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Direct Dial: 020 7901 7310
Email: REDevelopment@ofgem.gov.uk

Date: 21 September 2023

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 2023 – March 2024.

Forecast Costs

Our forecast cost for the administration of the RO for 2023-24 is **£8,059,396**. This represents an increase of 7% over the cost of administration in 2022-2023. Our costs remain around 0.11% of the estimated value¹ of the scheme.

This year's forecast represents an increase in the cost of the administration of the RO as compared to last year, noting that 2022-23 saw a decrease of 7% in the forecast cost versus 2021-22.² These fluctuations can be explained primarily by unfilled vacancies over the past few years caused by a challenging job market.

There are a number of reasons for the cost increase this year.

- The RER project, which will provide a new Register to replace the existing R&CHP register with one that is easier to use, provides a better user experience and ensures it is fit for purpose going forward. The RER project is due to continue this

¹ We have calculated the value of the RO in 2023-24 as £7.6 billion by multiplying the estimated supply of electricity in the UK in 2023-24 (277.1 TWh – from BEIS prediction available [here](#)) by the GB obligation level (0.469 ROCs per MWh) and the buy-out price (£59.01).

² [Ofgem costs for administering the Renewables Obligation \(RO\)](#) 2022-2023

The Office of Gas and Electricity Markets

10 South Colonnade, Canary Wharf, London, E14 4PU **Tel** 020 7901 7000 **Fax** 020 7901 7066

www.ofgem.gov.uk **The Office of Gas and Electricity Markets**

Commonwealth House, 32 Albion Street, Glasgow, G1 1LH **Tel** 0141 331 2678

www.ofgem.gov.uk **The Office of Gas and Electricity Markets**

1 Caspian Point, Caspian Way, Cardiff Bay CF10 4DQ

1 Pentir Caspian, Ffordd Caspian, Bae Caerdydd CF10 4DQ **Tel** 029 2044 4042

www.ofgem.gov.uk

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year. A review of the project has led to the identification of additional essential deliverables to be included within the minimum scope of the project. This is to ensure that the RER Register is fit for purpose and delivers all the essential functionality that exists on the R&CHP Register. Ofgem required additional development resources to recruit a second co-source partner to support and increase the speed of the delivery of the RER project, due to the updated minimum scope of the project. This co-source partner will continue to work on the project this year.

- The third year of the RO statistical audit programme commenced in October 2022 and, unlike in previous years, the programme will run for 18 months with an expected end date of 31 March 2024. As a result, we expect an increase of approximately 39.33% in the number of TRO statistical audits in 2023-24 as compared to 2022-23.³

For a full breakdown of the cost for the administration of the RO for 2023-24 please refer to Appendix 1.

We continue to review our processes and activities to improve efficiency and minimise costs where possible. 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 Orders⁴ include (but are not limited to):

- Issuing and revoking Renewables Obligation Certificates (ROCs)
- Establishing and maintaining a register of ROCs

³ For further information on the 2023-24 RO statistical audit programmes here: [Audits of Renewables Obligation \(RO\) Generating Stations 2023/24 | Ofgem](#)

⁴ 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).

- 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
- Monitoring supplier compliance and receiving/redistributing buy-out and late payments as well as mutualisation payments
- Processing accreditation amendments for generating stations
- Maintaining and upgrading the IT system used to administer the RO
- Publishing the annual report on the RO

Timing of costs

We intend to recover these costs in October 2023 from the money paid into the buy-out fund in respect of the 2022-23 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.

Yours sincerely



Andrew Abraham
Head of Scheme Portfolio

Appendix 1 - Cost for the Administration of the RO for 2023-24

Table 1

Category	2022-23	2023-24
IT Development & Support	£2,386,615	£2,682,357
Legal Support	£384,125	£288,664
Applications & Amendments	£266,086	£244,009
Audit & Compliance	£2,169,105	£2,659,072
Servicing Participants & Reporting	£944,073	£950,806
Enquiries, Policy & Stakeholder Engagement	£395,714	£395,579
Overheads	£991,008	£916,965
	£7,536,726	£8,137,454
Prior Year Adjustment	(-£549,819)	(-£78,058)
	£6,986,907	£8,059,396

Breakdown of costs for 2023-24

Table 1 shows the breakdown of costs that make up the total for 2023-24⁵, along with the breakdown of 2022-23 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. IT development costs has a forecast increase for 2023-24. This is due to ongoing work associated with the RER. Ofgem required additional development resources to recruit a second co-source partner to support and increase the speed of the delivery of the RER project due to an increase in the scope of the project. The need for this additional resource was rooted both in the increase in the updated minimum scope of the project and a challenging job market which caused difficulties in recruiting permanent posts. The forecast decrease in IT & Development Product Management costs for 2023-24 is due to lower forecast staff costs than the previous year.

⁵ 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 2023-24. These are not included in the listed Ofgem costs but will be recovered from the RO buy-out funds.

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 forecast costs have decreased relative to those in 2022-23 which reflects a reduction in the amount of complex litigation that has arisen as the scheme matures.

Applications and Amendments

These costs cover processing accreditation of the low numbers of remaining applications and the more active amendments portfolio. This covers amendments submitted by accredited generating stations on the basis that the generating station or the fuel used by the generating station is being altered in some way. There is a small decrease forecast in costs for this area this year as compared to 2022-23.

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 increased from 2022-23. The third year of the RO statistical audit programme commenced in October 2022 and, unlike in previous years, the programme will run for 18 months with an expected end date of 31 March 2024. As a result, more RO statistical audits are expected to be conducted in 2023-24 than took place in 2022-23. The increase in 2023-24 costs can also be attributed to an increase in forecasted audit contractor costs.

The budget attributed to participant compliance is anticipated to slightly increase this year, due to filling outstanding vacancies and additional recruitment. Additional resource is needed to ensure compliance investigations are progressed and closed within appropriate timeframes as case volumes have exceeded our resource planning assumptions. A review to ensure the team's compliance processes are robust, following the changes made to our audit processes last year, has also resulted in increased costs as has an increase in complex cases which require additional legal support.

There is an expected increase in costs forecast for Supplier Compliance due to process changes required with the implementation of the RO ringfencing obligation under standard licence condition 30 of the standard conditions of the electricity supply licence.

Servicing Participants and Reporting

The overall costs in this category have seen a slight increase since 2022-23. 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, Policy 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. The forecast this year is similar to the previous forecast. There were a large number of unfilled vacancies last year. These vacancies are expected to be filled in the coming year. This resource is necessary due to higher volume and complexity in enquiries, information requests, and more time spent on stakeholder management.

Overheads

The overhead charge was calculated as 11% of budgeted costs for the Delivery and Schemes division in Ofgem.