

To: Keith Avis[Keith.Avis@ofgem.gov.uk]
Cc: Mary Smith[Mary.Smith@ofgem.gov.uk]
From: Matthew Harnack
Sent: 2012-10-05T09:43:54Z
Importance: Normal
Subject: RE: ACT URGENT - Project Woodwork - gentle reminder
Received: 2012-10-05T09:43:55Z

Keith,

It seems to me that the bigger issue is outyear operating costs, not current year costs. Can you please rewrite this to reflect this. Can you please do this **urgently** as this is now late for submission.

Matthew Harnack

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From: Keith Avis
Sent: 04 October 2012 16:19
To: Matthew Harnack
Cc: Mary Smith
Subject: RE: ACT URGENT - Project Woodwork - gentle reminder

Matthew cc: Mary

Please find below some thoughts on NIRHI

Keith

NIRHI

Issue:

NSD team had scoped out and drafted the Feasibility Study that covered the development and operation of the Northern Ireland Renewable Heat Incentive Scheme (NIRHI). As the intention was for the NI scheme to closely mirror the GB RHI scheme, the costs and volumes in the Feasibility Study were based on our early knowledge of the GB operation. The Feasibility Study was approved on this basis. The Department of Enterprise Trade and Investment (DETI) did not give us the go-ahead to administer the scheme until 5 months after the Feasibility Study was presented to them. During this time it became apparent that GB RHI volumes were significantly lower than originally projected in the Feasibility Study, resulting in the NI scheme moving from a 3-11% uptake rate against the of the GB scheme. The time taken to deal with GB accreditations had also increased substantially from those that were the basis for Feasibility Study. The result was that Ofgem's costs had increased substantially from drafting the Feasibility Study to being asked develop and operate the scheme 5 months later.

Actions:

We have worked hard to keep 2012/13 costs as low as possible, while not compromising Ofgem's delivery position. In particular we have revised our 2012/13 cost forecast to take account of the part (rather than full) 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. We have also reduced costs by combine risk assessments with the GB scheme and IT have move down from a 100% to a 33% contingency compared to what we currently understand is required.

The outyear costs (post 2012/13) remain well above the Feasibility Study projections, using 11% of GBRHI Corporate Plan figures as the basis for our figures. To reduce costs we can look to reduce accreditation checks, operational services and suggest outsourcing as options for DETI to consider, but costs will remain well above those contained in the Feasibility Study.

Lessons learned:

As in this case, Feasibility Studies need to be scoped and presented, based on the best available information at the time. From what we now know, we may want to build more scenario planning into the Feasibility Study, based on a number of possible circumstances, and make it a requirement that customers must have the contingency in place before approaching us to administer the scheme.

From: Matthew Harnack
Sent: 03 October 2012 18:18
To: NSD Senior Management Group
Subject: FW: ACT URGENT - Project Woodwork - gentle reminder

Importance: High

All,

See below for action. **Can you please forward these to me by 5pm tomorrow** and I will pool them all together for Bob and Stuart.

To put some context to it, when Stuart discussed it at MC yesterday, he was talking about decisions we have made which may now look to be at risk of coming back to haunt us. Could be a decision to accredit or reject certain applications which were contentious or precedent setting (they want to be aware if there is another Infinis), could also be an aggrieved person or organisation. Or could be a decision which now looks a bit weak in light of changing supporting evidence. At a stretch could even be a large gap in legislation which could lead to gaming, fraud, perverse outcomes etc that may cause us reputational damage.

For what it's worth, I think the RHI biomethane consultation might fall into this category, as might a couple of complainants under the RHI, as might the small amount we've paid out under the RHI compared to the large amount spent so far, as might the NIRHI operating costs.

Can you please write up short descriptions of what the issue is and what we had done about it originally, as well as whether we are considering anything more to be done about it now.

Thanks,

Matthew

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From: Stuart Cook

Sent: 03 October 2012 17:13

To: Andrew Amato; Collette Dennis; Milton James; Charles Hargreaves; Elizabeth Hillman; Martin Crouch; Matthew Harnack; Min Zhu; Robert Hull; Stephen Beel

Subject: ACT URGENT - Project Woodwork - gentle reminder

As I mentioned in MC yesterday, Bob and I will need a list of high profile things that could go wrong – eg problems we are sitting on – by COP on Thursday. Rather than sharing these by email, can you leave them on my desk (in an envelope, if you would prefer).

Thanks

Stuart Cook

Managing Director

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