

To: Matthew Harnack[Matthew.Harnack@ofgem.gov.uk]
Cc: Jane Nyamador[Jane.Nyamador@ofgem.gov.uk]; Catherine McArthur[Catherine.McArthur@ofgem.gov.uk]
From: Jonah Anthony
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NI RHI Feasibility Study Cover Letter DRAFT v 01.docx

Matthew,

Yellow highlighted sections are the new bits needed following the EPB meeting (that we need to manage risk of not being chosen and incurring stop costs).

Grateful if you can give a steer if this meets the mark, and whether you want us to PP the letter or your behalf or send the letter from Bob. We will then submit to Bob with the feasibility study on Friday.

Thanks

Jonah



Fiona Hepper
Director of Energy
Netherleigh
Massey Avenue
Belfast BT4 2JP

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all gas and electricity customers*

Direct Dial: 020 7901 7218
Email: matthew.harnack@ofgem.gov.uk

Date: xx November 2011

Dear Fiona,

RE: Completion of feasibility study into the potential role of Ofgem in administering the Northern Ireland Renewable Heat Incentive (NI RHI)

In Joanne McCutcheon's letter of 30 September 2011 DETI formally asked Ofgem to undertake a feasibility study into our potential role in developing and administering the NI RHI. I am happy to send you the completed study for you and your team's review. This follows on from the legal review of the draft regulations we were able to provide to your team on Monday 7 November.

The feasibility study contains our proposals for developing and implementing the NI RHI scheme. We are confident that we can have the necessary operational structures in place to allow the scheme to be launched on **1 April 2012**. However this confidence is based on a number of assumptions regarding the scheme policy. These assumptions are detailed in the feasibility study. One key assumption is that there is insufficient time for completing the development work required to enable air source heat pumps, bioliquids and Heavy Industrial Sites to be included from a 1 April 2012 launch date. We have therefore assumed in the feasibility study that these three elements will not be required in this first phase of the NI RHI.

The confirmed launch date will also be dependent on Ofgem and DETI meeting a number of milestones and deliverables. These deliverables include:

- Ofgem continuing post feasibility work in December, utilising any under spend incurred during the feasibility study phase to fund this work.
- Ofgem allocating resources for the development team to begin work from 3 January 2011.
- Agreeing Ofgem development funding by Friday 23 December 2011.
- Confirmation that DETI/NIAUR will provide appropriate administration costs for the ongoing administration of the scheme by Friday 16 December 2011.
- DETI finalising policy position by Friday 23 December 2011.
- DETI sharing the finalised draft regulations (from a policy perspective) with Ofgem by Friday 23 December 2011.

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. We therefore believe a budget of £370,000, with appropriate contingency, will enable us to launch the scheme on the 1st April 2012. A breakdown of this cost can be found in the table below:

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 www.ofgem.gov.uk

Delivery Component	Cost (£)
New Scheme Development delivery team	£96,000
Internal Ofgem legal costs	£36,000 TBC
IT delivery costs	£150,000
NDS independent risk assessment	£10,000 (excluding £10,000 deferred from feasibility study)
Legal Consultancy (Northern Ireland experts)	£? TBC
Overheads	£78,000
Total	£370,000

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.

While Ofgem have and will continue to provide estimated forecasts of the administrative costs of the scheme, Ofgem will only pass through actual costs to DETI/NIAUR. Consequently if scheme uptake is lower than anticipated, the costs will be lower than forecast. Likewise if uptake is higher or there is disproportionate use of a particular service (such as significantly higher call centre volumes for Northern Ireland) the actual costs of this will be passed through accordingly.

We would normally wait until funding has been agreed before allocating staff. However given DETI's publicly stated intention to launch the scheme on 1 April 2012 we are willing to begin to allocate staff now in order to help DETI meet this ambitious deadline. If DETI/NIAUR decide not to choose Ofgem to provide administrative functions for the NIRHI these staff costs for January will need to be recovered. We will minimise these costs where ever possible and propose to utilise any feasibility under spend for this purpose (including the deferred £10,000 allocated for an independent risk assessment).

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. I look forward to receiving a response to our request for funding shortly.

Yours sincerely,

Matthew Harnack
Head of New Scheme Development