

To: Mary Smith[Mary.Smith@ofgem.gov.uk]
From: Keith Avis
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[NIRHICosts \(6\).pptx](#)

Mary
Updated costs slides attached. Are you happy with these.
Rgds
Keith

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Northern Ireland Renewable Heat Incentive Scheme

Analysis of 2013/14 – 2015/16 Outyear Costs

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Northern Ireland RHI: Background Figures against original Feasibility Study

Set Against Feasibility Study (16 December 2011)			
	2013/14	2014/15	2015/16
NI Installations Numbers in Feasibility Study.	1,413	2,821	5,423
GB Installation Numbers at time of Feasibility Study	47,100	94,033	180,766
Current GB Installation Numbers	12,800	25,000	31,200
Current NI percentage against GB Installations	11%	11%	17%
Feasibility Study Costs (3%)	£157,336	£197,935	£248,706
Feasibility Study Costs (5%)	£178,891	£246,557	£331,174
Total UK scheme cost (2012 CP)	£4,426,939	£5,672,799	£6,820,426

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Northern Ireland RHI: Reasons for change in costs since Feasibility Study

Time taken for us and applicants to achieve accreditation of installations is greater than anticipated due to:

- Complexity of regulations and checks to ensure appropriate targeting
- Need for checks to ensure robustness against fraud and error
- Poor quality applications lacking in the necessary detail
- Some poor quality installations
- Time needed to implement initiatives to address emerging issues e.g. Heat losses in pipe work and treatment of ground source heat pumps

More time is having to be spent on:

- Communications
- Industry training and knowledge
- Actions to address metering error, enable industry best practice

Improvements have been identified to address the above

- We have already cut accreditation times by approximately one hour per accreditation
- Further efficiency gains will be achieved and these have been built into staffing models

Northern Ireland RHI Option 1: Costs based on current volumes

- Current potential mismatch between budget and projections – budget is 3% of DECC's but current projections are at 11% of GB's figures. Either:
 - Actual costs will exceed budget;
 - Assumptions on volumes prove inaccurate and costs decrease – current GB figures are significantly lower than originally anticipated, demand could also be actively reduced with less awareness raising carried out; or
 - If GB projections reduce further and NI projections remain static, the percentage of the NIRHI scheme accreditations against GB will increase.

Set Against Feasibility Study (16 December 2011)			
	2013/14	2014/15	2015/16
Total UK scheme cost (2012 CP as it currently stands)	£4,426,939	£5,672,799	£6,820,426
NI RHI Percentage costs (11% of GB scheme)	£486,963	£624,008	£1,159,472

Northern Ireland RHI Option 2: Reduced accreditation checks

- Costs could be reduced by minimising the number of accreditation checks – this would require power to revoke accreditation to remove people from scheme if they are found later to be ineligible; or
- Taking higher risk approach to any checks – accept applications as correct and check e.g. 1 in 10.

BUT

- Reducing accreditation comes with an increased risk of applications incorrectly being approved
- We would want to investigate other cheaper options for some checks
- We would aim to halve the number of checks carried out, but this has not been independently assessed or fully scoped out and we would need to seek approval from The Authority.

Costs below are based on 50% checks with fixed overheads (note additional figures at final slide needed to be added to this total)

Set Against Feasibility Study (16 December 2011)			
	2013/14	2014/15	2015/16
Total UK scheme cost (2012 CP as it currently stands)	£4,426,939	£5,672,799	£6,820,426
NI RHI Percentage costs (11% of GB scheme)	£486,963	£624,008	£1,159,472
Accreditation checks reduction – costs taken from NIRHI 11% - 17% of GB costs	£348,511	£384,035	£785,733

Northern Ireland RHI Option 3: Reduced operational services

- Costs could be reduced by cutting back on the number of operational services undertaken by the team. This could involve:
 - Engaging less with stakeholders
 - Attending a reduced number of stakeholder events
 - Reducing the need for NI specific guidance
- Assumption would remain that IT would reflect NI and GB RHI schemes
- The cost reductions below are based on a fixed overhead cap against the original 11%-17% headline NI RHI cost against GB RHI.
- The 11-17% figure does carry some operational risk as a flat proportionate cut across all workstreams based on 11% resourcing does leave some deliverables exposed. (Note additional figures at final slide need to be added to this total)

Set Against Feasibility Study (16 December 2011)			
	2013/14	2014/15	2015/16
Total UK scheme cost (2012 CP)	£4,426,939	£5,672,799	£6,820,426
NI RHI Percentage costs (11% of GB scheme)	£486,963	£624,008	£1,159,472
Operational service reduction – costs taken from NIRHI 11%-17% of GB costs	£413,561	£560,142	£1,119,171

Northern Ireland RHI Option 4: Outsourcing

- Option to potentially outsource in line with domestics being outsourced.
- Work is ongoing to identify potential options /cost for outsourcing GB RHI.
- Phase 2 of NI RHI provides opportunity to outsource services post summer 2013.
- Illustrative costs below show NIRHI operational costs from April 2013 - August 2013, reflecting our best understanding of when phase 2 may go-live – should the outsourced supplier to continue to use our system, charges for doing so would apply e.g. share of maintenance costs, and these would be on top of costs shown below. (Note additional figures at final slide need to be added to this total)

Set Against Feasibility Study (16 December 2011)			
	2013/14	2014/15	2015/16
Total UK scheme cost (2012 CP)	£4,426,939	£5,672,799	£6,820,426
NI RHI Percentage costs (11% of GB scheme)	£486,963	£624,008	£1,159,472
Operational costs from the start of the 2013/14 financial year to end August 2013.	£202,901		

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Northern Ireland RHI: Costs to be added to GB RHI percentage operating costs

Full Operation Costs	2013/14 (FTE)	2014/15 (FTE)	2015/16 (FTE)
IT business application support costs	£27,000	£27,000	£27,000
IT Infrastructure Hardware and Software costs	£22,000	£22,000	£27,000
Infrastructure support costs	£10,000	£12,000	£14,000
Internal legal costs	£20,000	£20,000	£20,000
Total	£79,000	£81,000	£88,000
Overheads (at 24%)	£18,960	£19,440	£21,120
Total	£97,960	£100,440	£109,120

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Northern Ireland RHI

Supplementary Slides



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Northern Ireland RHI: Actions to Address Accreditation Issues

Action	Achieved to date	Actions remaining
Improving information for applicants	IT user guide revised, four new documents produced	Appointment of a comms specialist is being considered to simplify guidance document
Improving industry understanding of RHI metering requirements	Training pack devised and provided to industry bodies Code of practice produced by industry with help from RHI team	Consultation on IRMA producers to be issued in next fortnight
Simplification of regulations	Some issues referred to in DECC consultation	Changes not yet implemented by DECC - will have to be built into Phases 2 and 3 of the Regulations (i.e. January and April 2013). Changes to metering requirements will only achieve c. 5% savings in processing. Some other changes will actually make regulations more complex.
Process improvements	Sample checking of the work of junior staff has been instituted with a saving of c1 hour per accreditation	Project ongoing on options for improving review of applications
Improvements to the IT system	The wording of several questions has been changed in order to obtain the correct information from applicants	A review of the IT system will report in early October This will particularly consider how documents are managed
Increase in staffing	The RHI team has now doubled in size since the launch of the scheme. 15 new staff have been recruited in Glasgow Trigger points for further staff recruitment (increase in application rates) agreed	Trial underway on the use of consultants to handle temporary increases in workload

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Northern Ireland RHI: Results and Further Gains

- We have already cut accreditation times by approximately one hour per accreditation
- Further efficiency gains will be achieved and these have been built into staffing models
- Industry is content with our approach:
 - The Ofgem RHI Industry Advisory Group feel that Ofgem was taking the correct approaches to tackling issues facing the scheme.
 - In their view the real challenge is industry immaturity and competency levels.
 - They suggested that the emphasis should be on communicating requirements to all points on the supply chain, and in particular to provide independent advice to potential RHI applicants prior to them committing to installing a renewable heating system.

Northern Ireland RHI: FTE Costs

Additional costs for any extra FTEs, assuming the posts will be allocated in our Glasgow office are as follows:

FTE Cost For Positions In Ofgem's Glasgow Office			
	2013/14	2014/15	2015/16
Band C	55,620	57,289	59,007
Band B	40,582	41,799	43,053

It should be noted that all staff are subject to an additional overhead cost of 24%

Notes Summary:

No speaker notes are contained in this presentation.