

**To:** Peter Rice[Peter.Rice@ofgem.gov.uk]; Ade Obaye[Ade.Obaye@ofgem.gov.uk]; Deckerson Thomas[Deckerson.Thomas@ofgem.gov.uk]  
**From:** Morag Drummond  
**Sent:** 2012-07-27T14:36:07Z  
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[rebaselining 2012 DECC Julyversion.pptx](#)  
[Initial assumptions list for the interim re.docx](#)  
[Copy of RHI 3 Yr Flying boxes June final.xlsx](#)

FYI and as discussed at our corporate plan meeting this morning.

Clearly DECC have been told that these costs are indicative, but it does not shed any light on what we do re the high and low cost assumptions. I will raise this with Matthew on Monday.

Morag

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**From:** Matthew Harnack  
**Sent:** 25 July 2012 18:06  
**To:** Irrelevant information redacted by the RHI Inquiry  
**Cc:** Irrelevant information redacted by the RHI Inquiry; Irrelevant information redacted by the RHI Inquiry; Jacqueline Balian; Ashley Malster; Lindsay Goater; Morag Drummond; Juliet Little  
**Subject:** draft RHI rebaselining figures

Hi 

As requested, attached are the **draft** RHI budget estimates for 2012/13 as rebaselined by us in June. Also provided are updated **indicative** costs for 2013/14-2014/15, or 2015/16 in some cases (firmer figures for these outyears will be provided in advance of the upcoming budget year as part of the annual budgeting round). We have presented these as a “low” and a “high” cost scenario, as there are a number of factors which affect the cost which have not yet been confirmed or assessed in detail. Please excuse the information being spread out over 3 documents – a consequence of it still being in draft form.

As previously mentioned, these figures have **not been through our internal approval process** (amongst other things they have not been endorsed by myself, nor approved by Bob as SRO, nor accepted by our Senior Management Team), so the figures are **subject to change**.

As you'll appreciate, policy for Phases 2 (January/April 2013 changes) and 3 (Summer 2013 changes) of RHI development had not been confirmed at the time the figures were put together, which has meant that we have had to make various assumptions about what these phases might consist of. We have also had to undertake only a high level assessment of costs due to this. **Costs for development of these phases are therefore high level and indicative only, and are likely to change** if policy varies in any way from what we have assumed, and once we have undertaken a full scoping study exercise (cost/benefit assessment of delivery options) for each phase to better determine the costs. We will refine our costs for these phases as we conclude the scoping studies for each. We are currently undertaking the scoping study for Phase 2. The phase 3 scoping study will start towards the end of the year.

Costs for operations have been revised based on our experiences to date operating the scheme. However, there are a number of factors which can affect the costs, so **if any of these factors change compared to the assumptions we have made we may need to change the operational budget** by way of a rebaselining or change request process. Assumptions have been listed in the attached document to the extent that we were able to do so.

You should also note that **new events such as potential legal challenges and further policy changes** (beyond those known for Phases 2 and 3) **have not been included** in our proposals. While we will endeavour to minimise the risk of legal challenge in the event that we face legal challenge, we will recover our costs from DECC on a cost pass through basis. Also, our budget estimates do not include contingency or optimism bias.

Having been through this rebaselining exercise, we now **expect to breach the IT moratorium** at some point in the future, so at some point we will also need to discuss with you how you want to deal with this.

On a final note, thank you to the team at DECC for working with us thus far to understand what needs to be delivered for Phases 2 and 3, and also on the operational delivery of the RHI. I believe we are working well together to address operational issues as well as shape future delivery, and I hope we are providing you the comfort you need that we are operating the scheme well. I am keen for us to work together to help you refine policy for the scheme so that it results in the best value for money administration of the scheme, and I look forward to doing this as we go through the scoping exercises for Phases 2 and 3. In the meantime, please feel free to contact me if you have any questions regarding this information and I would be happy to help answer them.

Regards,

Matthew

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