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Date: 04 October 2022

Dear Stakeholder,

Ofgem costs for administering the Renewables Obligation (RO)

This letter sets out our proposed charges for administration of the RO for the period April 2022 – March 2023.

Forecast costs

Our forecast cost for the administration of the RO for 2022-23 is **£6,986,907.** This represents a decrease of 7% over the cost of administration in 2021-22. Our costs remain around 0.1% of the estimated value[1] of the scheme.

The primary reason for the cost decrease is a larger than usual prior year adjustment[2] due to a number of unfilled vacancies last year. Re-prioritisation was undertaken in a number of areas to accommodate reduced staffing levels. This included changing the scope of the audit programmes and focusing on progressing higher priority compliance cases.

Excluding the prior year adjustment, there has been an increase in forecasted costs for 2022-23. The driver of this is the continuing development, support, and infrastructure of the IT system that underpins the scheme. This includes ongoing work associated with the Renewables & CHP Register to allow the system to run more efficiently and development of the new Renewable Electricity Register (RER). The RER will provide a new Register that is easier to use, provides a better user experience and ensures it is fit for purpose going

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[1] We have calculated the value of the RO in 2022-23 as £6.9 billion by multiplying the estimated supply of electricity in the UK in 2022-23 (267.2 TWh – from BEIS prediction available here) by the GB obligation level (0.491 ROCs per MWh) and the buy-out price (£52.88).
[2] Prior year adjustment is the difference between our forecast costs from the previous year and the actual costs.

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forward. On RER development, the digital delivery team will remain in place and Ofgem are recruiting for additional software developer and quality assurance resources to support the core delivery area of development and testing. The additional resource will increase delivery pace, help with the current capacity/productivity issues and ensure the project aim to go live with the new system during Q1 2023/24. In the meantime, stakeholders continue to use the Renewables & CHP register, which is regularly maintained. The increase in forecasted costs also assumes outstanding vacancies will be filled across the portfolios.

There have been an increase in forecasts in costs for Servicing Participants and Reporting in 2022-23 compared to last year. This is primarily due to increases in management capacity in this area and internal restructuring.

We continue to review our processes and activities to improve efficiency and minimise costs where possible. This has included ensuring our audit programmes are appropriately targeted and adopting a more flexible resourcing model. Our department's finances are subject to internal budget scrutiny and Ofgem's finances, as with any government organisation, are audited by the National Audit Office.

We do not project the cost of our administration of the RO further forward than annually as our budget requirements are heavily dependent on the scale and scope of any amendments to the scheme.

What are the charges paying for?

Our responsibilities under the RO Orders[3] include (but are not limited to):

- Accrediting generating stations and processing amendments
- Issuing and revoking Renewables Obligation Certificates (ROCs)
- Establishing and maintaining a register of ROCs
- Maintaining and upgrading the IT system used to administer the RO
- Auditing generators and suppliers to monitor adherence to the requirements of the Orders
- Monitoring compliance with sustainability requirements
- Monitoring and enforcing compliance with the requirements of the Orders

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[3] The Renewables Obligation Order 2015 (as amended), The Renewables Obligation (Scotland) Order 2009 (as amended) (ROS), The Renewables Obligation (Northern Ireland) Order 2009 (as amended) and the Renewables Obligation Closure Order 2014 (as amended).

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- Monitoring supplier compliance and receiving/redistributing buy-out and late payments as well as mutualisation payments
- Publishing the annual report on the RO

Timing of costs

We intend to recover these costs in October 2022 from the money paid into the buy-out fund in respect of the 2021-22 Compliance period. As described in legislation, we can only use the RO buy-out fund to recycle payments to suppliers who present ROCs for compliance and to cover our administration costs.

Table 1

Category	2021-22	2022-23
IT Development & Support	£1,775,651	£2,386,615
Legal Support	£422,148	£384,125
Applications & Amendments	£300,215	£266,086
Audit & Compliance	£2,875,740	£2,169,105
Servicing Participants & Reporting	£651,627	£944,073
Enquiries & Stakeholder Engagement	£396,057	£395,714
Overheads	£1,086,348	£991,008
	£7,507,787	**£7,536,726**
Prior Year Adjustment	(+£444,381)	(-£549,819)
	£7,952,168	**£6,986,907**

Breakdown of costs for 2022-23

Table 1 shows the breakdown of costs that make up the total for 2022-23[4], along with the breakdown of 2021-22 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

IT Development and Support

These costs include the support and infrastructure costs of our IT system. They also include development costs which account for IT changes that allow the system to run more efficiently and improve its usability. The IT development proposed costs have increased this year, due to ongoing work associated with the RER. Additional development resources are required to deliver the RER project which has increased forecast costs for the 2022-23 year. Data migration and some required functionality from the legacy register is more

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[4] These costs relate to our administration of the RO for England & Wales, Scotland, and Northern Ireland. The Utility Regulator Northern Ireland (UREGNI) has its own costs for administration of the NIRO for 2022-23. These are not included in the listed Ofgem costs but will be recovered from the RO buy-out funds.

complex than anticipated and there is a need to recruit co-source software development resource to support RER's delivery.

Legal Support

This includes internal legal team support costs as well as external legal costs for advice on the most complex legal issues. It also includes the costs of defending any legal proceedings such as current or anticipated court costs. The costs have decreased over those in 2021-22 and reflect the fewer complex cases and litigation matters dealt with this year.

Applications and Amendments

These costs cover processing accreditation of the low numbers of remaining applications and the amendments portfolio. The overall costs have reduced this year in line with the reduction in the resource required to process the remaining applications following the closure of the scheme. This year the accreditation team have seen a marginal increase in the volume of amendments to existing accreditations being submitted.

Audit and Compliance

This covers our participant audit and compliance activities, along with monitoring suppliers' compliance with their obligations under the RO scheme. The budget attributed to audit activity has reduced from 2021-22. The Audit team will launch the third year of the RO statistical audit programme in October 2022[5], which is later than when we started the second year of the RO statistical audit programme last year. This change to our audit timeframes allows the audit team to implement improvements including streamlining processes and an improved generator experience. In addition, we have reduced the number of generator targeted audits taking place, ensuring they are better targeted using data analytics. At the same time, the costs of audits have increased for the third year of the RO statistical audit programme in line with the agreed contracts, which has offset some of the reduction in audit activity costs.

We continue to see issues arising from supplier non-compliance as we deal with supplier failures and exits from the market, and the mutualisation process associated with this. Whilst investigations into instances of supplier non-compliance will be a key focus, the team will also need to manage mutualisation payments for 2022-23 year in respect of the 2020-21 compliance period. Lastly, we will continue our programme of tackling participant non-compliance. More recently, steps have been taken to improve our internal referral

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[5] Ofgem statistical audit programme announcement - here

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processes between the Audit and Compliance teams to ensure audits that have been highlighted as having potential financial compliance concerns are being reviewed and progressed appropriately. Consequently, there has been an increase in the number of compliance investigations being conducted.

Servicing Participants and Reporting

The overall costs in this category have increased since 2020-21. This is due to the way we categorise and present different costs following internal structural changes, as well as some increased senior management capacity.

The team continues to review and validate an ever-increasing volume, and value, of ROC claims in advance of issuing the certificates, including a significant drive to issue 'banked ROCs' in the run up to the annual compliance deadline.

Enquiries and Stakeholder Engagement

This covers our interactions with scheme participants and members of the public, as well as dealing with any emerging issues or new policy. This also includes the work on addressing supplier RO payment default under the strengthening financial resilience workstream to ensure that risks are not inappropriately passed on to consumers.

Overheads

The overhead charge was calculated as 12% of budgeted costs for the Delivery and Schemes division in Ofgem and fixed at this level.

Yours sincerely

Andrew Abraham
Head of Scheme Portfolio