

To: Peter Rice[Peter.Rice@ofgem.gov.uk]; Paul Heigl[Paul.Heigl@ofgem.gov.uk]; Rita Chohan[Rita.Chohan@ofgem.gov.uk]; Michelle Murdoch[Michelle.Murdoch@ofgem.gov.uk]; Lindsay Goater[Lindsay.Goater@ofgem.gov.uk]
Cc: Luis Castro[Luis.Castro@ofgem.gov.uk]
From: Keith Avis
Sent: 2012-09-04T12:27:56Z
Importance: High
Subject: FW: Revised Ofgem Cost Forecasts for 2012/13 for NI RHI
Received: 2012-09-04T12:27:56Z

All

To see the Email from Matthew to DETI. Paul – grateful if you could update your DPA and covering letter accordingly. Can you also liaise with GB RHI about their risk assessment – suffice to say we will need to work with them on the ToR for this.

Peter – appreciate that you will need to build this into your finance sheets. Grateful if we could then go through these when you are ready.

Rgds
Keith

From: Matthew Harnack

Sent: 04 September 2012 13:08

To: 'Hepper, Fiona'; 'McCutcheon, Joanne'

Cc: Keith Avis; Luis Castro

Subject: Revised Ofgem Cost Forecasts for 2012/13 for NI RHI

Importance: High

Dear Fiona and Joanne,

Further to our discussion last Thursday evening, I am pleased to say that we have been able to revise downward our cost forecasts significantly compared to the draft figures that I mentioned on the phone. The final revised figures are provided in the table below. The headline is that **total development costs are now forecast to be £433,000** in 2012/13, compared with the feasibility study estimate of £386,000 plus contingency. The difference of £47,000 is accounted for due to the 33% contingency needed for IT development costs.

We have worked hard to revise the figures as far downward as possible since Thursday. Our IT division has scrutinised IT delivery needs and are now able to confirm that we can move downward to a 33% IT contingency basis rather than the 100% previously assumed. To do this we have had to assume that there will be no change to the scope of IT requirements compared to what we currently understand is required.

We have also had to delay the release of the IT system changes so that they can be combined with changes that are being made to the GB RHI scheme to introduce air quality and sustainability requirements (these are currently planned for January 2013). This allows us to avoid the significant additional costs of a separate IT release. To do so however means that we will need to operate manual accreditation (and data collection) processes between scheme go-live and the IT release, which adds slightly to the operational costs. The small volumes expected in the first few months of operations will mean that manual accreditation processes should be manageable.

We have also reviewed the legal cost estimates and have been able to drive these down significantly so that they are now only £5k above the feasibility study estimate.

Finally on development costs, we have also identified that we should be able to combine the independent risk assessment which needs to be carried out with an assessment to be done on the changes to the GB scheme. We estimate that this will save a further £5,000, offsetting the slight increase in legal costs.

We have also now revised our 2012/13 operating cost forecast to take into account the part year operations, as well as taking into account our experience on the GB scheme with administration processing time. As a result we have been able to revise down the base operating costs by almost £15,000, although this is offset by a need to increase operating costs due to the impacts of operating without IT until January. The net effect is a small increase of £4,340 to the 2012/13 operating costs so that **total operating costs for 2012/13 are now forecast at £140,000.**

The combined development and operating cost forecast for 2012/13 is now expected to be £573,000, compared with a feasibility study figure of £521,660 excluding contingency. A breakdown of costs is provided below.

Delivery Component	Feasibility Study Cost Forecast Excluding Contingency* - December 2011	Revised Cost Forecast – 4 September 2012	Variance
New Scheme Development delivery team	£96,000	£96,000	£0
Ofgem legal costs Received from OFGEM on 11/05/2017	£62,000	£67,000	£5,000

IT delivery costs			
Independent risk assessment	£10,000	£5,000	-£5,000
Overheads	£75,000	£75,000	£0
Total Development Costs	£386,000	£433,000	£47,000
Revised 2012/13 operational costs (pre IT delay)	£135,660	£121,000	-£14,660
Additional 2012/13 operational costs due to delay to IT launch		£19,000	£19,000
Total 2012/13 Operational Costs	£135,660	£140,000	£4,340
Total 2012/13 Cost Forecast (Development plus Operational Costs)	£521,660	£573,000	£51,340

*Contingency of £386,000 was recommended in the feasibility study for development costs

I'm sorry that the draft figures I mentioned on the phone to you were such a shock but I hope you appreciate that when I heard that you needed to submit budget figures on the Friday I thought it best to make you aware of the potential increase in the costs, even though they had not yet been through our internal scrutiny process.

I do hope that this revised cost forecast and revised delivery approach is acceptable and that you will be in a position soon to confirm the budget we need to deliver the scheme. We will shortly be forwarding a Development Phase Agreement which will include this revised cost forecast and delivery approach, which we then hope to agree in a timely way so that the scheme can go live as planned at the end of October. I look forward to discussing this soon.

Regards,
Matthew

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