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For Information	
Title:	E-Serve Quarterly Report [A12/117]
Period:	Quarter 3 (October to December) 2012-13

Summary

Recent Developments and Emerging Issues

The E-Serve Quarterly Report gives a summary of progress and key developments for each area of E-Serve activity. The report summarises developments during quarter 3 of the 2012-13 financial year and is provided to the E-Serve Programmes Committee and the Gas and Electricity Markets Authority (GEMA).

Although the terms of reference for the E-Serve Programmes Committee do not extend to our work on the Offshore tender regime, a brief summary of offshore developments and progress is provided below.

- ◆ **Offshore transmission tenders and regime development remains on track.**
 - Tender round 2 – we have commenced the Invitation to Tender stage for the Gwynt-y-mor project. We also held a successful industry event attracting 150 people to introduce the next tendering opportunity, West of Duddon Sands.
 - Consultations have recently been published on Enduring tender licences and Offshore Coordination.
 - A clause relating to offshore transmission was included in the recently published Energy Bill.
- ◆ **The Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP) project closedowns are underway.** In the case of CERT, suppliers are on track to achieve the main obligation and the priority group obligation; however, some suppliers are unlikely to meet the super priority group or insulation obligations. In the case of CESP, 94% of scheme approvals have been processed. We expect these schemes to present a considerable enforcement challenge and an ongoing risk.
- ◆ **Feed in Tariffs (FITs) installations reached 350,000 this quarter.** The total levelisation funds were £278m; we predict an approximate scheme value of £500m for 2012-13 (compared with £151m for 2011-12).
- ◆ **We have granted accreditation under the Renewables Obligation (RO) Orders to 33 generating stations.** Our RO Banding Review amendments feasibility study has been finalised. The RO banding amendments are to take effect in April 2013 and changes concerning sustainability are to come into force on 1 October 2013.

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- ◆ **The Warm Home Discount (WHD) Supplier Guidance has been comprehensively reviewed** in light of the lessons learned from the first year of operation. This was issued for consultation at the end of November for return of comments by 11 January and publication expected in mid February.

- ◆ **The Renewable Heat Incentive accredited 145 installations in November up from 124 in October and 110 in September. The total number of accredited installations is now 621.** We have now accredited 77% of the applications available to us, i.e. not awaiting further information from applicants. Of those awaiting information from applicants, in 214 cases our request for information has gone more than 12 weeks without a response.

- ◆ We have completed a Scoping Study and begun development work on **Phase 2 RHI changes**. There is significant uncertainty over DECC's timetable and it is possible that DECC may prioritise the introduction of the degression mechanism and allow other elements to slip beyond the March 2013 date currently planned. Scoping work has begun on **expansion of RHI to domestic participants** (DECC's published target date summer 2013), broken into different elements starting with accreditation and payment mechanism. In parallel we are supporting DECC to develop the scheme requirements. There are significant uncertainties over the likely volume of applicants, particularly around legacy installations.

- ◆ **NIRHI has gone live**, however funding and Administrative Arrangements will be finalised shortly. We had full manual processes in place for go live on 1 November and a number of application forms have been sent out, though we are yet to receive a completed application.

- ◆ **We are currently consulting on our supplier guidance for the administration of the Energy Company Obligation (ECO).** We have suggested some amendments to DECC's revised legislation and have agreed full scheme funding with them after a period of negotiation. Our operational procedures are being trialled in readiness for the Obligation start on 1 January 2013.

Protect – Commercial**Summary Dashboard**

The table below provides summary information on the scale and status of the schemes that E-Serve oversees. More-detailed information is provided in the full report. The "RAG" status reflects E-Serve's assessment and this view may not reflect DECC's own assessment.

Activity/ Scheme	Scale	E-Serve Progress	Cost Variance	Comments
Offshore Transmission: Tender Round 1 (TR1)	TR1 = £1.1bn	Green →	Green →	On target
Offshore Transmission: Tender Round 2 (TR2)	TR2 = Circa £1.3bn	Green →	Green →	On target
Carbon Emissions Reduction Target (CERT)	Apr 08 to end Dec 2012 = £5.5bn	Green →	Green →	Some suppliers are highly unlikely to meet their obligations: in particular there is concern around the Super Priority Group and Insulation obligations.
Community Energy Saving Programme (CESP)	Oct 09 to end Dec 2012 = £377m	Green →	Green ↑	Delays in scheme submissions from obligated parties. In addition a number are unlikely to meet their obligations. This presents a considerable enforcement challenge and risk.
Feed In Tariffs (FITs)	£500m (estimate for 2012-13).	Green →	Green →	The FITs scheme is significantly ahead of the target for ~ 800,000 small-scale renewable and low-carbon electricity generation installations by 2018
Renewables Obligation (RO)	Estimated scheme value for 2011/12: £1.45bn. DECC estimate for 2012/13: £2bn.	Green →	Green →	The RO continues to incentivise renewable generation into the electricity market. In the 2011/12 year 88% of DECC's target was met by suppliers producing ROCs.
Warm Home Discount (WHD) Scheme	Total programme value = £1.13bn. Total scheme value for year 2: 2012/13 is £275m. Non-core group element administered by Ofgem is £132m.	Green →	Green ↑	Suppliers have complied with their obligations in the first year of the scheme.

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Activity/ Scheme	Scale	E-Serve Progress	Cost Variance	Comments
Renewable Heat Incentive (RHI)	An administration budget of £5.456m for 2012/13 has now been agreed by DECC.	Green →	Green →	Installation numbers likely to be c500 below the DECC target for the year.

Key (RAG status definitions also apply to the individual scheme RAG tables elsewhere in the report):

G	On target to achieve or has been achieved.
A	Risk of failure to achieve target, remedial action may need to be taken.
R	Targets are not being met or will not be met. Remedial action is required.
→	No change in RAG status compared with the last quarter.
↑	An improvement in RAG status compared with the last quarter.
↓	A decline in RAG status compared with the last quarter.

Structure of the Rest of the Report

The remainder of this report provides more detailed information on offshore transmission activities and the status of existing schemes as well as commenting on new areas of activity. Where status information is presented in a tabular format, the formatting is as follows:

Scheme Value: Total scheme value			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	An indication of whether E-Serve performance is in line with the statutory requirements and our aspirations for the way in which the scheme will be administered		
Cost variance	Provides the overspend or underspend figure along with explanation if required to indicate impact on programme.		

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Although the terms of reference for the E-Serve Programmes Committee do not extend to our work on the Offshore tender regime, a brief summary of offshore developments and progress is provided below.

Offshore Transmission: Tender Rounds 1 & 2 (TR1 & TR2)

A competitive tendering process to deliver cost effective offshore transmission links.

We have granted licences for six projects: Barrow, Robin Rigg, Gunfleet Sands, Ormonde and Walney I & II. This takes the total investment under the regime to £470m to date. Regarding all 13 projects, representing 3.9GW of capacity, the total project value would be £2.5 billion (Figure 1).

Developers continue to resolve outstanding technical/contractual issues arising from construction on the remaining three TR1 projects (Greater Gabbard, Thanet and Sheringham Shoal). We expect these to complete in 2013/14.

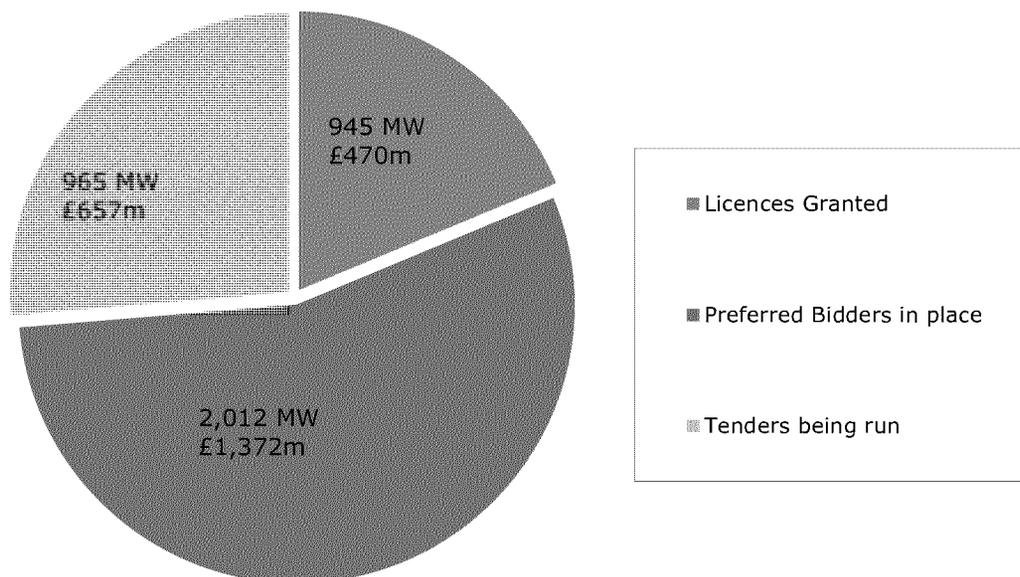


Figure 1: Tendering regime - status of current projects (TR1 & 2)

There are 4 projects in TR2.

Lincs (250 MW, £282m) is in the transaction phase and negotiations are progressing between Centrica and Transmission Capital Partners.

London Array (630 MW, £428m) is also in the transaction phase and negotiations are progressing between Dong/Eon/Masdar and Blue Transmission.

The Gwynt y Môr (576MW, £306m) Invitation to Tender is underway. Bids are due for submission in early March with a view to appointing a preferred bidder next spring.

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The process for West of Duddon Sands was kicked off with a stakeholder event in November. Pre-qualification process starts in December leading to a preferred bidder in the autumn of 2013.

For the other two projects that were originally part of TR2 (Race Bank and Humber Gateway) they can now seek qualification under the enduring regime. We expect the first qualifications under the enduring regime (these or other projects) by summer 2013.

Future Tender and Regulatory Regime

Establishing an innovative, enduring regulatory regime for offshore transmission.

Offshore coordination: This workstream looks at how we ensure the offshore transmission system is developed in an economic way, in particular ensuring that the regime can enable the efficient coordination between projects/zones or efficient investment in advance of direct need. Our consultation was published in December.

Our work on coordination interacts with several other areas of Ofgem policy. We are working closely with the Integrated Transmission Planning and Regulation project (ITPR) and the RIIO-T1 team.

Enduring regime: Based on latest information on wind farm development, we expect to commence the first tenders under the enduring regime in the summer of 2013.

Responses to our consultation on the tender regulations were received in November with a view to them being in force in early 2013 following GEMA and SoS approval. Our consultation on the policies we adopt for the revenue conditions in the licence was published in late November.

Third Package certification: We are progressing work to certify applicants under the Third Package. We have been progressing applications from an OFTO owned by Blue Transmission (Walney 1) and for an OFTO for which Balfour Beatty is a preferred bidder. We expect to take a preliminary decision on Walney 1 in the near future. We are developing policy for certification applications outstanding after March 2013.

Energy Bill: The Energy Bill was published in December and includes provisions to facilitate commissioning of offshore transmission – we are preparing for implementation of these arrangements. We have worked with DECC on this and have agreed with them an extension to the timelines, which we now see as more likely to be workable, and powers for the Authority to amend industry codes to implement these provisions are being discussed.

Stakeholders: We held an Offshore Industry Event in November that was well attended by industry (approximately 150 attendees). The Public Accounts Committee hearing took place in November (Alistair Buchanan in attendance) – we have delayed the follow-on responses and await the committee report.

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Low Carbon Schemes in Operation

Carbon Emissions Reduction Target (CERT)

An obligation on energy suppliers to promote energy efficiency measures to householders.

Scheme Value: Total scheme value for CERT is £5.5bn between 01 April 2008 and 31 Dec 2012			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	To review 95% of scheme submissions within ten days.	The team exceeded the performance indicator target and reviewed 100% of submissions within ten days. 99% of schemes approved.	Green
Cost Variance	Costs are kept within the allocated budget (there is also £300,000 contingency budget for this project).	No variance as of 30 th . November 2012.	Green

We have approved 99% of the 214 submitted schemes, of these 60 (28%) schemes have been completed.

The current CERT profile expects a peak of 93 scheme completions to be submitted in January 2013. This is on target and the team is adequately resourced.

We have agreement on the SPG% for social housing after a period of consultation.

Working groups continue to prepare as much as they can ahead of publishing the final annual report.

Community Energy Saving Programme (CESP)

An obligation on large energy suppliers and generators to promote energy efficiency measures to low income, domestic customers.

Scheme Value: £377m – Oct 2009 to end Dec 2012			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	To review 95% of scheme submissions within ten days.	The team has achieved the Performance Indicator target for the quarter.	Green
Cost Variance	Costs are kept within the agreed allocated budget	Budget agreed with DECC	Green

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526 of 557 schemes (94%) approved, up from 201 in June, reflecting a tremendous team effort.

Completion Profiles from Obligated Parties continue to move to the right and we anticipate processing approximately 480 of the schemes in January 2013.

The CESP Team has increased from 11 to 25 Full Time Employees (FTEs) to manage the substantial workload. A skills matrix and the accelerated staff-training plan are underway.

Feed In Tariffs (FITs)

An environmental programme to support the widespread uptake of small-scale renewable and low-carbon electricity generation technologies in GB.

Scheme Value: £500m (estimate for 2012-13)			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	Follow up with the generators outstanding issues on their applications for accreditation. 90% within 10 working days	96% of applications processed within 10 working days in October and 76% in November. The KPI target was missed in November due to 400 applications being submitted in this month.	Green
Cost Variance	Costs are kept within the allocated budget	FITs is expected to come in on budget. Although there was an under-spend of £91,000 by December, we anticipate returning to budget by year-end. For this reason, the RAG status is classed as green.	Green

Development

Introduction of **tariff self-service functionality** to more cost effectively deliver tariff changes for depression was successfully delivered on time and tariffs were amended for the 1 November PV depression.

Successful delivery of the significant new changes and provisions introduced following Comprehensive Review Phase 2B on 1 December. These included a mechanism for non-PV tariff depression, preliminary accreditation, new provisions for communities and schools as well as other administrative changes. DECC have been complimentary about our work and engagement on Phase 2B.

Change Request 8 was approved providing funding of £423k for the delivery of Comprehensive Review Phase 2B changes to end December 2012. As part of this funding approval process, DECC commissioned PWC to audit our development activity; we dispute a number of the findings in the draft audit report and have sent a robust response.

A further Change Request has been developed and has been submitted to DECC for approval. This is to cover the delivery of the remaining Comprehensive Review Phase 2B changes resulting from the DECC FIT Licensee consultation held in September 2012, these changes are to be completed by April 2013.

Operations

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The number of registered FIT installations has continued to increase from the 248,000 at the end of March 2012. **The number of installations (Figure 2) at 28 November 2012 was 351,158 with 1.6 GW of renewable capacity installed**, with the vast majority of these being domestic installations. During the period that Ofgem E-Serve has been administering the FITs scheme, over 1% of GB homes now have PV solar panels installed.

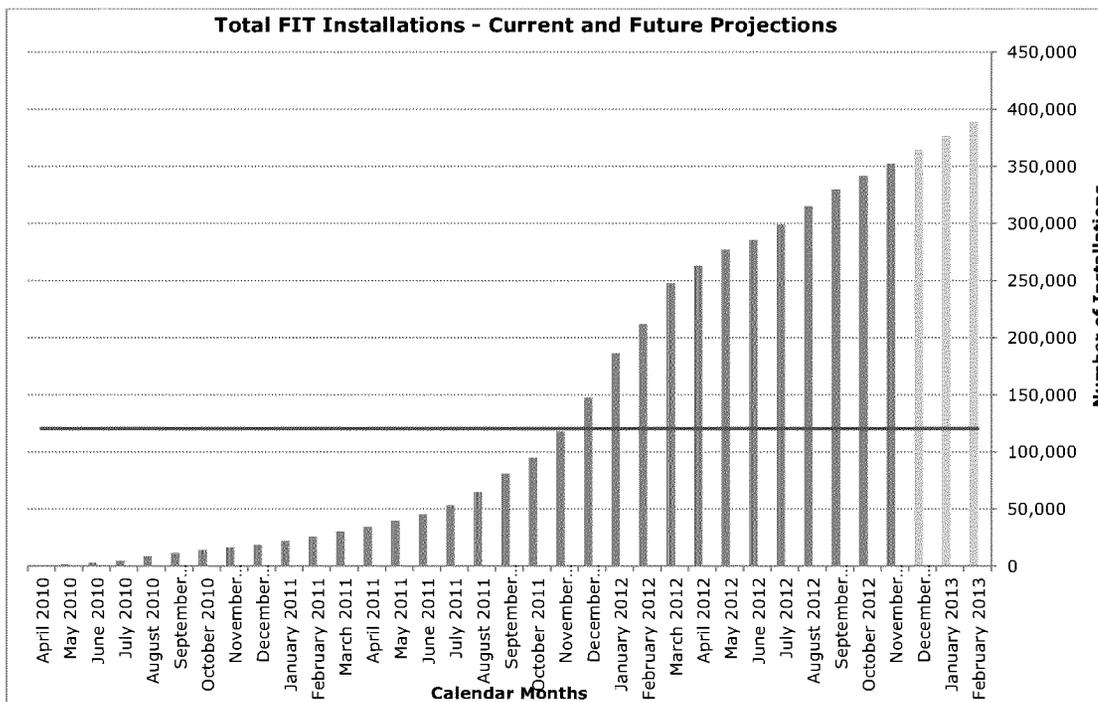


Figure 2: Total number of FIT installations including projections for next quarter

We have received over 1,000 ROO-FIT applications, and saw a surge in applications to 30-40 per week towards the end of November prior to non-PV tariff reductions on 1 December. Following the introduction of new requirements in December 2012, we have received **3 preliminary accreditation applications and no registration applications to date for community/schools**.

The annual levelisation process for FIT Year 2 was successfully completed at the end of September. **The total levelisation fund was £151m** (compared with £15m for FIT Year 1); this year’s process was a lot more complex due to legislative changes to the scheme.

The second periodic levelisation for FIT year 3 was successfully completed and all suppliers complied. FIT Licensees reported a total of **£173 million in payments** due to generators. The total levelisation funds for the first 6 months of this year were £278m.

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Renewables and Combined Heat and Power (R&CHP)

The main support scheme for large-scale renewable electricity projects in GB. It place is an obligation on GB electricity suppliers to source an increasing proportion of their electricity from renewable sources.

Scheme Value: £1.45bn in 2011/12; £2bn estimated in 2012/13			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	Follow up with generators outstanding issues on accreditation applications. 90% within 10 working days	96% of applications were processed within 10 working days in October and 76% in November. The KPI target was missed in November due to over 400 applications being submitted in the month.	Green
	Issue the main batches of renewable obligation certificates. 95% within 17 working days of the generators' reporting deadline of their output data April-June & 12 days July-March.	96.7% of ROCs claimed were issued by the target date in October and 99.1% in November.	Green
Cost Variance	Costs are kept within the allocated budget	The team is virtually fully staffed according to the corporate plan and further recruitment is ongoing. There is cost exposure due to the ongoing Infinis appeal and the cost of changing the IT system for sustainability and banding.	Green

Renewable Obligation

We have granted full accreditation under the Renewables Obligation (RO) to 33 generating stations for the period, 28 September to 12 December 2012. These accreditations included the 630MW London Array offshore wind farm – currently the largest offshore wind farm in the world. Figure 3 below shows activity regarding total accreditation applications received and accredited across all renewable electricity schemes.

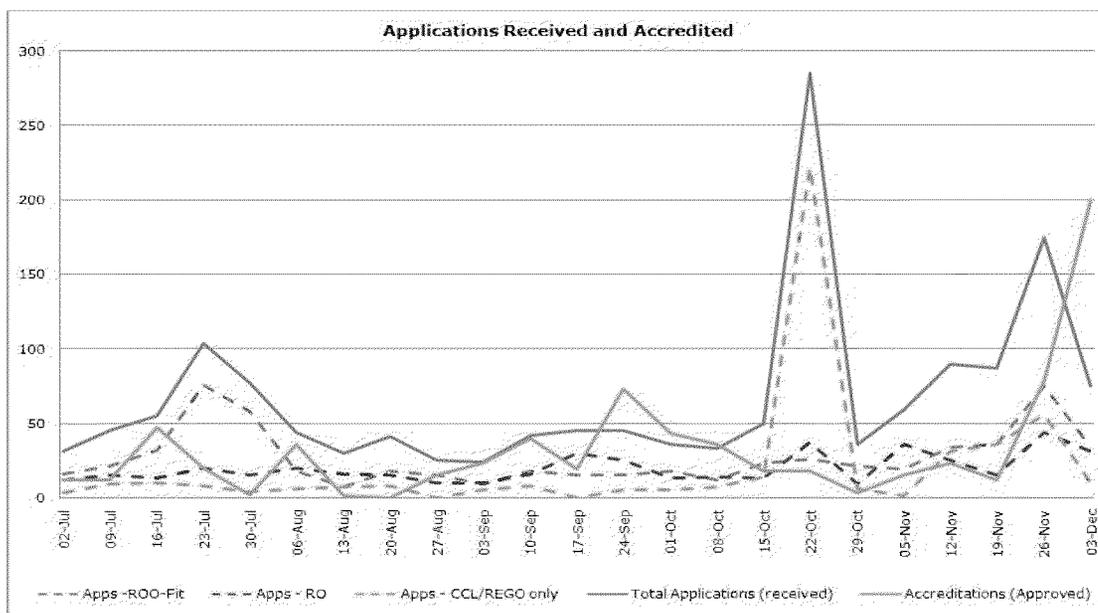


Figure 3: Applications received and accredited (2012/13 period)

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We have issued 15.5 million ROCs so far in respect of generation in the 2012/13 obligation period. This equates to 31.3% of the overall target set by DECC for the industry, of 49.6m ROCs. We do not expect this target to be breached as illustrated in Figure 4 below.

The Court of Appeal heard our appeal against the Infinis judicial review decision on 28 and 29 November. The judgment has been reserved until early 2013.

The Environmental Programmes team has been working on a number of complex accreditation issues this quarter.

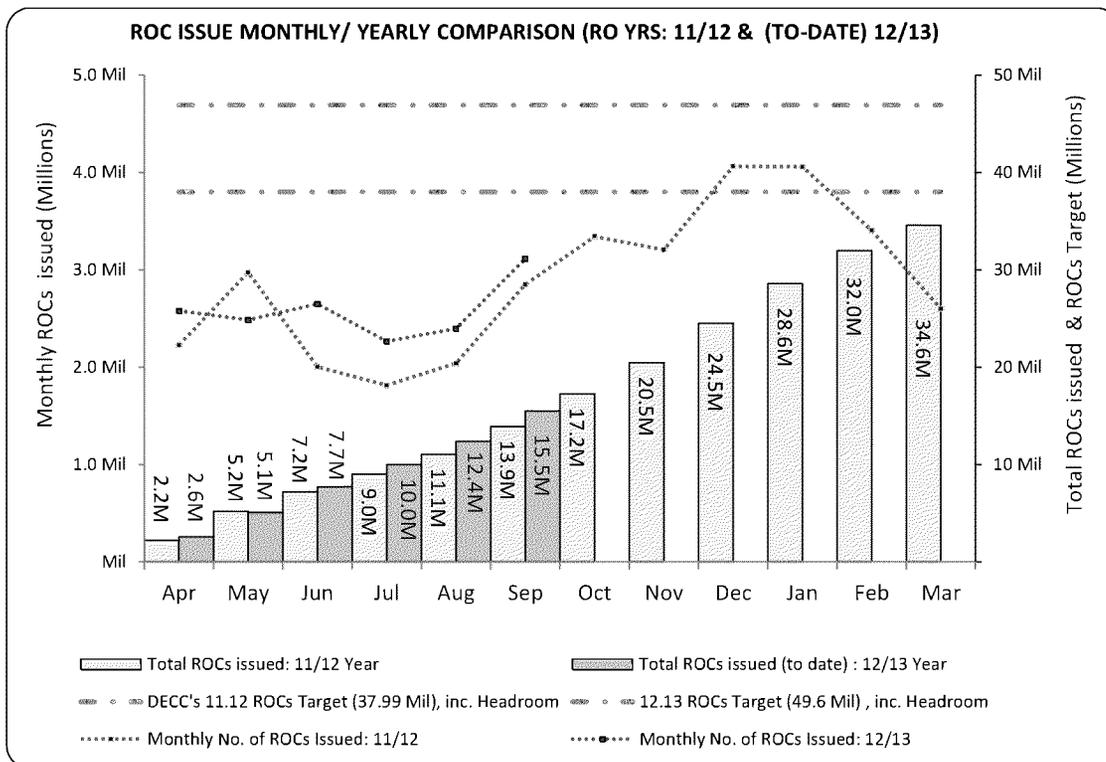


Figure 4: ROC issue monthly/yearly comparison

All licensed electricity suppliers have now discharged their 2011/12 obligations under the RO Orders.

RO buy-out funds of £116.3 million (after removal of costs and accrual of interest) were redistributed to licensed electricity suppliers on 28 September. Three suppliers had opted to make late payments to the buy-out funds by the deadline of 31 October. The late-payment funds totalled £6.8 million (including interest) and were redistributed on 28 November.

The combined amount redistributed to suppliers for 2011/12 was £123.1 million. In all, 34.4 million ROCs were presented for compliance. This means the total amount paid to suppliers for each ROC produced to the Authority was £3.58. This is significantly lower than in previous years due to an increase in the percentage of suppliers' obligations met by producing ROCs, rather than by making payments into the buy-out fund. The former was 91.3% in 2011/12, compared to 71.9% in the previous compliance period.

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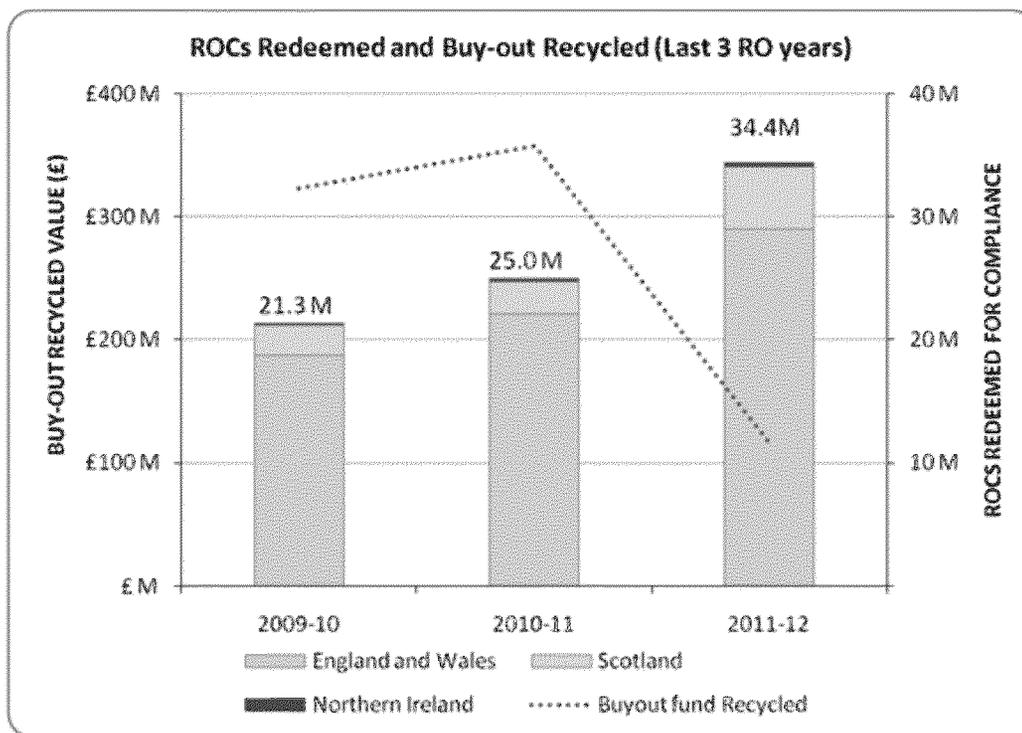


Figure 5: ROCs redeemed and buy-out recycled (2009-2012)

CHP LEC reconciliation 2012 was completed for all 137 stations that required reconciliation within the 20 working days corporate plan deadline.

Preparations for the closure of the CHP LEC scheme are underway.

We successfully issued and captured all April 2011 to March 2012 REGOs held by suppliers at midday 1 July 2012 for the Fuel Mix Disclosure Compliance deadline.

Renewables Obligation (RO) 2013 Banding Review and Sustainability Criteria Reporting Amendments

Changes to the existing RO scheme resulting from the 2013 banding review and further sustainability criteria reporting.

Our RO Banding Review amendments feasibility study has been finalised. Following DECC’s publication of the RO Banding Review Government Response on 25 July, three further consultations were published in September 2012 covering reduced support for solar PV, a cost control mechanism for new build biomass stations and reduced support for co-fired stations for introduction by 1 April 2013. A third consultation set out amendments to the solid and gaseous sustainability criteria to be introduced in October 2013. The cost control mechanism for new build biomass will now be introduced alongside the sustainability amendments next October. DECC currently propose to publish the Government response covering the above decisions in mid December.

We are finalising drafting updates to the five RO guidance documents to reflect all of the Banding Review amendments, including the decisions in DECC’s

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forthcoming additional Government Response. As the majority of updates required are to the RO Guidance for Generators and Fuel Measurement and Sampling guidance documents, we plan to consult on these in the week beginning 17 December following DECC's publication of the additional Government Response. We propose to hold consultation stakeholder events in London, Scotland and Northern Ireland in late January and early February 2013.

We are closely engaged with DECC's progress with the European Commission to gain State Aid approval for the Banding Review amendments in time for the draft amended legislation to be made for 1 April 2013. We are developing contingency plans in case approval is not received ahead of 1 April, or should amendments to the draft legislation be required by the Commission before approval is given and the legislation made. The Environmental Programmes and New Schemes Development Directorates continue to work with DECC on the draft legislation and are engaging with the IT team on the updates required to the RO IT system (the Renewables and CHP Register).

Warm Home Discount (WHD) Scheme

A mandatory scheme for domestic energy suppliers to provide direct and indirect support arrangements to fuel poor customers over four years.

Scheme Value: Total programme value = £1.13bn. Total scheme value for year 2: 2012/13 is £275m. Non-Core group element administered by Ofgem is £132m			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	The Performance Indicator measures the percentage of WHD scheme notifications that are fully processed within 28 days	All completed notifications approved within the 28-day requirement.	Green
Cost Variance	Costs are kept within the allocated budget	Costs are in line with allocated 2012/13 budget. Any variance going forward expected to be minimal.	Green

WHD SY2 compliance processes in hand with revised Supplier Guidance published for consultation (responses expected by 11 January 2013) and preparation for SY3 planned and underway.

SY2 implementation by Suppliers is well underway, based on informal feedback from suppliers in October; all appear to be on track to meeting their WHD obligations.

WHD midyear audits in progress, seeking to optimise value from a reduced programme with final reports expected early in 2013. There have been some key changes in the WHD audit sphere, and therefore an associated risk. This is to be mitigated by the close supervision of the Senior Manager Fraud Prevention, Audit and Governance.

Feedback from the Supplier satisfaction survey provided positive feedback on the service provided by the WHD team. It did raise a few points on the administration of the scheme for example the timelines and feedback at the End of Year compliance stage, greater clarity required for specific elements of the End of Year template and greater clarity on supplier End of Year audit requirements. (These points are addressed in the revised supplier guidance).

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A world first scheme providing a tariff based subsidy to renewable heat installations.

Scheme Value: Total scheme value £860m up to 2014/15. Ofgem has requested an administration budget of £5.456m for 2012/13			
Indicator	Description	Explanation for rating	Rating
E-Serve Performance	<p>95% of RHI scheme applications must be accredited or rejected within 30 days of submission.</p> <p>90% of enquiries must be dealt with within 10 working days.</p> <p>The IT system must be available for 99% of supported business hours.</p>	<p>We are achieving our performance indicators on the speed of dealing with enquiries and the availability of IT system. However we achieved accredited or rejected only 70% of applications within 30 days of submission in November rather than 95%. Additional staff have been recruited and further work is underway to expedite our processes. We are improving our information in the expectation that this will improve the quality of applications with more right first time. Together these measures will cut time to accredit substantially.</p>	Green
Cost Variance	<p>There is likely to be an underspend of the allocated budget particularly in the consultancy line.</p>	<p>Thanks to keen negotiation on audit and credit reference costs, delays at DECC and lower numbers of applications than forecast, we are likely to underspend the current year's budget on RHI. We have rebaselining staff assumptions against what we now know about accreditation requirements are reallocated resource.</p>	Green

RHI Operations

The Renewable Heat Incentive accredited 145 installations in November up from 124 in October and 110 in September. The total number of accredited installations is now 680. We have now accredited 79% of the applications available to us, i.e. not awaiting further information from applicants. Of those awaiting information from applicants, in 214 cases our request for information has gone more than 12 weeks without a response (Figure 6). Heat generated amounted to 12.62 GWh with £2.1 million of subsidy payments so far.

As at 31 November, we had accredited 680 installations representing 160 MW of capacity. Only four applications have been rejected (as the owners had received grants from public funds).

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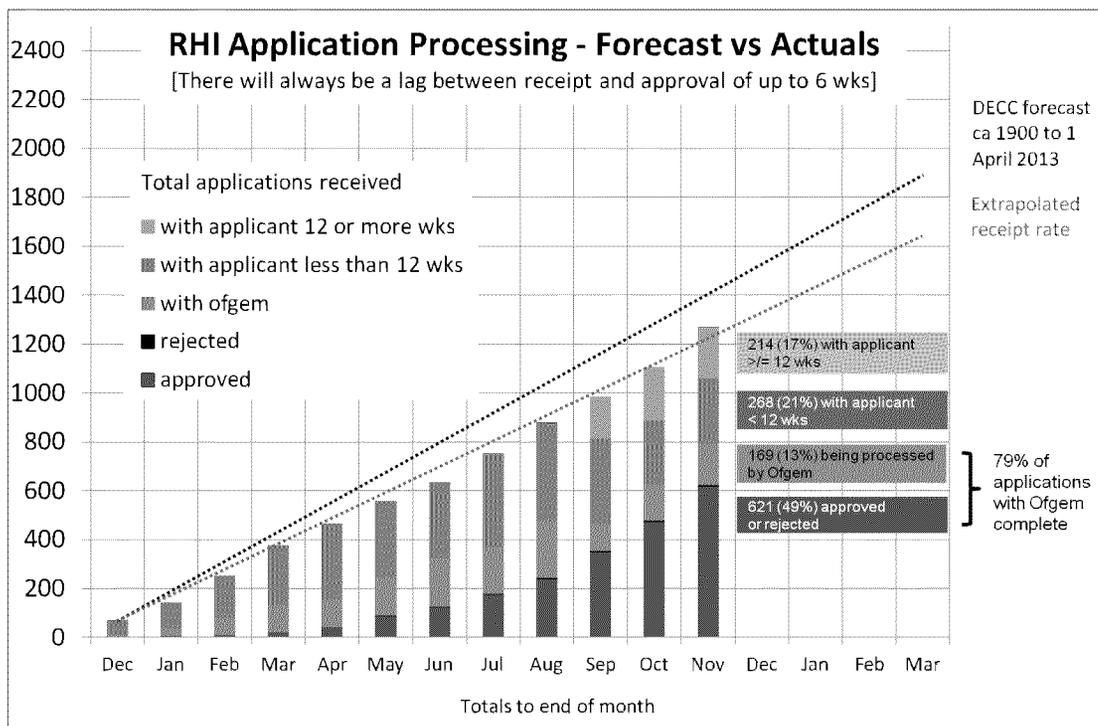


Figure 6: RHI application processing – forecast vs. actual

The rate of application to the RHI has increased, with 164 applications received in November, up from 123 in October and 103 in September. However, even if this increase continues, it is unlikely that there will be more than around 1,200 to 1,400 accredited installations by the end of the current financial year, as compared with DECC’s most recent forecast of 1,890.

Findings from the 2011/12 initial set of audits gave significant cause for concern as evidence of non-compliance was found on around three quarters of sites. However early results from the first full round of 2012/13 audits suggests that that the proportion of issues is considerably less. To date, the rate of non-compliance now appears to be closer to 25%.

We have begun a programme of communications improvements and activities aimed at engaging with industry participants (including through an Industry Technical Advisory group) aimed at improving industry knowledge, processes and leading to improvements in the quality of applications.

Renewable Heat Incentive (RHI) Development

A world first scheme providing a tariff based subsidy to renewable heat installations.

On Phase 2 RHI changes, we have completed and shared with DECC a Scoping Study for Phase 2 changes to the RHI and development work has begun to make changes to our systems and processes. Phase 2 includes degression, biomass sustainability, air quality, along with streamlining metering requirements and other fixes to the existing regulations. These changes were due to come into force by end March 2013, but there is currently

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significant uncertainty over DECC's timetable and it appears likely that that DECC may prioritise the introduction of the degression mechanism by end March (when the current interim cost control mechanism will expire).

Scoping work has begun on **expansion of RHI to domestic participants**. The timetable is tight, with DECC aiming for a summer launch, and the scoping work has been broken into different elements with the first priority accreditation and payment mechanism. In parallel we are working constructively with DECC on the implementation aspects of their policy, including to simplify the scheme requirements, taking account lessons learned in the current non-domestic scheme. There are significant uncertainties over the likely volume of applicants, particularly over how many historic legacy installations are already in place and may apply at the outset. We are working with DECC on how the legacy applications could be spread over time to avoid a spike.

Work has begun to assess the potential **sourcing options for delivery of RHI to domestic participants**. Two options are being investigated – delivery in house or through partial outsourcing (it is currently assumed partial outsourcing would have an external organisation providing contact management and application processing with accreditation, audit, payments and complaints management remaining in house). A market test has been carried out which has confirmed there is market appetite and capability should outsourcing be the agreed approach. Further process and service scoping work will take place in December/ January to develop a more accurate view on the full service model, potential resources and costs; alongside this detailed implementation, plans for both approaches will be developed. Based on a summer launch, a decision on the sourcing approach will be required in January to allow sufficient time for implementation.

Northern Ireland Renewable Heat Incentive (NIRHI)

A Northern Ireland based scheme providing a tariff based subsidy to renewable heat installations.

The scheme went live on track on 1 November 2012. Amendments to DETI guidance, following consultation, were approved by Ofgem and supplementary guidance documents have been published on the Ofgem website. Internal Ofgem procedures were updated and the interim manual solution is now operational and will run until IT development is completed in early 2013.

The Administrative Arrangements (the arrangements under which we will carry out functions on DETI's behalf) have been sent to DETI for signature, along with a baseline scope document. Agreement on the arrangements has not yet been secured. The only outstanding point concerns the arrangements for audits. Discussions between DETI and Ofgem on this point continue and we hope to finalise the Arrangements shortly.

DETI has agreed funding in principle for up to the baseline level in the original feasibility study (i.e. not including contingency) for the development phase. The revised development phase cost forecast is £47k above the baseline level in the original feasibility study due to IT contingency and increased staffing need for accreditation and managing the interim manual operations. We expect to agree the revised budget with DETI for 2012-13 (£573,000) and 2013-14 to 2015-16 (£730,084) shortly. Initial interest in the scheme has been slow during the first month of operation.

Protect – Commercial**Energy Company Obligation**

The replacement to CERT and CESP that will realise household energy efficiency savings. The Authority is the legislative administrator for the first Obligation period 1 January 2013 - 31 March 2015.

Over the last quarter DECC have revised the ECO order to reflect the outcome of their consultation on in-use factors. We have supported DECC to amend the revised legislation before the Order was laid in October.

We subsequently, published open letters setting out interim positions, on key subjects, for suppliers to use until our ECO supplier guidance is finalised and published.

The consultation on the draft version of the ECO supplier guidance was launched on the 23 November. It will run until 25 January 2013 and we plan to produce a response to the consultation and publish finalised guidance in February. We have consultation stakeholder events in London and Glasgow in December alongside focused workshops to inform our decision making on complex issues.

Our operational procedures are being trialled in readiness for the Obligation start on 1 January 2013 and we expect to receive some test data from suppliers and from DECCs end to end testing of the Green Deal.

The legislation was made on 04 December 2012 and on the 21 December we informed suppliers of their obligations from the first phase of the ECO, these are split based on a formula that takes into account the number of customers and total domestic gas and electricity supply provided in the previous calendar year. These obligations require larger suppliers to save a total of 2.77 Million Tonnes of CO2 and £0.42 Billion of lifetime heating cost savings through the targeted provision of heating assistance and insulation measures. We will set the next phase of the obligation in February 2013.

We continue to develop our IT system ahead of the suppliers' first data submission in February. This will be introduced in phases to carry out fundamental functions initially and then to reduce the level of manual validation required.

We are working with DECC to identify what data will be collected within our system and what may be useful to them by them to understand the delivery of the ECO (including costs). We are looking into if and how this useful information could be collected at the same time as the data we need to administer the scheme, and whether this data should be provided to DECC.

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E-Serve Management Activity

This section provides summary information on ongoing management initiatives.

Fraud Management Group

The Fraud Management Group remains actively engaged in reviewing suspected fraud, misreporting and money laundering cases, and defining an overarching Fraud Strategy for E-Serve.

In addition, during quarter three the Group has:

- ◆ Accepted Deloitte's key findings and recommendations on our existing fraud prevention and detection controls within the Environmental Schemes; and
- ◆ Commissioned Grant Thornton to support the development of an over arching E-Serve Fraud Prevention Strategy.

Overarching Audit Activities

In early October 2012, we repeated our risk assessment of each of our schemes to define our audit programme and induct our new audit contractors. Our comprehensive external audit efforts in Quarter 3 have involved:

- ◆ 9 CERT/CESP compliance audits;
- ◆ 6 CERT/CESP deduplication verification audits;
- ◆ 9 WHD Scheme activity compliance audits;
- ◆ 10 Renewables Obligation supplier audits;
- ◆ 24 Renewable Obligation technical generator audits in the UK and Europe;
- ◆ 10 FITs supplier audits;
- ◆ 18 FITs technical generator audits; and
- ◆ 35 RHI technical audits.

In total, our contractors have undertaken 121 audit visits in quarter 3 and provided draft reports to us in accordance with the agreed schedules. These draft reports are being reviewed and feedback is being given to these contractors to allow us to finalise the reports and issue the majority of them to audited parties before Christmas 2012.

One or two material issues may require escalation and/or enforcement action.

In addition, we are engaged in:

Protect – Commercial

- ◆ Defining ECO health check activity of obligated parties scheduled for Jan 2013; and
- ◆ Scoping requirements for Northern Ireland RHI and RHIGB Phase 2 audits from April 2013.

Process Improvement Project (PIP)

Following completion of the Deloitte strategy review and subsequent discussion at GEMA, we have concentrated our attention on "Delivery Excellence", through initiatives such as the Process Improvement Programme (PIP). PIP is now focusing on the delivery of 39 key project outputs by the end of next July. Training is a crucial component of many of the projects within the overall programme, to help ensure that changes in both behaviours and working practices are embedded. The key benefit areas that have been identified are risk reduction, greater agility and efficiency gains.

Ofgem IT Strategy

Significant progress has been made with the IT Strategy for the period 2012-2017 focussing on three initial areas:

Business Relationship with IT (Business Engagement)

- ◆ Clarified roles and responsibilities in NSD & IMT;
- ◆ Defined and documented additional project management controls;
- ◆ Improved scheme level budgetary control, reporting and communication; and
- ◆ Reviewed the development methodology resulting in a recommendation for change.

Remote access

- ◆ Increased system capacity from supporting 200 sessions up to 350 concurrent sessions;
- ◆ Increased responsiveness (speed) when using systems remotely;
- ◆ Increased bandwidth on video conferencing link between London and Glasgow to improve quality; and
- ◆ Piloting (small) unified communications to include instant messaging, presence and desktop video conferencing.

Data and information security

- ◆ Introduced application to provide regular security monitoring and reporting;
- ◆ Securing and regularly monitoring the Ofgem IT infrastructure;
- ◆ Upgrading our security processes; and
- ◆ Embedding security in our software and project development.