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Northern Ireland Renewable Heat Incentive Scheme

- **Forecast of 2013/14 – 2015/16 Operating Costs**

Northern Ireland RHI: Reasons for Reviewing Outyear Forecast Costs (1)

Since the original NIRHI feasibility study was completed in December 2011 there have been a number of factors which have changed which have given need to revise forecast operating costs.

Experience with the GB scheme shows that the time taken for us and applicants to process applications for accreditation is greater than assumed in the original study. This is due to:

- Complexity of regulations, particularly around metering and biomass boiler requirements, to ensure public money is being appropriately spent
- Need for checks to ensure robustness against fraud and error
- Industry immaturity leads to poor quality applications lacking in the necessary detail and poor quality metering installations
- More time is also having to be spent on communications, industry training and education, and actions to address metering error and enable industry best practice as a result of the above
- Time needed to implement initiatives to address emerging issues e.g. heat losses in pipe work and treatment of ground source heat pumps

Improvements have been identified to address the above:

- We have already cut average accreditation times by approximately one hour per accreditation
- Further efficiency gains of 30% are expected to be achieved and these have been built into outyear forecasts (these include proposals to simplify metering requirements in the regulations, and to strengthen the reliability of independent metering reports and MCS accreditation covering metering installation)



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Northern Ireland RHI: Reasons for Reviewing Outyear Forecast Costs (2)

The Feasibility Study also did not include the anticipated legacy applications from the Northern Ireland Renewable Heat Premium Payments Scheme – applications as at 10 October 2012 number 309. These have been built into revised application projections (see below).

Current potential volume projections compared with original Feasibility Study			
	2013/14	2014/15	2015/16
NI Installation Numbers (i.e. Applications for Accreditation) in Feasibility Study	776	1,408	2,602
NI Renewable Heat Premium Payment Scheme (NIRHPPS) legacy numbers (total of 309 applications, split over first two outyears)	155	154	0
Total Revised NI installation numbers (Feasibility Study plus NIRHPPS legacy)	931	1,562	2,602
GB Installation Numbers at time of Feasibility Study	25,867	46,933	86,733
Current Revised GB Installation Numbers	12,800	25,000	31,200
Current NI percentage against GB Installations	7%	6%	8%

Northern Ireland RHI: Assessment of Appropriate Charging Methodology

- Since the original feasibility study, DECC have also revised down their volume projections. As a result of this and the inclusion of legacy projections, there is currently a potential mismatch between budget and projections – budget is 3% of DECC's but current volume projections range from 7- 8% of GB's applicant figures. This suggests that either:
 - Actual tariff payments will exceed budget. We assume that this will not be the case for the purpose of our methodology, but will revisit in a year;
 - Actual installation volumes are lower than assumed, justifying using 3% – current GB figures are significantly lower than originally anticipated, demand could also be actively reduced with less awareness raising carried out; or
 - Both budget and projections are right but NI will have smaller installations compared to GB which are quicker to process, resulting in reduced accreditation time/ resources required and justifying using 3%.
- Based on the above, and assuming that our other assumptions remain valid, we anticipate costs for RHI will be around 3% of total scheme operating costs – costs are detailed in the following slide.
- As a result we propose to charge DETI on the following basis:

$$\text{DETI costs} = \text{Total RHI operating cost} * \text{Value of NI tariff payments} / \text{Value of Total (NI +GB) tariff payments}$$
- Important to note that these costs **do not** include development costs or any supplementary operational costs for phase 2 and other future changes to the Northern Ireland RHI scheme. These will be scoped out once you make known your intentions for these changes to us.



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Northern Ireland RHI: Costs Assuming Tariff Payments are 3% of RHI Scheme Payments

Set Against current GB RHI scheme operational costs			
	2013/14	2014/15	2015/16
Total scheme operational cost*	£5,487,867	£7,460,300	£11,387,967
NI RHI Percentage costs (3% of RHI scheme)	£164,636	£223,809	£341,639

* Figures based on draft RHI Corporate Plan estimate as at 10/10/2012, without legacy spend but includes legal staffing costs, IT operational costs and 24% overheads.

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Northern Ireland RHI: Change Arrangements

- We will need to review and agree revised funding arrangements if assumptions change (as costs may go up or down if these change)
- Assumptions are contained in the original feasibility study (December 2011), the updates to the feasibility study (October 2012), and this slidepack
- The main assumptions include:
 - NI RHI scheme is the same design as GB RHI (apart from tariff rates)
 - Volumes are as stated
 - Installations are smaller and therefore simpler to process than GB installations

Notes Summary:

No speaker notes are contained in this presentation.

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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.	776	1,408	2,602
NI Renewable Heat Premium Payment Scheme (NIRHPPS) legacy (total of 309 applications, split over first two outyears)	155	154	0
Total NI numbers from Feasibility Study and NIRHPPS legacy	931	1,562	2,602
GB Installation Numbers at time of Feasibility Study	25,867	46,933	86,733
Current GB Installation Numbers	12,800	25,000	31,200
Current NI percentage against GB Installations	7%	6%	8%

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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
- Industry immaturity and system competence leads to 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 on average accreditation times by approximately one hour per accreditation
- Further efficiency gains are expected to be achieved and these have been built into staffing models

The Feasibility Study did not include the anticipated legacy applications from the Northern Ireland Renewable Heat Premium Payments Scheme – applications as at 10 October 2012 number 309.

Northern Ireland RHI: Reducing costs against projections

- Current potential mismatch between budget and projections – budget is 3% of DECC's but current projections range from 7- 8% of GB's applicant figures. Either:
 - Actual tariff payment budget will exceed budget. We assume that this will no be the case for purpose of this methodology, but will revisit in a year;
 - Actual volumes are lower than assumed, justifies using 3% – current GB figures are significantly lower than originally anticipated, demand could also be actively reduced with less awareness raising carried out.
- Based on current installation figures we anticipate costs for RHI will be closer to 3% GB figures, based on the assumption that NI Installations are expected to be almost all smaller Installations, which are quicker to process, resulting in reduced accreditation time and resources required.
- Costs based on 3% of GB RHI are detailed in the following slide.
- Costs will be based on the amount paid rather than the number of installations - and secondly that there are no fundamental differences to GB scheme.
- Important to note that these costs **do not** include development costs or any supplementary operational costs for phase 2 of the Northern Ireland RHI scheme. These will be scoped out once you make known your intentions for phase 2 to us.



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Northern Ireland RHI: Costs based on 3% of GB RHI Scheme

Set Against current GB RHI scheme operational costs (without legacy cost)			
	2013/14	2014/15	2015/16
Total UK scheme operational cost (2012 CP as it currently stands)*	£5,487,867	£7,460,300	£11,387,967
NI RHI Percentage costs (3% of GB RHI scheme)**	£164,636	£223,809	£341,639

* Figures based on GB RHI Corporate Plan estimate as at 10/10/2012, without legacy spend but includes legal staffing costs, IT operational costs and 24% contingency.

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Supplementary Slide (for internal info only)



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Northern Ireland RHI: Background slide for info only detailing how costs were achieved.

Full Operation Costs	2013/14	2014/15	2015/16
IT business application support costs	£15,600	£20,700	£25,926
Internal legal costs	£3,812	£3,812	£3,812
Operational costs – 3% of GB RHI operational costs without legacy spend	£113,359	£155,979	£245,777
Overheads 24% of total costs	£31,865	£43,318	£66,124
Total Costs	£164,636	£223,809	£341,639

Notes Summary:

No speaker notes are contained in this presentation.