

## **CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – Energy Company Obligation**

- **Explanation**
- ECO will replace existing energy efficiency obligations set under CERT and CESP, requiring suppliers to meet carbon reduction and affordable warmth to vulnerable customer targets.
- Ofgem submitted an initial proposal to DECC to develop and perform the operation of ECO on 1 June 2011. A decision on who will perform these tasks is still pending, and will not be made until after consultation on DECC's proposals is completed over the coming months.

### **Assumptions**

- Assume we are asked to run ECO.
- Only Development costs are shown here. Operational costs are covered separately in the Environmental Programmes submission.
- Costs are as per the high scenario in our submission to DECC, with two exceptions (see below)
- The original proposal to DECC assumed we would commence development work in 2011/12, whereas we now expect to start work in June/July 2012. However, the go-live date is still expected to be in 2012/13. The 2011/12 costs from the proposal have therefore been added to 2012/13 costs (except legal which remains at £200k).
- We are also now assuming that there will be one legislative change per year from 2013/14 onward, consistent with our experiences for RO and FITs, and more recently for CERT
- NB:IT costs are assumed at £800,000 in 2012/13 as per the proposal to DECC.

**Certainty of work proceeding: 50%**

## **CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – RO Sustainability**

- **Explanation**
- Developing administrative workstreams and stakeholder guidance reflecting DECC's implementation of the Renewable Energy Directive 2009 via the Renewable Obligations Order 2009 guidance. For requiring generators to comply with sustainability requirements for biomass fuels that they use

### **Assumptions**

- Introduction of mandatory criteria for biosolids and biogas is required by April 2013.
- Further work is also expected on verification, incorporating the Carbon Calculator into the Order and the long term approach to forestry sustainability as part of this work package.
- Figures for the development team therefore assume that work will be complete by March 2013, but also includes provision for a two month handover period into 2013/14.
- Anticipate that 2012/13 work will be building on the existing sustainability guidance for solid and gaseous biomass and bioliquids – therefore less resource will be needed than in 2011/12.
- Assume that after 2013/13 no work will be required on RO Sustainability
- IT Costs – are included in the figure provided for the RO Legislative changes assumptions

**Certainty of work proceeding: 100%**

## **CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT - RO Legislative Changes**

- **Explanation**
- In 2012/13 we will be implementing changes to the RO resulting from the Banding review that DECC are currently conducting.
- IT staff will also need to work on other system modifications.

### **Assumptions**

- DECC will implement Banding review proposals. Banding review to conclude by June 2012 and changes to go live by April 2013.
- We expect changes to the RO to continue beyond in 2013/14 and 2014/15 at the same level as they have to date (but lower than the banding review).
- We expect changes for the England & Wales scheme to finish after 2014/15 due to the scheme being closed to new entrants from April 2017. However, changes to the RO will still continue for Northern Ireland and Scotland. These will be at a lower level than expected in 2013/14 and 2014/15 due to the smaller value of these schemes.
- Other minor legislative changes or system enhancements to be minimal in 2012/13.
- Other IT liaison support at the same level as 2011/12.
- NB: IT Development spend for RO for 2012/13 is expected to be £550,000.

**Certainty of work proceeding: 100% for Banding Review in 2012/13, 80% for legislative changes from 2013/14 onward (but 90% for IT liaison support from 2013/14 onward)**

## CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – Feed In Tariff

### Explanation

- Implementing changes to DECC's Feed in Tariff Scheme, designed to promote the take up of small scale low carbon electricity technologies by the public and communities. In 2012/13 this will include work to deal with FITs Comprehensive Review Phase 2 – to be completed by end summer 2012.

### Assumption

- Assume that Comprehensive Review Stage 2 work will be substantial and continue until around July/August 2012
- Based on the experiences of dealing with the RO and FITs, it is also assumed that further annual legislative changes will be necessary beyond the Comprehensive Review at a similar level about half that of the full Comprehensive Review (i.e similar level to stage 2).
- It is also assumed that other work will continue, including:
  - Specifying and implementing new system changes for the Central FIT Register (modifications and bug fixes), user acceptance testing of these and updating user manuals
  - Liaison on ongoing helpdesk support
  - Other minor programme changes or system enhancements
  - Support for the preparation of funding proposals and change requests and ongoing interaction with DECC
- NB: IT costs are expected to be £525,000 for 2012/13.

**Certainty of work proceeding: 100% for Comprehensive Review Stage 2 work, 60% for legislative changes from 2013/14 onward, 100% for IT liaison work**

## **CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – Northern Ireland RHI**

- **Explanation**

- The Energy Act 2011 paved the way for Northern Ireland to introduce their own Renewable Heat Incentive (RHI) scheme. It also allowed the option for the Northern Ireland authorities to chose Ofgem to administer the scheme on their behalf.
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- Given Ofgem E-Serve's role in administering the GB RHI scheme, it is expected to be cost effective for Ofgem E-Serve to develop and implement the Northern Ireland scheme in 2012.
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- **Assumptions**

- Assume Ofgem will operate the Northern Ireland RHI.
- Operational costs will occur from the launch of the scheme in April 2012.
- Initial development work set to continue until July 2012.
- There will also be a need to undertake further development for those aspects of the NIRHI not implemented at the launch of the NIRHI. Assume one set of legislative changes to scheme every year in line with expectation of GB RHI.
- NB: IT costs are forecast at £125,000 for 2012/13.
- NB also that as the feasibility study has not yet concluded for this scheme the figures presented here are high level estimates.

**Certainty of work proceeding: 90% for initial development and operation, 80% for other changes**

**CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – New work Proposals****Explanation**

- Following the review of E-Serve earlier this year the New Schemes development Team has already involved in putting forward several proposals for new work (ECO, NI RHI, support on EMR), monitoring and evaluating other opportunities (e.g. Scottish Energy Assistance Package, Green Deal, WHD Reconciliation) and working up proposals for additional funding for existing schemes (4 change requests for FITs, 1 for RHI). It is expected that this type of work will continue in future years. We need to bring in the right expertise to undertake this work and to manage relationships with key clients.
- In addition we need to have dedicated staff to monitor the market and manage relationships with potential clients to identify, research and evaluate opportunities for new work. We also need to do forward planning for new work.
- We also expect to implement other new schemes (as yet unknown) , consistent with our historical track record of being asked to deliver around 2 new schemes per year.
- Furthermore, it would be good value for money to have dedicated staff working on identifying efficiency gains for existing environmental schemes over and above the staff actually operating those schemes.

**Assumption**

- Propose 6 staff to work on the following:
  - Develop proposals for new work (assume 6 per annum)
  - Develop proposals for additional funding for existing schemes (assume 5-10 per annum)
  - Market monitoring, identifying, researching and evaluating opportunities
  - Forward planning for new work
  - Client relationship management for new proposals
  - Implement of one small new scheme in 2012/13 and operation of that scheme from 2013/14 onward
- NB we have not assumed any IT costs for this work, although it is likely that IT costs will be incurred for setting up and running the new scheme

**CORPORATE PLAN: NEWS SCHEMES DEVELOPMENT – Impact on Ofgem should new work not be awarded to the Organisation and/or Ofgem is asked to delivery against tighter budgets.**

- Risk of Judicial Review due to scheme design not being sufficiently robust.
- Risk that schemes will be open to increased fraud due to scheme design not being sufficiently robust – making the schemes much more expensive to consumers and causing reputational damage for Ofgem.
- Likelihood of losing out on new work, and possibly losing admin or development role for existing schemes, due to (i) insufficient resources on proposals, and/or (ii) insufficient resourcing on development/operations (which would result in us missing KPIs, missing deliverable dates, or producing poor quality deliverables, and hence not being seen as a poor service provider). This would have a knock on effect of increased overheads for Ofgem due to having a lower base to spread them over, and of reputational damage to Ofgem.

Notes Summary:

No speaker notes are contained in this presentation.