



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

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

Direct Dial: 0141 341 3991
 Email: teri.clifton@ofgem.gov.uk

Date: 29 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:

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

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."*

Matthew Harnack's letter of the 13 May 2013, attached in Appendix 1, drew attention to the issues with this original calculation. As can be seen below from the costs to date, it is now clear that it is not appropriate either for this year or for future years. The timing of tariff payments lag significantly behind much of the work carried out by the 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.

You have asked for an illustration of what the costs to DETI would have been under the payment based calculation. On this basis, the scheme costs for 2013/14 would be £10,200. This would clearly be insufficient to cover the operating costs for this financial year.

An alternative calculation based on the original estimate of a likely attribution of 3 per cent of GB costs to NI has been carried out. Three per cent of GB operating costs at the current run rate equate to **£145,700** for 2013/14.

*The Office of Gas and Electricity Markets
 9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 www.ofgem.gov.uk*

However, as discussed with Peter and Joanne, Northern Ireland accreditations are now running closer to 6% of those in GB rather than the 3 per cent originally expected.

It is also important to point out that the 3 per cent calculation assumes legal costs will equate to 3 per cent of those of the GB scheme.

As you are aware, there has been significant legal input into addressing issues related to this Scheme. The cost for legal staff is likely to escalate beyond 3 per cent and there may be a need for external legal advice. We will need to confirm legal costs to you later, but at present our best estimate of the likely cost for the year are around £50,000. This estimate does not allow for any contingency or provision for litigation should that arise.

Given the uncertainty around some aspects of the likely costs for this year we suggest we arrive at an agreement that for this year we will pass on costs equivalent to 3 per cent of the GB scheme to DETI. Therefore the costs that we will be expecting from you this year are **£145,700 plus legal costs currently estimated at around £50,000.**

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
Senior Operations Manager