

## **THE RENEWABLES OBLIGATION BUY-OUT PRICE AND MUTUALISATION CEILING 2009-10**

**Monday 9 February 2009**

Ofgem has today (Monday) announced the expected buy-out price and mutualisation ceilings for the Renewables Obligation for the 2009-10 compliance period.

New secondary legislation for the Renewables Obligation is expected to come into effect on 1 April 2009. This new legislation includes the Renewables Obligation Order 2009, the Renewables Obligation (Scotland) Order 2009 and the Renewables Obligation Order (Northern Ireland) 2009. This new legislation is expected to specify the buy-out price and mutualisation ceilings for 2009-10.

The buy-out price is expected to stand at £37.19 per megawatt hour. The buy-out price 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 is expected to be £224,000,000 in England and Wales, and £22,400,000 in Scotland for 2009-10. 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.

We will publish updated buy-out price and mutualisation ceiling figures for 2009-10 should the final figures differ from those expected to be written into the new legislation.

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 2008-2009 is 9.1 per cent and in 2009-2010 it is expected to be 9.7 ROCs per 100 MWh. Beyond this period, the obligation level will be set by the Department of Energy and Climate Change prior to the start of each obligation period, based on a series of formulas in the revised legislation.
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. Up until March 2009, each ROC represents one megawatt hour (MWh) of electricity; from April 2010 onwards the value of the ROC is "banded" dependent on the generation technology type. 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 make a buy-out payment. They can also use a combination of ROCs and buy-out to meet their obligations. The buy-out price per MWh of electricity is normally adjusted by Ofgem each year to reflect changes in the Retail Prices Index. It was £30 per MWh in the base year, 2002-03. The buyout price in 2008-09 is £35.76.

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 Energy and Climate Change. The level for Scotland is set by the Scottish Executive. In 2008-09 the level was £9.1m in England & Wales and £910,000 in Scotland. It is expected to be £9.7m in England and Wales and £970,000 in Scotland in 2009-10.
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 2008-09, the mutualisation ceiling was set at £215,189,200 in England & Wales and £21,518,920 in Scotland. This ceiling is normally adjusted by Ofgem each year to reflect changes in the Retail Prices Index.
6. However, it is expected that the new legislation which is planned to take effect from 1 April 2009 will set the buy-out price and mutualisation ceilings for 2009-10. It is also expected that these will then be adjust by Ofgem in each subsequent year to reflect changes in the Retail Prices Index.
7. The expected buy-out price for 2009-10 is equal to the buy-out price for 2008-09, adjusted to reflect changes in the Retail Prices Index. The expected mutualisation ceilings for 2009-10 are equal to the mutualisation ceilings for 2008-09, adjusted to reflect changes in the Retail Prices Index and rounded to the nearest million pounds for England & Wales, and nearest hundred thousand pounds for Scotland.
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, the Utilities Act 2000, and the Energy Act 2008. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.