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Dear colleague

Consultation on Ofgem's costs for administering the Renewables Obligation

In December 2008¹, following its consultation, the Government announced that from 1 April 2009 Ofgem's costs in administering the Renewables Obligation (RO) should be paid for from the RO buyout fund. This letter sets out Ofgem's proposed charges for administration of the RO. Ofgem welcomes views on these charges.

Why are we doing this now?

Ofgem's costs for administering the RO scheme have historically been funded as part of Ofgem's overall costs via the annual licence fee on gas and electricity network operators. However given that changes to the scheme, particularly the introduction of banding, have increased our workload, the government decided that it was more appropriate for costs to be shared by those who participate in the RO than to be passed on to gas and electricity network operators. Powers to permit this form of funding were taken through the Energy Act 2008.

This letter fulfils our commitment to be transparent on our cost of administering the RO.

What are the charges paying for?

Ofgem is required to carry out a number of administration responsibilities under the RO, these are outlined below:

- Accreditation of generators as being capable of generating electricity from renewable sources
- Issuing of Renewable Obligation Certificates (ROCs) and Scottish Renewable Obligation Certificates (SROCs) for eligible generation
- Establishing and maintaining a register of ROCs and SROCs
- Publishing a list of accredited and pre-accredited generating stations
- Revoking ROCs and SROCs where necessary
- Calculating annually the buy-out price and the mutualisation ceiling resulting from the adjustments made to reflect the changes in the RPI
- Monitoring compliance with the requirements of the Orders

¹ REFORM OF THE RENEWABLES OBLIGATION, Government Response to the Statutory Consultation on the Renewables Obligation Order 2009, DECC December 2009

- Receiving buy-out payments and redistributing the buy-out fund
- Receiving late payments and redistributing the late payment fund
- Dealing with queries and
- Publishing the annual report on the RO.

Forecast costs

For the 2010-11, the costs Ofgem will incur will not only cover the ongoing duties outlined in the section above but also cover the costs on maintaining and upgrading the IT system used to administer the RO, audits of both generators and suppliers, specialist technical support and the ongoing staff costs. Our forecast for the administration of the RO for 2010-11 is £2,084,000. It represents roughly 0.15% of the anticipated overall cost of the programme in 2010-11.

We have decided against trying to project this cost further forward as our budget requirements are heavily dependent on the scale and scope of the amendments to the scheme. For years where the changes are minimal our costs would be less, however, if changes of the scale of the banding and grandfathering were introduced in the future, then our costs are likely to be higher.

Any under spend against this budget will be carried forward and hence be deducted from our budget requirements for the following year. In the unlikely event of any overspend we will accrue these costs and take them in the following year.

Timing of costs

In line with the Government announcement, we intend to recover these costs in September 2010 from money paid into the buyout fund. If the buy-out fund were not large enough to cover these costs, we will recover any deficit from the late-payment fund.

Responding to this consultation

Ofgem would welcome views from respondents to these proposals by 21 June 2010. Responses should be sent to:

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SW1P 3GE
Email: peter.collins@ofgem.gov.uk

Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000. Respondents that wish to have their responses remain confidential should clearly mark the document(s) to that effect and include the reasons for confidentiality.

Yours sincerely

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Head of Environmental Programmes