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R/59

THE RENEWABLES OBLIGATION BUY-OUT FUND – LATE PAYMENTS 2005-2006

Updated figures showing the total amount of money redistributed to electricity suppliers from the Renewables Obligation buy-out funds for 2005-2006 have been published today (Monday). These figures have been published to take into account the redistribution of the residual amounts in the Scotland and Northern Ireland late payment funds, which took place today.

The three main buy-out funds (for England and Wales, Scotland and Northern Ireland) were redistributed on 27 October 2006, along with the late payments we had received by that date. The late payment period runs from 1 October to 30 November. The amounts redistributed from the late payment funds today totalled £1,083.

Therefore the total amount redistributed for 2005-2006, the fourth year of the obligation, was £139,815,195, which equates to £10.21 per ROC.

The total amounts redistributed in 2005-2006 are shown in the following table:

Fund	Amount redistributed
England & Wales buy-out	£127,167,900
Scotland buy-out	£7,112,617
Northern Ireland buy-out	£5,373,877
England & Wales late payment	£34
Scotland late payment	£115,070
Northern Ireland late payment	£45,697
Total	£139,815,195

Four suppliers went into administration during 2005-2006 and had their licences revoked under the Supplier of Last Resort arrangements contained in the Electricity Supply Licence. They are Eledor Limited, The Team Group of Companies Limited, Utility Link Limited and Zest4 Electricity Limited. From the information we hold, we estimate the shortfall in the buy-out funds arising from this to be around £800,000 for the Renewables Obligation and around £2,000 for the Renewables Obligation Scotland. Based on this, mutualisation will not be triggered for 2005-2006.

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 2005-2006 was 5.5 per cent and for 2006-2007 it is 6.7 per cent. The level reaches 15.4 per cent in 2015-2016 and remains at this level until 2026-2027. In Northern Ireland, the level started at 2.5 per cent in 2005-2006 and reaches 6.3 per cent in 2012-2013. It remains at this level until 2026-2027.

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. Each ROC represents one megawatt hour of electricity. The renewable generator can sell ROCs either with or separately from the electricity generated.
3. In order to meet their obligations, suppliers can present Ofgem with enough ROCs or use a buy-out clause. They can also use a combination of ROCs and buy-out to meet their obligations. The buy-out price per megawatt hour of electricity is calculated by Ofgem each year by adjustment to reflect changes in the Retail Prices Index. For the 2005/06 compliance period, it was £32.33.
4. Suppliers that comply after 1 October can only do so by paying into the buy-out fund. These payments are subject to an interest adjustment which is 5 percentage points above the Bank of England base rate as at 1 October. The late payment period ended on 30 November 2006.
5. The amounts redistributed from the main buy-out funds have been updated since the information note we published earlier this year to include payments made to one supplier after 27 October 2006, once it had complied in full with its obligations.
6. The buy-out fund and the late payment funds have been redistributed this year using the single recycling mechanism. The funds have been redistributed to suppliers in proportion to the total number of ROCs that each has presented across the three obligations. The late payments were redistributed back to suppliers in the same proportions as the main buy-out funds, detailed in our earlier information note.
7. 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 second payment to make good the shortfall, known as "mutualisation". Payments are required in proportion to each supplier's obligation compared with the total obligation. The trigger for mutualisation in the 2005-2006 obligation period is a shortfall of £5.5m in the England & Wales fund and/or £550,000 in the Scotland fund.
8. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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