

THE RENEWABLES OBLIGATION BUY-OUT PRICE AND MUTUALISATION CEILING

Monday January 28 2008

Ofgem has today (Monday) announced the buy-out price and mutualisation ceiling for the Renewables Obligation for 2008-09. The price and mutualisation ceiling are updated annually to reflect changes in the Retail Prices Index.

The buy-out price, which stands at £35.76 per megawatt hour, sets the rate which suppliers need to pay if they do not present sufficient numbers of Renewables Obligation Certificates (ROCs) to meet their obligations under the scheme.

The mutualisation ceiling for 2008-09 in England and Wales is £215,189,200 and in Scotland it is £21,518,920. The mutualisation provisions come into effect if there is a shortfall in the buy-out fund above a certain level, which may result from a supplier not being able to meet its obligation, for example due to insolvency. All suppliers that met their obligation are then required to make additional payments to make good the shortfall, up to the level of the ceiling, which is the maximum total amount they would have to pay. These provisions have not been triggered to date.

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 2007-2008 is 7.9 per cent and 9.1 per cent for 2008-2009. 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 (MWh) of electricity. The renewable generator can sell ROCs either with or separately from the electricity generated.
3. 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 MWh of electricity is calculated by Ofgem each year by adjustment to reflect changes in the Retail Prices Index. It was £30 per MWh in the base year, 2002-03. The buy-out price in 2007-08 was £34.30.
4. 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. The trigger level for mutualisation in England and Wales is set by the Department of Trade and Industry. The level for Scotland is set by the Scottish Executive. In 2007-08 the level was £7.9m in England & Wales and £790,000 in Scotland. It will be £9.1m in England and Wales and £910,000 in Scotland, in 2008-09.

5. Payments are required in proportion to each supplier's obligation compared with the total obligation, with the total amount of these payments capped at the ceiling rate. In 2007-08, the mutualisation ceiling was set at £206,400,000 in England & Wales and £20,640,000 in Scotland. This ceiling is calculated by Ofgem each year by adjustment to reflect changes in the Retail Prices Index.

6. 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.