



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

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

Your Ref:
Our Ref:
Direct Dial: 020 7901 3077
Email: robert.hull@ofgem.gov.uk

Date: ~~XX~~ September 2012

Dear Fiona

Northern Ireland Renewable Heat Incentive (NI RHI)

We have progressed with the development of the administrative options and processes for the NI RHI and have been in regular contact with you to discuss emerging issues, provide progress reports and highlight approaching milestones.

The original Feasibility Study, published in December 2011, was scoped and developed with an intended launch date of 1 April 2012. Following the delay of this launch, it was appropriate that Ofgem revisit the proposed activities and revise costs where needed.

Due to the delay in launching the NI RHI scheme it has not been possible to capitalise on the cost savings available by making changes to the online RHI register in conjunction with changes being implemented by the GB scheme at that time. As a result the IT development has to be delayed until another 'window' when DECC is making changes to the IT system in order to maintain IT development costs at the Feasibility Study forecast. However, Ofgem require a contingency of 33% to cover unforeseen changes and if it results that a standalone IT system change is required. A 33% contingency fund amounts to an additional £47,000.

As we will be delaying the release of the NI RHI IT system so that IT development can be done for the least cost option, Ofgem will be running a manual process for accreditation of NI RHI participants until the IT system is operational. This manual solution increases the operational costs marginally and are captured in Table 1 below.

The legal costs have also increased from the estimate stated in the original Feasibility Study due to a variety of factors detailed in Chapter 5 of the attached report. The current legal cost projections have increased by £5,000. This increase is within the contingency level requested in the Feasibility Study.

It is important to highlight that Ofgem will only bill DETI on actual costs. Suffice to say, I am not asking you to transfer the full 33% contingency to Ofgem, but would ask for these funds to be secured, so that the scheme is operational by your preferred go-live date of 1 November 2012.

The current cost breakdown is set out in Table 1 below and follows the:

Delivery Component	Feasibility Study Cost Forecast Excluding Contingency* - December 2011	Revised Cost Forecast – 4 September 2012	Variance
New Scheme Development delivery team	£96,000	£96,000	£0
Ofgem legal costs	£62,000	£67,000	£5,000
IT delivery costs	£143,000	£190,000	£47,000
Independent risk assessment	£10,000	£5,000	-£5,000
Overheads	£75,000	£75,000	£0
Total Development Costs	£386,000	£433,000	£47,000
Revised 2012/13 operational costs (pre IT delay)	£135,660	£121,000	-£14,660
Additional 2012/13 operational costs due to delay to IT launch		£19,000	£19,000
Total 2012/13 Operational Costs	£135,660	£140,000	£4,340
Total 2012/13 Cost Forecast (Development plus Operational Costs)	£521,660	£573,000	£51,340

I can assure you that these figures reflect our best cost estimate following a detailed revision of the scope and costs. To reiterate again, in delivering against your requirements my team will keep all costs to a minimum and will only charge against actual costs.

I look forward to receiving your response to our revised development phase funding forecast, and would be delighted to discuss any of these matters with you.

Yours Sincerely,

Robert Hull
Managing Director - Commercial