

**To:** 'McCutcheon, Joanne'[Joanne.McCutcheon@detini.gov.uk]  
**Cc:** 'Thompson, Sandra'[Sandra.Thompson@detini.gov.uk]; Peter Rice[Peter.Rice@ofgem.gov.uk]; Michelle Murdoch[Michelle.Murdoch@ofgem.gov.uk]; Sajith Sasikumar[Sajith.Sasikumar@ofgem.gov.uk]  
**From:** Matthew Harnack  
**Sent:** 2013-04-05T17:13:59Z  
**Importance:** Normal  
**Subject:** RE: URGENT - NI RHI COSTS  
**Received:** 2013-04-05T17:13:59Z  
[Book1.xlsx](#)

Hi Joanne,

You asked for me to confirm full year administrative charges for NIRHI for 2012/13, and for these to be broken down according to the categories shown in the feasibility study on these items. Please see the attached spreadsheet for these figures.

As you will see we have (with some difficulty) managed our expenditure to match the budget for each line item on the development costs, with the exception of IT expenditure, which was almost £40k over due to the need for the separate IT release. As mentioned, we were unable to absorb this expenditure within the IT budget as we had originally thought we would be able to, however due to the significantly lower operating costs the total expenditure is well within the total budgeted for the year for NIRHI (the total spend is around £498k against a budget of £573k).

Note that we have calculated operating costs of £5,818 in line with the proportion of accredited installations in NI compared to the whole RHI (i.e. GB + NI). I have been advised that there were 5 accredited installations at the end of March 2013, compared to 1243 accredited installations across both schemes. The pre-agreed estimate of £19,000 has also been added to account for the extra resource required for manual handling from November to January.

Regarding your email of 21 March 12:09pm (below), we consider the approach you have quoted to apply to the overall total expenditure only, not to the line by line breakdown. To impose it on a line by line basis would introduce additional restrictions to our ability to manage the development of the scheme on time without any hiatus in funding and therefore resources, and had we agreed to take that approach we would have therefore needed to incorporate additional contingency amounts into each individual line item to mitigate against this risk of hiatus. This, of course, would have significantly increased the budget. If DETI want to take this approach in future then we may need to renegotiate the terms of the agreement as well as the budget/funding formula to address this problem. Regardless of this, I think we will need to renegotiate the funding formula in the near future because, now that we have some experience operating the two schemes alongside each other, I am concerned that there are a number of tasks which we have to undertake for NIRHI which take up much more time than the formula suggests, and am therefore concerned that we will not be recovering our costs in future if we use the existing formula.

I am on leave next week and on Monday 15<sup>th</sup>, but I'd be grateful if we could pick up these issues on my return from leave after 16<sup>th</sup> April. I'm also conscious that you are waiting on a reply on the legal question, and I will need to pick this up on my return from leave too.

In the meantime, if you need any more detail on these figures could you please contact Sajith

Sasikumar (his email is in the cc line above). Should you have any other queries on the NIRHI operations, please contact Michelle Murdoch.

Regards,  
Matthew

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**From:** McCutcheon, Joanne [mailto:Joanne.McCutcheon@detini.gov.uk]  
**Sent:** 04 April 2013 13:53  
**To:** Matthew Harnack  
**Cc:** Thompson, Sandra  
**Subject:** URGENT - NI RHI COSTS

Matthew

Did you send the financial info/breakdown through last week as you indicated? I returned to work this morning and I can't seem to find it and Fiona is now on leave so I can't check with her. Details are needed urgently for our end year financial return is due tomorrow am.

Thanks  
Joanne

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**From:** McCutcheon, Joanne  
**Sent:** 21 March 2013 12:09  
**To:** 'Matthew Harnack'  
**Cc:** Hepper, Fiona; Hutchinson, Peter  
**Subject:** NI RHI COSTS

Matthew

I mentioned yesterday that I was taking leave. I will be out of the office from today until 4 April. I have updated Fiona following our discussion yesterday i.e you indicating that development costs were higher than the scope, that the overall costs remained within scope, and that you were investigating how the formula to calculate operating costs had been applied. I told her you hoped to get something to us next week.

It would be useful if the figures you provide could be broken down between development/operational as per the table you provided previously in the scoping document

Table 2: Development Costs Forecast

New Scheme Development delivery team (including: Band C Operational Manager – recruitment process & Stakeholder engagement costs)	£96,000
Internal Ofgem legal costs	£67,000
IT delivery costs	£190,000
Independent risk assessment	£5,000
Overheads	£75,000
<b>Total:</b>	<b>£433,000</b>
Operational Costs	
Cost (£)	
Revised 2012/13 operational costs (pre IT delay)	£121,000
Additional 2012/13 operational costs due to delay to IT launch	£19,000
<b>Total:</b>	<b>£140,000</b>
<b>Total 2012-13 forecast costs:</b>	<b>£573,000</b>

As mentioned during our call I am concerned with the mention that the development costs appear to be higher than scope. This was the first time we were made aware that there was increased IT costs over and above the contingency.

You will recall that Bob's letter to Fiona clearly states that additional costs would be agreed in advance and the scoping study states

The change control process is designed to deal with any changes to the above scope, cost, assumptions or timescales set out in this document. The proposed process is outlined below; where any potential changes are identified, the Ofgem Project Manager (currently Keith Avis) will manage the process. Once agreed, the process may then be

amended from time to time by written agreement between DETI and Ofgem.

We consider the above applies to the whole breakdown provided in the document not simply the overall total. Furthermore the application of the agreed formula to calculate operating costs would surely result in zero, although I appreciate we would still have to pay the charges we previously agreed in respect of the manual system.

We will await your breakdown of costs and details of how they have been calculated.

Regards  
Joanne

PS I also advised Fiona that you hoped to have a response to her on the legal issues in the next week or so.

**Joanne McCutcheon**

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