

Direct Dial: 020 7901 1886
Email: charles.hargreaves@ofgem.gov.uk

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Dear Colleague,

Consultation on Ofgem's costs for administering the Renewables Obligation

This letter sets out Ofgem's proposed charges for administration of the RO for the 2011-2012 period. Ofgem's costs in administering the Renewables Obligation (RO) have been paid for from the RO buyout fund since 1 April 2009 (i.e. from the 2009-10 obligation period onwards). Ofgem welcomes views on these charges by 19 July 2011.

Forecast costs

Our forecast cost for administration of the RO for 2011-12 is £3,317,062. This represents roughly 0.22%¹ of the anticipated overall cost of the programme and remains substantially below benchmarks for the cost of administering government schemes. While this represents roughly a 50% increase from last year the addition of sustainability criteria requirements to the RO (Amendment) Order 2011 makes up more than 90% of this increase. We have decided against trying to project the cost of the RO further forward as our budget requirements are heavily dependent on the scale and scope of any amendments to the scheme. Some of the areas that are likely to affect costs in the future are the impact of the EMR, the effects of the forthcoming banding review, and sustainability requirements. We will continue to take steps to improve the efficiency of our operation.

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.

What are the charges paying for?

Ofgem administer the RO and part of our responsibilities under the RO includes:

- 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
- Maintaining and upgrading the IT system used to administer the RO
- Publishing a list of accredited and pre-accredited generating stations
- Revoking ROCs and SROCs where necessary

¹ The value of the RO scheme is calculated at £1.487 billion by multiplying the estimated supply of electricity in the UK in 2010/11 (310 TWh – DECC UEP prediction) by the obligation level (12.4 ROCs per 100 MWh) and then multiplying by the 2011/12 ROC buy-out price (£38.69)

- Auditing generators and suppliers to monitor adherence to the requirements of the Orders
- 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
- Receiving buy-out payments and redistributing the buy-out fund
- Receiving late payments and redistributing the late payment fund
- Dealing with enquiries
- Dealing with challenges to our decision-making
- Monitoring and enforcement of compliance
- Publishing the annual report on the RO
- Publishing sustainability information for stations using biomass fuels
- Monitoring compliance with sustainability requirements for stations using bioliquids
- Any specialist technical support required to carry out the duties above
- Ongoing staff costs

Legislation only allows the RO buy-out fund to be used to recycle payments to suppliers who present ROCs under their RO and to cover the administration costs of Ofgem. The funding of new schemes will be decided by DECC. The cost of administering FITs and RHI are met directly by DECC; neither of these developments is funded from the RO buy-out fund.

Breakdown of costs for 2011-12

The method of accounting reflects that of last year with some small differences explained below. A table showing the breakdown of costs that makes up the total for 2011/12 is provided in Table 1.

Table 1 Breakdown of administration costs for the RO in 2011-12²

Description	2011-12
IT Support & Development	£808,734
Legal Support	£265,363
RO Operational team budget	£849,403
Overheads	£502,790
Sub total	£2,426,290
RO Sustainability	£895,961
Prior year (2010/11) underspend	-£5,189
Total	£3,317,062

IT Support & Development

Our costs for developing and supporting the Renewables & CHP system have been benchmarked against comparable industry costs. They have been found to be highly cost competitive, representing good value for money for turning round legislative change requirements in extremely short timescales. They do not include a portion of the overheads (as they did last year). The cost for IT consultancy is included in both the IT Development and IT Support categories.

Legal

This covers internal legal team support costs, external Counsel and Solicitor's legal costs in respect of advice on complex legal issues, and the costs of defending any legal proceedings such as current or anticipated court cases.

RO Operational Team

² These costs relate to Ofgem's costs in administering the renewables obligation for England & Wales, Scotland, and Northern Ireland. NIAUR have their own costs for administration of the NIRO for 2011/12, which are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

This includes only those members of the Renewables and CHP team that are working on the RO. It does not include any costs associated with our NFFO and CCL work. During the 2010-11 RO period Ofgem issued over 24.5 million ROCs compared with just over 20.5 million in 2009-10. The number of new accreditations for generating stations in 2010-11, which remained in the RO was 183. We also migrated over 4,500 micro and small generators from RO to FITs in the 2010-11 period; a large number of these stations were granted accreditation during the 2010-11 period as the applications were received at the end of March 2010. Overall the total number of generating stations accredited under the RO is 1,949 at the current date, which excludes generators that have transferred over to FITs. Staff recruitment has increased this year owing to increasing complexity and volume of scheme administration.

RO Sustainability

The additional sustainability criteria requirements in the RO (Amendment) Order 2011 necessitated considerable IT development, increased staffing, new guidance documents and any technical consultation inherent to this process. This has significantly increased overall administration costs this year.

Overheads

There has been an adjustment of our process for calculating overheads. This figure now includes IT overheads, which were apportioned directly to IT costs last year. The overhead charge is now 25% compared from 33% last year, although there are some accrued costs from last year which have the 33% recharge. The proportion of overhead cost has reduced relative to activity from last year. This reflects Ofgem's commitment to drive efficiency in its operations.

Timing of costs

We intend to recover these costs in September 2011 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 19 July 2011. Responses should be sent to:

Peter Collins
Ofgem
9 Millbank
London
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,

Charles Hargreaves
Head of Environmental Programmes