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

Direct Dial: 020 7901 7218
Email: robert.hull@ofgem.gov.uk

Date: 2 December 2011

Dear Fiona,

RE: Delivery of Draft Feasibility Study into the Administration of the Northern Ireland Renewable Heat Incentive (NI RHI)

In Joanne McCutcheon's letter of 30 September 2011 DETI asked Ofgem to undertake a feasibility study into our potential role in developing and administering the NI RHI. I'm happy to provide the draft feasibility study for you and your team's review. The feasibility study contains our proposals for Ofgem to develop and implement the NI RHI scheme. This study will remain in draft form until the key dependencies outlined in the study are finalised. These include agreement with DETI being reached and approval being received from GEMA.

We have been working towards meeting DETI's publicly-stated scheme launch date of 1 April 2012. Following advice from your team on 23 November 2011 that it is unlikely that the necessary approvals will be in place to proceed towards the proposed 1 April 2012 launch date, we have provided alternate delivery options in the study. We currently hope that agreement may be reached in January 2012.

We believe that we can have the operational structures in place to deliver the NI RHI scheme following a Development Phase of approximately four months, after a two week mobilisation stage. However this belief is based on a number of assumptions regarding scheme policy. One key assumption is that we will not be required to include air source heat pumps and bioliquids from scheme launch, and that no additional IT requirements will be needed for Heavy Industrial Sites until after the scheme has launched.

Confirmation of an achievable launch date will be dependent on Ofgem and DETI meeting a number of key deliverables. These deliverables include:

- DETI and GEMA agreeing Ofgem development funding and deliverables, then allowing two weeks for Ofgem to allocate resources for the development team to begin work.
- DETI finalising their policy position and providing the details of this position to Ofgem.
- DETI sharing the finalised draft regulations (from a policy perspective) with Ofgem.
- Confirmation that DETI/NIAUR will provide appropriate administration costs for the ongoing administration of the scheme.
- DETI agreeing to provide a legal contingency fund of £1 million per year once operation of the scheme commences and this being available to cover Ofgem's legal costs in the event of legal challenge.

The Office of Gas and Electricity Markets
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By utilising our experience of developing and implementing the GB RHI scheme we have been able to find a number of efficiency savings for this project and these are outlined in the study.

Based on our prior assumption of a 1 April 2012 launch date we would require a budget of **£386,000**, with appropriate contingency. We are recommending contingency of 100% (ie an additional £386,000) to cover costs arising from uncertainty around final scheme policy and the extent of IT and legal work that may be required. As detailed in the study these resource requirements may need to be re-visited in the event of prolonged delays in gaining DETI's final approval. A breakdown of the proposed budget can be found in the table below:

Delivery Component	Cost (£)
New Scheme Development delivery team	£96,000
Internal Ofgem legal costs	£62,000
IT delivery costs	£143,000
Independent risk assessment	£10,000 (excluding £10,000 deferred from feasibility study)
Overheads	£75,000
Total	£386,000

Furthermore we have been able to provide a forecast of the likely costs of Ofgem administering the NI RHI scheme for the first four years. Assuming an uptake rate of 3-5% in comparison to the GB RHI scheme, we are forecasting that the administration cost of the scheme will be between £740,000 and £900,000 over the first 4 years of the scheme. This represents between 3-3.6% of the scheme's £25 million funding envelope over the first 4 years. Ofgem will only pass through actual costs to DETI/NIAUR and will provide regular reporting to ensure that DETI/NIAUR are aware if these costs are to be significantly different from the forecast provided. We envisage that financial reporting and revised forecasts will be discussed at least quarterly at the joint Administration Board.

The team here have enjoyed working with colleagues in DETI and look forward to continuing this constructive partnership in the development and operational phases. I trust that this feasibility study gives you all the information you need to secure the required funding for the development phase and the appropriate commitment that Ofgem administrative costs will be met if Ofgem is chosen to administer the scheme. Confirmation on these points and agreement on Ofgem development costs is needed before Ofgem can confirm a launch date for the scheme. I look forward to receiving your response to our proposal and funding forecast, and would be delighted to discuss any of these matters with you.

Yours sincerely,



Robert Hull
Managing Director - Commercial


Feasibility Authorisation Form

Programme: Northern Ireland Renewable Heat Incentive

This form should ensure all aspects of the programme costs have been considered and authorised appropriately

IT

- I confirm that I have discussed and included the key Assumptions relating to the IT needs of the programme.
- I confirm that I have discussed the IT needs of the programme and have included best estimates of the likely costs in accordance with the Assumptions contained in the Feasibility Study.
- I confirm that I have discussed sensitivities around those Assumption and have included best estimates of costs in the scenarios defined in the sensitivity analysis.

Name	Signature	Date
Richard Kayan		02/12/2011


Legal Services

- I confirm that I have discussed and included the key Assumptions relating to the Legal Services needs of the programme.
- I confirm that I have discussed the Legal Services needs of the programme and have included best estimates of the resources required in accordance with the Assumptions contained in the Feasibility Study.
- I confirm that I have discussed sensitivities around those Assumption and have included best estimates of Legal Services resource requirements in the scenarios defined in the sensitivity analysis.
- I confirm that I have discussed the calculated costs of the Legal Services resources identified needs of the programme and have agreed the calculation methodology.

Name	Signature	Date
Ruth Lancaster		

Head of Finance and Administration - Commercial Division

- I confirm that I have discussed the resource needs of the programme and have included best estimates of the likely costs in accordance with the Assumptions contained in the Feasibility Study.
- I confirm that I have discussed the Legal Services resource needs of the programme and have included best estimates of the likely costs in accordance with the Assumptions contained in the Feasibility Study.
- I confirm that I have discussed sensitivities around the Assumptions and have included best estimates of costs in the scenarios defined in the sensitivity analysis.

Name	Signature	Date
Peter Rice		2/12/11

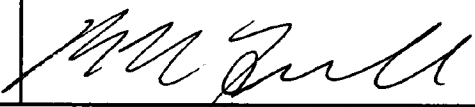
Head of New Scheme Development

- I confirm that I have reviewed the Feasibility Study and recommend it for presentation to DETI

Name	Signature	Date
N/A		

Managing Director - Commercial

- I authorise this Feasibility Study for presentation to DETI

Name	Signature	Date
Robert Hull		2/12/11

To: Ashley Malster[Ashley.Malster@ofgem.gov.uk]
From: Jacqueline Balian
Sent: 2011-12-05T12:56:59Z
Importance: Normal
Subject: FW: Ni Feasibility Study
Received: 2011-12-05T12:56:00Z

This is the document I mentioned

J

Jacqueline Balian

Head of RHI Operations
New Scheme Development
9 Millbank
London
SW1P 3GE
Tel: 0207 901 7211
www.ofgem.gov.uk

From: Ruth Lancaster
Sent: 01 December 2011 16:19
To: Jacqueline Balian
Cc: Catherine McArthur
Subject: Ni Feasibility Study

Jacqueline

Catherine has just informed me that Legal are expected to read and sign off the feasibility study for this project by tomorrow. I have reminded Catherine that reviewing the Feasibility Study was not part of the scope agreed for Legal in this initial phase and therefore we have not planned for capacity to support this. This is something of a recurring issue on scoping and budgeting of the schemes. On the one hand we are told that our remit is limited and therefore the budget for Legal should be minimised, but in practice there is always scope creep with us being expected to support a much wider scope. The Feasibility Study is a good example of this. Another example is GB RHI where we were told our involvement would be limited to 3 areas in order to keep legal costs down. The three areas were reviewing the regulations, reviewing the guidance and procurement (3 specific procurements). You will be aware that the level of involvement required from us has far exceeded that.

As Matthew is aware we monitor incoming work to check if it is in scope. If it is not we may not be able to support it without an amendment to the budget or without dropping something else from the scope. In practice we have always provided what assistance we can and will continue to do so if we have capacity. However, this should be an emergency contingency only and not relied on regularly to cover shortcomings in project planning or unrealistic budgeting. Our team supports a wide range of E-Serve activities and it is unlikely that we will have spare capacity. Please be aware of this when scoping and budgeting for legal support. As I have commented before whenever items are excluded from the scope of legal review in order to keep costs down the exposure of the Authority to risk is potentially increased

As a general comment on requests for Legal sign off please be aware that Legal do not *approve* or *sign off* policy documents. The role of Legal is to provide comments and advice for consideration by the author, who retains responsibility for the document.

I think it would be useful to have a discussion about the issues of scoping and budgeting for Schemes generally at our meeting next week and probably a further discussion with Matthew when he returns from leave.

Kind regards

Ruth

Ruth Lancaster

Principal Legal Adviser
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