where contingency was needed (IT and legal)
- DETI pushed me to give draft figures for IT and legal. They picked up that IT had increased by more than 100%, and pointed to page 7 of our feasibility study which said that an IT contingency of 100% was proposed, and noted that it also said that contingency would drop to 33% in December once feasibility work was completed
- They noted that the Minister is adamant that the scheme must go live in October, and I had to give them an assurance that there is no risk to this happening (provided funding was agreed in time), albeit that it might be on the basis of manual accreditation forms initially
- They also noted that it would be next to impossible to get additional budget (because amongst other things they managed to get the approval to avoid a procurement process and avoid giving the work to a local company solely because of the VFM that our £386k solution provided)
- They asked me to agree to review the level of IT contingency needed in light of the budget issue and in light of our commitment on page 7 of the feasibility study. Clearly we will now need to look at reducing contingency for **both** parts of the IT build (November accreditation part **and** January data/payments part)
- We discussed how costs might come down beyond just revisiting IT contingency (because that alone would not be enough to reduce it to £386k), and I suggested deferring the accreditation part of the IT build until next financial year could be a solution, and relying on manual forms and/or an offshore transmission type portal in the interim. I gave a commitment to look at the costs of these options
- DETI also grilled me on the operating costs. I pointed out that unit costs for accreditation were a lot higher than forecast in the feasibility study, and that this would offset cost reductions from only operating for part of 2012/13. Again, Fiona was furious about not being told about this earlier.
- I have agreed to have a phone meeting with Fiona at 2pm next Thursday. I will need all costs to be confirmed and finalised before then, including IT contingency, manual accreditation options, and operating costs (including outyears).

Luis, in my absence can you please make sure that all of this is being put into action tomorrow, and can you please oversee it so that we have final figures presented to us in time for a review meeting (meeting to be held no later than Thursday morning – nb I am off Wednesday).

Others, please note these points and change your plans accordingly.

Thanks

Matthew

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Associate Director, Commercial

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