

To: 'McCutcheon, Joanne'[Joanne.McCutcheon@detini.gov.uk]
Cc: Keith Avis[Keith.Avis@ofgem.gov.uk]; Mary Smith[Mary.Smith@ofgem.gov.uk]
From: Matthew Harnack
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NIRHI 2012-13 funding letter MHdraft.doc
NI RHI Revised DPA V7.docx

Hi Joanne,

As mentioned on Friday, attached is a *draft* of the letter we intend to send to formally request confirmation of funding for 2012-13. Accompanying the letter will be an update to the 2012-13 parts of the feasibility study (also attached). You'll note that we have not updated the forecast costs for 2013-14 and beyond in this document as we are taking this forward as a separate exercise.

As discussed, we will need to aim to get the 2012-13 funding agreed by 29 October in order to avoid a delay to go-live on 1 November. I have forwarded this draft so that you're able to let us know if DETI might have any issues with it before we finalise it. We will need to finalise it by the end of next week whatever the case so we'd appreciate any comments back by Monday next week. Please send comments to Keith Avis.

Regards,

Matthew Harnack

Associate Director, Commercial
New Scheme Development
9 Millbank
London
SW1P 3GE
Tel: 020 7901 7218
www.ofgem.gov.uk

The logo for Ofgem E-Serve, featuring the text "ofgem E-Serve" in a stylized font inside a rounded rectangular border.

Fiona Hepper
Director of Energy
Netherleigh
Massey Avenue
Belfast, BT4 2JP

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Your Ref:
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Direct Dial: 020 7901 3077
Email: robert.hull@ofgem.gov.uk

Date: ~~XX~~ October 2012

Dear Fiona

NI Renewable Heat Incentive (NI RHI) Funding for 2012/13

I am pleased that we have progressed with the development of the administrative options and processes for the NI RHI and are on track to launch with the manual process on 1 November. I am writing to seek DETI's agreement to fund the development and operational activities for the NI RHI for 2012/13, as detailed in the attached report and the original feasibility study.

The original feasibility study, completed in December 2011, was scoped and developed with an intended launch date of 1 April 2012. Following the delay of this launch and changes to scope, it was appropriate that Ofgem revisit the proposed activities, scope and timing of delivery and revised costs where needed. The attached report details changes in scope, assumptions, dependencies, resources and costs from the Feasibility Study for the 2012/13 financial year.

Due to the delay in launching the NI RHI scheme it has not been possible to capitalise on the cost savings available by making changes to the online RHI register in conjunction with changes being implemented by the GB scheme at that time. As a result the IT development has to be delayed until another 'window' when DECC is making changes to the IT system in order to avoid additional release costs for IT development. In addition we have updated our IT development costs to include a 33% contingency as indicated in the attached report. We are pleased to say we have avoided a need to call on contingency so far for other expenses.

As we will be delaying the release of the NI RHI IT system so that IT development can be done for the least cost option, we will be running a manual process for accreditation of NI RHI participants until the IT system is operational. This therefore increases operating costs slightly.

The cost forecast breakdown is set out below:

| Delivery Component | Revised Cost Forecast |
|---|------------------------------|
| New Scheme Development delivery team | £96,000 |
| Ofgem legal costs | £67,000 |
| IT delivery costs | £190,000 |
| Independent risk assessment | £5,000 |
| Overheads | £75,000 |
| Total Development Costs | £433,000 |
| Revised 2012/13 operational costs (pre IT delay) | £121,000 |
| Additional 2012/13 operational costs due to delay to IT launch | £19,000 |
| Total 2012/13 Operational Costs | £140,000 |
| Total 2012/13 Cost Forecast (Development plus Operational Costs) | £573,000 |

I can assure you that these figures reflect our best cost estimate following a detailed revision of the Feasibility Study. They are based on assumptions and dependences listed in the attached document and the original feasibility study. In delivering against your requirements my team will only charge against actual costs.

I would be grateful if you could agree to provide up to £573,000 of funding for the 2012/13 financial year and would ask to receive your agreement to this letter by 29 October 2012 in order to avoid any risk to delivery and allow the launch of the scheme on 1 November. I would be delighted to discuss any of these matters with you at any time.

Yours sincerely,

Robert Hull
Managing Director - Commercial