



Fiona Hepper  
 Director of Energy  
 Department of Enterprise, Trade  
 and Investment  
 Netherleigh  
 Massey Avenue  
 Belfast  
 BT4 2JP

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*Promoting choice and value for  
 all gas and electricity customers*

Direct Dial: 0141 341 3991  
 Email: [teri.clifton@ofgem.gov.uk](mailto:teri.clifton@ofgem.gov.uk)

Date: 28 October 2013

Dear Fiona,

### **NIRHI – Operational funding for 2013/14**

Further to our recent correspondence, I am writing to provide you with some further analysis of NIRHI scheme costs to date now that we have actual figures to work with.

#### **Previous agreed funding formula and funding estimate**

As you are aware, the Baseline scope provided in 2012 set out estimated costs for the operational aspects of NIRHI at the following amounts:

<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>£164,636</b>	<b>£223,809</b>	<b>£341,629</b>

It also provided the following formula for determining what Ofgem would charge DETI for the administration of the NI RHI:

*"We anticipate costs for NIRHI will be around 3% of total scheme operating costs. As a result, we propose to charge on the following basis that DETI costs = Total RHI operating cost\* Value of NI tariff payments / Value of Total (NI+GB) tariff payments."*

At the time it was envisaged that this formula would give a reasonable approximation of Ofgem's administration costs, thus allowing Ofgem to recover costs.

As requested, we have calculated the funding based on this original calculation and the scheme is running at **£145,700** for 2013/14.

Within these costs, there had been an allowance of 3% for legal costs. As you are aware, there has been significant legal input into carbon trust loans and data sharing, and costs for legal staff is likely to amount to **£100,000** for this year, which is beyond our initial expectation. Within these costs, the legal team have included work needed should there be a Judicial Review in relation to the carbon trust loans.

In addition to these legal costs, as discussed with Peter and Joanne, the accreditations are now running closer to 6% of the GB scheme rather than the 3% originally expected. As mentioned in Matthew Harnack's letter of the 13 May 2013, attached in Appendix 1, we do not believe this original calculation will be sustainable as we move forward in future years as the timing of tariff payments lag significantly behind much of the work carried out by the

*The Office of Gas and Electricity Markets  
 9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 [www.ofgem.gov.uk](http://www.ofgem.gov.uk)*

operational team. Payments are not usually made for several months after the enquiry and application handling stage. This depresses charges in any year in which the number of applications is growing.

I hope that this helps provide clarity for your costings. If you have any further queries, please give me a call.

Yours sincerely,

Teri Clifton

## Annex 1 - Proportionality

Although some resource requirements associated with running a scheme are proportionate to the number of applications, some are not.

### Operational costs which are likely to be proportionate

These will include aspects such as:

- Most IT costs (including support, hardware and software, licences etc)
- Recruitment (varying in line with staff costs)
- Technical consultancy
- Travel (depending on how many trips to Belfast are required)
- Enquiries
- Overheads
- Legal expenditure on legal issues common to both GB and NI RHI schemes

### Operational costs which are highly likely to be out of proportion

#### 1) Divergence of schemes

As well as impacting on development and IT costs, divergence of the GB and NI schemes will impact on operational costs. Scheme divergence is highly likely, for example, it is not expected that the NIRHI scheme will be revised on the same timescales as the GB scheme. Under the GB scheme there will be changes in 2013/14 to the definition of complex systems. These changes will not be introduced for NI until considerably later. Staff will have to be trained to operate two different systems and monitoring will have to be put in place to ensure this is appropriately handled. While some of the changes to the GB scheme may increase scheme requirements, others, such as the metering changes, are expected to considerably reduce the amount of work needed to accredit an installation. Where these are delayed for NI, as well as the costs of divergence, there will be a resource cost for maintaining the more time consuming procedures for NI, which will make the costs of running that scheme disproportionately greater for NIRHI. A number of regulatory fixes which will simplify the accreditation process are also currently being considered by DECC.

#### 2) Differences in application type

Although in theory the larger and more complex an application is, the more time it takes, in practice, particular characteristics can increase the time taken to process an application. For example, farmhouses are not usually business rated so establishing their eligibility for the non-domestic scheme can be very time-consuming. Such premises may be a disproportionate amount of NI work depending on the demographics of the area. Although as previously noted no farms in NI have applied for the scheme, and therefore we do not believe this is currently a factor, it may become a factor in the future.

#### 3) Reporting and communication

All reports produced for GBRHI have to be replicated for NIRHI. This is not an additional 3% workload for these tasks, it is estimated to be closer to an additional 25% of staff time, taking into account that some of the issues will have been resolved in developing the GB report. Reporting currently utilises 4.8 FTEs per annum. We are working on making our reporting more efficient by developing our IT systems and have assumed these efficiencies in our projections of staff requirements this financial year.

IT development expenditure on reporting functionality is also not proportional at 3% of total expenditure. This is because a whole separate series of reports needs to be created for NI. While much of the up-front design or re-design work could be attributed to GB, the actual work on building the new reports or making the changes to the reports needs to be replicated for both GB and NI, meaning that costs of making the changes to the NI reporting functionality could be closer to 25% of total costs incurred on changing reporting.

Should we need to make any further changes to reporting (such as in Phase 2 of scheme development) we will discuss and agree the costs with DETI in advance.

#### **4) Timesheet reporting**

Because it was recognised that not all tasks are proportionate to NIRHI payment levels, it has been necessary to ask all direct operational staff working on NIRHI to keep some form of timesheets of the work they do specifically on NIRHI. It is this timesheet reporting which has allowed us to have data upon which to base this analysis of the proportion of time being taken on NIRHI. It will also provide security, going forward, that we have accurately portrayed the cost of running the NI scheme to DETI. This is an administrative burden on those staff who have to complete timesheets, on their managers and on those reporting on their activity. Again, these activities are not necessary in relation to the GB scheme. Note however that as mentioned earlier, we have not currently introduced more widespread timesheeting (e.g. of HR staff, finance staff, or senior management staff) which would be required to move to an actual charges basis.

#### **5) Staff training**

In order to manage the RHI scheme we have to have different staff able to carry out the following tasks:

- Operational management
- Application processing (+leave cover)
- Enquiry handling (+leave cover)
- Level three reviews (+leave cover)

Although these individuals will not need to spend 100% of their time on NIRHI, they will all have to be trained so the training overhead is higher for NIRHI. Because the absolute numbers of staff employed on these tasks is so low, a full extra person has to be trained in each area to provide cover. In the GB scheme, training one extra member of staff will provide cover for many postholders. Therefore the training burden will not be proportionate to that of the GB scheme.

#### **6) Updating guidance material**

As the NI scheme is based on a different set of legislation to the GB scheme we have also had to publish a separate guidance document and guidance material. Any updates to the guidance material, due for example to a streamlining of processes or due to feedback which prompts us to clarify a statement, will need to be carried out for both the GB material and the NI material. This will therefore be out of proportion to the 3%. As with reporting we anticipate this to be closer to 25%.

#### **7) Management of the scheme**

Managing the relationship with DETI may not take the same amount of effort as managing the relationship with DECC, since, for example, we do not have to attend monthly meetings with DETI. Nonetheless it is considerably more than 3% of the work associated with managing the relationship with DECC especially given travel times to DETI etc.

It is these tasks which, along with scheme management and reporting, form the baseload of tasks for RHI which may not be proportional to the same tasks for the GB RHI scheme.