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Ringfencing the Renewables Obligation

Overview

This guidance is for licensed electricity suppliers in Great Britain. It provides clarificatory 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 any obligations for suppliers under Renewables Obligation Order 2015 (England and Wales) (as amended) and the Renewables Obligation (Scotland) Order 2009 (as amended). Ofgem[1] 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.

Associated documents

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

- Decision on Strengthening Financial Resilience
- Notice on SLC 30
- Licences and licence conditions | Ofgem
- Renewables Obligation: Guidance for suppliers
- Protection Mechanism Templates for SLC 30

Context

The Renewables Obligation (RO) is a scheme that supports the deployment of renewable electricity generation in Great Britain (GB) and 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. This payment goes into what is called the 'buy-out' fund.

If a supplier is unable to meet its obligation under the RO, for example because it has entered 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 it will be smaller than it would have been if all suppliers had met their obligation. 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.

1. Introduction

1.1. For the 2023/24 scheme year onwards, licensed electricity suppliers ('suppliers') in Great Britain need to protect their RO under a process called 'RO ringfencing'.

1.2. 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 one or more 'RO Credit Cover Mechanisms'[4], or a combination of the two.

1.3. 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. In accordance with the Energy Price Guarantee for domestic electricity consumers in Great Britain: scheme document[5] we expect domestic supply volumes to be derived using the Consumption Component Class Id's 42 & 45 for half hourly volumes and Profile Classes 1 & 2 for Non-Half Hourly volumes.

1.4. The RO will continue to be discharged by 1 September following each obligation period in line with scheme legislation. This annual deadline is unaffected by the RO ringfencing requirements.

[4] Capitalised terms in this document are defined in the notice for SLC 30

[5] Energy Price Guarantee for domestic electricity consumers in Great Britain: scheme document Energy Price Guarantee: scheme documents - GOV.UK (www.gov.uk)

2. Calculating the Quarterly Cumulative Obligation

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

Quarterly Amount

2.2. Within 10 working days after the end of each quarter,[6] the supplier must submit to us their Relevant Domestic Electricity Supplied (RDES) in that quarter using the Central FIT Register ("CFR").[7]

2.3. The supplier's accrued RO for that quarter is expressed as an "RO quarterly amount" (RQA). This is calculated using the following equation:

$$RQA = RDES \times LO$$

Table 1: the Quarterly Amount values

Value	Description	Unit
RQA	"RO Quarterly Amount" means the number of ROCs that a supplier must hold in respect of relevant electricity supplied to Domestic Customers	ROCs
RDES	"Relevant Domestic Electricity Supplied" means relevant electricity supplied to Domestic Customers in a quarter, where relevant electricity supplied has the meaning given to it by the Renewables Obligation Order 2015 and the Renewables Obligation (Scotland) 2009 Order respectively	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

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

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[6] 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.
[7] Further details are available in the CFR user guide.

Quarterly Cumulative Obligation

2.5. 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 20 working days after the end of each quarter.

2.6. 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.

2.7. The QCO for an Obligation Period continues into the following one until the RO is discharged on September 1.

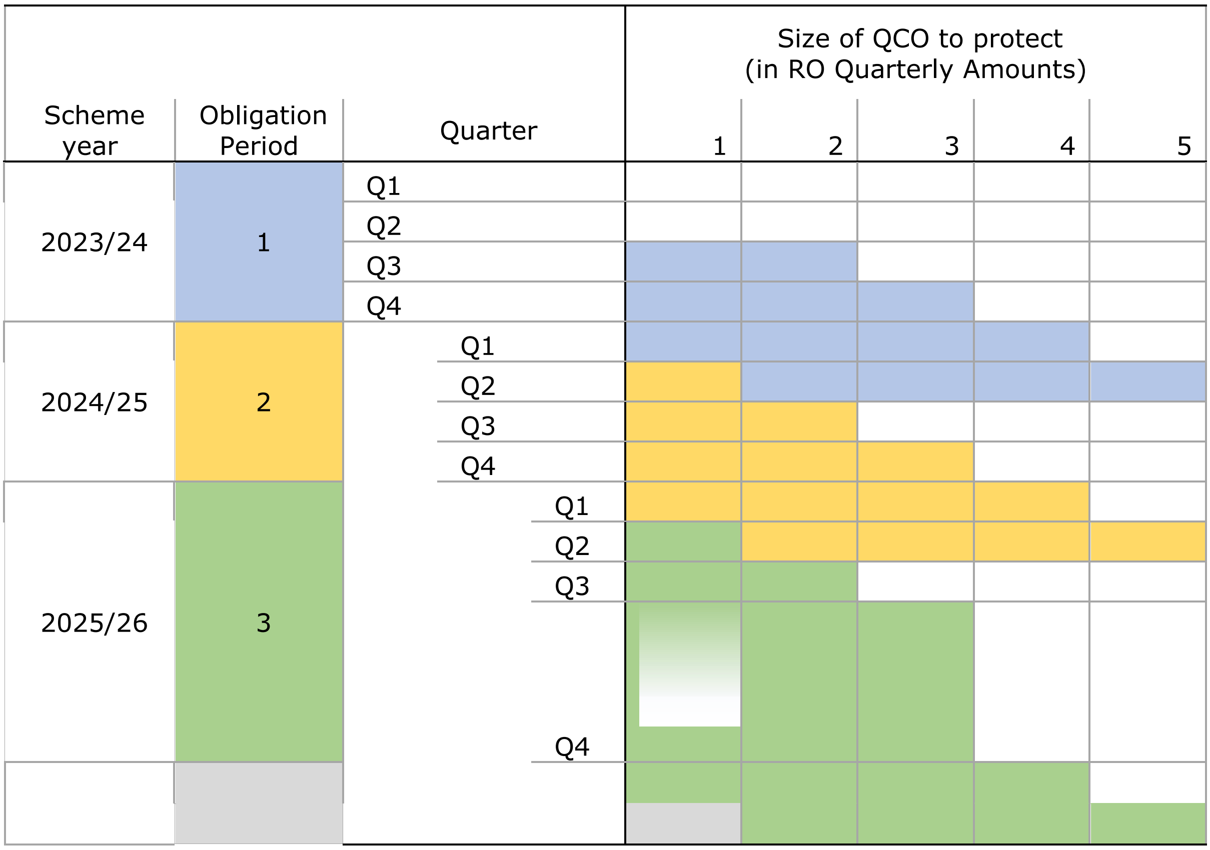
Overlap of Quarterly Amounts

2.8. RO ringfencing applies for the 2023/24 scheme year onwards.[8] Q1 2023 volumes are protected at the same time as Q2 2023. The schedule in table 3 applies to all subsequent quarters.

2.9. As the "Protection deadline" (see section 5 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.

[8] For scheme year 2023/24 only, suppliers must provide evidence of protection running in line with the Q2 timetable. The schedule in table 3 applies to all subsequent quarters.

Table 2: the Quarterly Cumulative Obligation (quarterly view)



3. Ringfencing

3.1. Each supplier can ringfence its accruing RO by:

- holding the QCO in its account on the Renewables and CHP Register ("the Register") following the end of each quarter,[9] and/or
- protecting the "credit cover amount".

3.2. 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 in the obligation period to which the QCO relates. It is protected with RO Credit Cover Mechanism(s).

Credit cover amount = (QCO – ROCs in account) x buy-out price

3.3. Suppliers are not required to protect a credit cover amount if they are holding their entire QCO on the Register.

3.4. RO scheme caps on banked ROCs and bioliquid ROCs do not apply to the QCO.[10]

RO Credit Cover Mechanisms

3.5. Suppliers must use one or more of our approved protection mechanism templates (as identified in the Associated Documents section of this guidance above) when protecting their credit cover amount with one or more of the RO Credit Cover Mechanisms. These templates are for the following:

- Standby Letter of Credit (SBLC)
- First Demand Guarantee (FDG) - covering both third party and parent company guarantees
- RO Trust Account

3.6. A supplier may use more than one RO Credit Cover Mechanism to meet its obligation.

3.7. 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.

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[9] Any ROCs that areg 'pending transfer' on the Register will be recognised as belonging to the transferor.
[10] See paragraphs 4.4 and 4.5 of the Renewables Obligation: Guidance for Suppliers.

3.8. Detailed rules concerning the issuer, content and status required of each of the RO Credit Cover Mechanisms are set out at standard licence condition 30 of the standard conditions of the electricity supply licence.

3.9. All RO Credit Cover Mechanism(s) must be provided as digital documents.

Lodging and withdrawing RO Credit Cover Mechanisms

3.10. To issue an RO Credit Cover Mechanism, an electronic original must be emailed to ROringfencing@ofgem.gov.uk. We verify it and notify the supplier as to whether it has been approved or rejected (providing reasons on rejection).

3.11. Any RO Credit Cover Mechanism lodged before the protection deadline and approved after it will be recognised as protection for the credit cover amount.

3.12. Every time a supplier amends or replaces a live RO Credit Cover Mechanism(s), with Ofgem's consent, they must notify Ofgem at ROringfencing@ofgem.gov.ukand present us with the new version at least 28 days prior to the new arrangements being put in place.

3.13. 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.

4. Compliance

4.1. All suppliers must evidence that they hold the latest QCO and/or protect any Credit Cover Amount by 11:59pm on the protection deadline, which is 30 working days after the end of the quarter.[11]

Drawdown

4.2. If a supplier fails to discharge their annual obligation by the 1 September[12] payment deadline we will write to the supplier the next working day following the deadline and:

- Ask it to confirm in writing by return (and in any event within 2 days of the date of our letter) that it intends to make payment at least 5 business days before the late payment deadline[13], and provide evidence of this. The evidence provided should include confirmation of how the supplier will ensure it pays any interest that will have accrued on sums due.
- If the supplier fails to respond or fails to provide sufficient evidence by the required deadline, we will draw down on the RO Credit Cover Mechanisms(s) as soon as possible - generally the next working day.
- If the supplier confirms it will make payment by a date at least 5 business days before 31 October, we will not generally draw down until that date has passed. However, if we do not receive payment on the expected date, we will draw down as soon as possible (as above, this will generally be the next working day).

4.3. Suppliers will owe the credit cover amount. If Ofgem collects payment by drawing down on the sums protected under an RO Credit Cover Mechanism due to non-payment on a date after 1 September, the supplier will owe interest in respect of that late payment which we may be unable to collect from the ringfenced amount. The supplier will still have an obligation to pay that sum to Ofgem.

Compliance status

4.4. After the protection deadline, we assess the supplier’s compliance and send them a written notice to confirm:

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[11] See footnote 7.

[12] Payment due in accordance with Article 67 of the RO Order and Article 43 of the ROS Order or production of ROCs by 1 September

[13] 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.

- that we do not have any immediate concerns about the supplier's compliance with standard licence condition 30 of the standard conditions of electricity supply licence, or

- that we consider that 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.

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

5. Schedule

5.1. We publish the RO ringfencing schedule for each obligation period on our website. These are created using the following deadlines and windows:

Table 3: summary of RO ringfencing schedule

Event	Number of working days
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

6. Contact

6.1. Suppliers can contact us with any queries at ROringfencing@ofgem.gov.uk.