

# Information Note

**4 February 2011**

## **THE RENEWABLES OBLIGATION BUY-OUT PRICE AND MUTUALISATION CEILING 2011-12**

Ofgem has today announced the buy-out price and mutualisation ceilings for the Renewables Obligation for the 2011-12 compliance period. The buy-out price and mutualisation ceiling are updated annually to reflect changes in the Retail Prices Index.

The buy-out price will be £38.69 per Renewables Obligation Certificate (ROC). The buy-out price sets the rate which suppliers need to pay if they do not present sufficient numbers of Renewables Obligation Certificates (ROCs) to meet their obligations under the scheme.

The mutualisation ceiling will be £233,072,945.77 in England and Wales, and £23,307,294.57 in Scotland for 2011-12. The mutualisation provisions come into effect if there is a shortfall in the buy-out fund above a certain level, which may result from a supplier not being able to meet its obligation, for example due to insolvency. All suppliers that met their obligation are then required to make additional payments to make good the shortfall, up to the level of the ceiling, which is the maximum total amount they would have to pay. These provisions have not been triggered to date.

Ends

### **Notes to editors**

1. Ofgem has responsibility for administering the Government's Renewables Obligation, which started in April 2002 (April 2005 in Northern Ireland). The Obligation sets a level for electricity suppliers to source at least part of their electricity from renewable generators. In England & Wales and Scotland, this level started at 3 per cent of electricity supplied in 2002-2003. The level for 2010-11 is 11.1 ROCs per 100 MWh and in 2011-12 it will be 12.4 ROCs per 100 MWh. In Northern Ireland, the level started at 2.5 per cent of electricity supplied in 2005-2006; the level for 2010-11 is 4.27 ROCs per 100 MWh and in 2011-12 it will be 5.5 ROCs per 100 MWh. Beyond 2011-12, the obligation levels will be set by the Department of Energy and Climate Change prior to the start of each obligation period, based on a series of formulae in the legislation.

2. All renewable generators apply to Ofgem for accreditation that their electricity is generated from eligible renewable sources. These generators are issued with Renewables Obligation Certificates (ROCs) for their qualifying output. Up until March 2009, each ROC represented one megawatt hour MWh of electricity; from April 2009 onwards the value of the ROC is "banded" dependent on the generation technology type. The renewable generator can sell ROCs either with or separately from the electricity generated.
3. To meet their obligations, suppliers can present Ofgem with enough ROCs or make a buy-out payment. They can also use a combination of ROCs and buy-out to meet their obligations. The buy-out price per ROC (or per MWh prior to 2009-10) of electricity is normally adjusted by Ofgem each year to reflect changes in the Retail Prices Index. It was £30 per MWh in the base year, 2002-03. The buyout price in 2010-11 is £36.99.
4. If there is a shortfall in the England & Wales or the Scotland buy-out fund over a certain amount, all suppliers that met their obligation are required to make a payment to make good the shortfall, known as mutualisation. The trigger level for mutualisation in England and Wales is set by the Department of Energy and Climate Change. The level for Scotland is set by the Scottish Executive. In 2010-11 the level is £10.4m in England & Wales and £1,040,000 in Scotland. It will be £11.4m in England and Wales and £1.14m in Scotland in 2011-12.
5. Mutualisation payments are required in proportion to each supplier's obligation compared with the total obligation, with the total amount of these payments capped at the ceiling rate. In 2010-11, the mutualisation ceiling was set at £222,805,333.33 in England & Wales and £22,280,533.33 in Scotland. This ceiling is normally adjusted by Ofgem each year to reflect changes in the Retail Prices Index.
6. The buy-out price for 2011-12 is equal to the buy-out price for 2010-11, adjusted to reflect changes in the Retail Prices Index. The mutualisation ceilings for 2011-12 are equal to the mutualisation ceilings for 2010-11, adjusted to reflect changes in the Retail Prices Index and rounded to the nearest penny.
7. Ofgem E-Serve was created in September 2009 as a new business unit focusing on delivery of Government sustainability projects. The regulatory functions of Ofgem, such as setting network price controls and monitoring the markets, continue under a separate business unit within the 'Ofgem Group'.

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