

Ringfencing the Renewables Obligation

This is a draft document published ahead of a decision being made on whether to implement a new SLC 30 further to our November 2022 [statutory consultation](#), and should be treated as such.

Overview

This guidance is for licensed electricity suppliers in Great Britain. It provides guidance on how to comply with their obligations under standard licence condition 30 of the Standard conditions of the electricity supply licence.

This Guidance does not modify or replace the conditions in the electricity supply licences. Neither is it an exhaustive list of supplier obligations. Suppliers should continue to refer to the conditions outlined in the most recent versions of the gas and electricity supply licences. Ofgem¹ may amend this Guidance from time to time following consultation.

¹ The terms “we”, “us”, “our”, “Ofgem” and “the “Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.



1. Associated documents

1.1. Readers should be aware of the following documents which support this publication:

- [Link to final Decision document]
- [Link to final RO SLC notices]
- [Licences and licence conditions | Ofgem](#)
- [Renewables Obligation: Guidance for suppliers](#)

2. Context

- 2.1. The Renewables Obligation (RO) is a scheme that supports the deployment of large-scale renewable electricity generation in Great Britain (GB), and the deployment of large-scale, as well as smaller scale renewable electricity generation in Northern Ireland (NI). The RO is designed to provide long term support for renewable electricity generators in the form of Renewables Obligation Certificates (ROCs), and requires that in each obligation period, licensed electricity suppliers present a specified number of ROCs in respect of each MWh of electricity supplied to customers. Those suppliers not presenting sufficient ROCs to fulfil their obligation are required to make a payment to cover the shortfall.
- 2.2. If a supplier is unable to meet its obligation under the RO, for example because it has entered administration/insolvency or has had its supply licence revoked during the obligation period, there may be a shortfall in the buy-out fund. This means that the buy-out fund will be smaller than it would have been if all suppliers had met their obligations. Where this shortfall exceeds a minimum threshold, it will trigger the 'mutualisation' process, which requires other suppliers to meet it.² Shortfalls between the 2017-18 and 2022-23 RO obligation periods exceeded the minimum threshold.³ The additional costs to suppliers to make mutualisation payments are generally handed down to electricity customers.

² The Northern Ireland RO scheme does not feature a mutualisation mechanism.

³ The total defaulted amounts mutualised in this period were £377.5m on the England and Wales RO and £29.1m on the Scotland RO.



3. Introduction

- 3.1. For the 2023/24 scheme year onwards, licensed electricity suppliers in Great Britain need to protect their RO under a process called 'RO ringfencing'.
- 3.2. RO ringfencing is a requirement introduced by standard licence condition 30 of the electricity supply licence. It requires suppliers to meet their accruing RO by holding ROCs, protecting the funds equivalent to the buy-out price of their obligation in an 'RO Credit Cover Mechanism'⁴, or a combination of the two.
- 3.3. This requirement applies to the part of a supplier's RO attributable to their domestic electricity supply volumes only. Suppliers are not required to meet the requirement in relation to their non-domestic electricity supply volumes.
- 3.4. The RO will continue to be discharged by 1 September following each obligation period in line with existing arrangements. This annual milestone is unaffected by the RO ringfencing requirements.

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⁴ Capitalised terms in this document are defined in the [draft SLC 30 notice](#).

4. Calculating the Quarterly Cumulative Obligation

- 4.1. A licensed electricity supplier (a "supplier") must submit data to us so that we can calculate their accruing RO.

Quarterly Amount

- 4.2. Within 10 working days after the end of each quarter,⁵ the supplier must submit to us their Relevant Domestic Electricity Supplied (RDES) in that quarter using the Central FIT Register ("CFR").⁶
- 4.3. The supplier's accrued RO for that quarter is expressed as an "RO quarterly amount" (RQA). This is calculated using the following equation:

$$RQA = RDES \times LO$$

Value	Description	Unit
RQA	"RO Quarterly Amount" means the supplier's accrued RO in each quarter.	ROCs
RDES	"Relevant Domestic Electricity Supplied" means the domestic segment of "relevant electricity supplied", which has the meaning given to it by the RO Order and the ROS Order.	MWh
LO	"Level of Obligation" means the number of ROCs that suppliers must redeem for each MWh of RES supplied, as published by the Department for Energy Security and Net Zero in advance of the RO Obligation period.	ROCs per MWh

Table 1: the Quarterly Amount values

- 4.4. We verify the supplier's submission using Elexon data. Any discrepancies will be queried with the supplier via the CFR.

Quarterly Cumulative Obligation

- 4.5. The total of all calculated RO Quarterly Amounts for that obligation period are combined to give the supplier's "Quarterly Cumulative Obligation" (QCO) in ROCs. We send this value to the supplier in a written notice at the end of each quarter.

⁵ The four periods of three months of the RO obligation period, with the first period beginning on 1 April. Please also refer to footnote 7.

⁶ Further details are available in the CFR user guide.

- 4.6. The QCO is expected to increase throughout the obligation period. Table 2 describes the cumulation of Quarterly Amounts for the duration of three obligation periods. Quarterly Amounts are colour formatted to correspond to the Obligation Period they are associated with.
- 4.7. The QCO for an Obligation Period must continue to be protected in the following one, until the RO is discharged on September 1.

Overlap of Quarterly Amounts

- 4.8. We currently envisage RO ringfencing applying for the 2023/24 scheme year onwards.⁷
- 4.9. As the “Protection deadline” (see section 7 below) for Q1 comes before settlement on 1 September, the Quarterly Cumulative Obligation for two Obligation Periods must be protected for approximately six weeks in Q2 each year.

Scheme year	Obligation Period	Quarter	Size of QCO to protect (in RO Quarterly Amounts)				
			1	2	3	4	5
2023/24	1	Q1					
		Q2					
		Q3					
		Q4					
2024/25	2	Q1					
		Q2					
		Q3					
		Q4					
2025/26	3	Q1					
		Q2					
		Q3					
		Q4					

Table 2: the Quarterly Cumulative Obligation (quarterly view)

⁷ For scheme year 2023/24 only, we currently envisage any requirements for providing evidence of protection running in line with the Q2 timetable followed by subsequent quarterly timetables. The schedule in table 3 applies to all subsequent quarters.

5. Ringfencing the Quarterly Cumulative Obligation

- 5.1. Each supplier must protect its Quarterly Cumulative Obligation following the end of each quarter.⁸ To do so, suppliers are required to hold the Quarterly Cumulative Obligation in their account on the Renewables and CHP Register (“the Register”) and/or protect the “credit cover amount”.
- 5.2. The credit cover amount is any part of the Quarterly Cumulative Obligation for which the supplier does not hold ROCs, converted into pound sterling according to the buy-out price.⁹ It must be protected with RO Credit Cover Mechanism(s).

$$\text{Credit cover amount} = (\text{QCO} - \text{ROCs in account}) \times \text{buy-out price}$$

- 5.3. The credit cover amount must remain protected for at least 28 days after the end of the quarter. However, suppliers can amend, agreement with Ofgem, the Maximum Amount¹⁰ covered by the protection mechanism in accordance with standard condition 30.3 and as explained below at paragraph 5.11.

RO Credit Cover Mechanisms


- 5.4. Licensed Electricity Suppliers must use one or more of our approved templates (published alongside this document) when protecting their credit cover amount with an RO Credit Cover Mechanism.¹¹ These templates are for the following:
 - Standby Letter of Credit (SBLC)
 - First Demand Guarantee (FDG)
 - RO Escrow account
 - RO Trust Account
- 5.5. More than one mechanism can be used depending on the circumstances and structure of the licensee. For the avoidance of doubt, suppliers are not required to maintain an RO Credit Cover Mechanism if they are meeting their obligation under standard condition 30.1 in full through holding ROCs on the register.
- 5.6. Each time a new RO Credit Cover Mechanism is created, the relevant template must be downloaded from our website to ensure that the current version is used. Changes to the templates are not permitted.
- 5.7. The SBLC must be issued or confirmed by an Acceptable Bank in favour of Ofgem. An Acceptable Bank must be a bank or other financial institution situated in the United

⁸ See footnote 7.

⁹ According to the buy-out price of ROCs in the obligation period to which the QCO relates.

¹⁰ Maximum Amount means the total amount that the Authority is entitled to demand under the SBLC or FDG.

¹¹ These templates are also used for Credit Balance Support Arrangements in accordance with SLC 4D.



Kingdom with an Acceptable Credit Rating, which is set out in the draft notice for SLC 30.

- 5.8. The FDG must be provided by a person established [within the UK] with a [credit rating of at least BBB on issuance¹²] and maintained throughout until the supplier has discharged its RO in full.

Lodging and withdrawing RO Credit Cover Mechanisms

- 5.9. To issue an RO Credit Cover Mechanism, an electronic original must be uploaded to the CFR. We verify it and notify the supplier as to whether it has been approved or rejected (providing reasons on rejection).
- 5.10. Any RO Credit Cover Mechanism lodged before the protection deadline and approved after it will be recognised as protection for the credit cover amount.
- 5.11. Every time a supplier amends or replaces a live RO Credit Cover Mechanism(s), with Ofgem's consent, they must notify Ofgem at [email@ofgem.gov.uk] and present us with the new version. [As provided for at standard licence condition 30.3, suppliers may, with Ofgem's consent, amend the Maximum Amount in an SBLC at any time but may amend the Maximum Amount in a FDG no more than once per Quarter.¹³]

¹² We have received feedback that a FDG should be capable of being granted by persons not registered in the UK. We are exploring whether that is appropriate and will confirm when we publish our decision on the RO licence modifications.

¹³ The frequency of amendments to the RO Credit Cover Mechanisms is something that we are exploring; therefore, the SLCs consulted on do not contain any provisions for allowing for amendment of the Maximum Amount. We consider that allowing amendments may be beneficial but we will confirm when we publish our decision on the SLC 30 modifications.

6. Compliance

- 6.1. By 11:59pm on the protection deadline, suppliers must hold all or part of their QCO in their supplier account on the Register.¹⁴
- 6.2. Where only part of the QCO is held, suppliers must protect the credit cover amount.
- 6.3. If a supplier misses the 1 September¹⁵ payment deadline for RO settlement, we will write to the supplier to present them with two options:
 - If the supplier confirms to us in writing that it wishes us to draw down on the RO Credit Cover Mechanisms(s), we will do that with interest accruing only until the day on which we draw down.
 - Alternatively, if we do not receive said consent in writing, but do not receive payment of the QCO with accrued interest from the supplier at least 5 working days before the late payment deadline¹⁶, we will draw down (in respect of the QCO and accrued interest) on the RO Credit Cover Mechanism no earlier than 5 working days before the late payment deadline to ensure that we receive this sum in time to make payment into the buyout fund on behalf of the supplier before the late payment deadline.
- 6.4. All RO Credit Cover Mechanism(s) must be provided as digital documents.

Compliance forecast

- 6.5. Five working days before the end of the quarter, we will email a reminder to suppliers about the upcoming quarter end their duty to submit relevant domestic electricity supplied. In response the supplier must notify us as to whether they expect to ringfence the Quarterly Cumulative Obligation by the protection deadline.

Compliance status

- 6.6. After the protection deadline, we assess the supplier's compliance and send them a written notice to confirm:
 - the supplier is compliant with standard licence condition 30 of the Standard conditions of electricity supply licence, or
 - the supplier is **not** compliant with standard licence condition 30 of the Standard conditions of electricity supply licence, and the next steps we will take

¹⁴ Any ROCs that are 'pending transfer' on the Register on the deadline date will be recognised as belonging to the Transferor.

¹⁵ Payment due in accordance with Article 67 of the RO Order and Article 43 of the ROS Order.

¹⁶ The late payment deadline is 31 October in accordance with Articles 68 and 69 of the RO Order and Articles 44 and 45 of the ROS Order.

- 6.7 If a supplier does not comply with the standard conditions of the electricity supply licence, we may decide to take enforcement action.

7. Schedules

Schedule

- 7.1. We publish the RO ringfencing schedule for each Obligation period on our website. These are created using the following deadlines and windows¹⁷:

Event	Number of working days
Supplier notifies Ofgem of compliance forecast	5 before end of quarter
Supplier submits RDES on CFR	1 to 10 after end of quarter
Ofgem notifies supplier of QCO	20 after end of quarter
Deadline for providing evidence of ringfencing arrangements	30 after end of quarter
Ofgem notifies supplier of compliance status	[40] after end of quarter

Table 3: RO ringfencing schedule

8. Contact

- 8.1. [email@Ofgem.gov.uk].

¹⁷ See footnote 7.