

Direct Dial: 020 7901 0523
Email: Annie.Gibbons@ofgem.gov.uk

Date: 6th August 2012

Dear Colleague,

Consultation on Ofgem's costs for administering the Renewables Obligation

This letter sets out Ofgem's proposed charges for administration of the Renewables Obligation ('RO') for the April 2012 – March 2013 period. Ofgem's costs in administering the RO have been paid for from the buyout fund since 1 April 2009 (i.e. from the 2009-10 obligation period onwards). Ofgem welcomes views on this letter by 3rd September 2012.

Forecast costs

Our forecast cost for administration of the RO for 2012-13 is £3,529,853. This represents roughly 0.17%¹ of the anticipated overall cost of the programme and remains substantially below benchmarks for the cost of administering government schemes. This is also broadly the same as the total cost for administration of the RO in 2011-12.

As always, we will continue to take steps to improve the efficiency of our operation and reduce costs where possible. E-Serve finances come under internal budget scrutiny and Ofgem's finances are audited by the National Audit Office, as is the case for any government organisation; therefore the RO is included in this and subject to both internal and independent scrutiny.

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. Changes to the RO have significant implications to development and operational costs and therefore we are unable to give a forecast while policy decisions have yet to be finalised and changes are being planned. Some of the areas that are likely to affect costs in the future are the effects of the current banding review, sustainability requirements and longer term, the impact of the EMR. The Ofgem five year corporate plan provides a high level forecast of the cost of running Environmental Programmes, whereas this letter is intended to be a true reflection of the amount we are withdrawing from the buy-out fund on in September this year.

What are the charges paying for?

Ofgem administer the RO and part of our responsibilities under the RO includes (but is not limited to):

¹ The value of the RO scheme is calculated at £2.04 billion by multiplying the estimated supply of electricity in the UK in 2012/13 (317.2 TWh – DECC UEP prediction) by the obligation level (15.8 ROCs per 100 MWh) and then multiplying by the 2012/13 ROC buy-out price (£40.71)

- Accreditation of generators under the RO
- 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
- Auditing generators and suppliers to monitor adherence to the requirements of the Orders
- Publishing sustainability information for stations using biomass fuels
- Monitoring compliance with sustainability requirements for stations using bioliquids
- Calculating annually the buy-out price and the mutualisation ceiling resulting from the adjustments made to reflect the changes in the RPI
- Monitoring and enforcing 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 and any challenges to our decision-making
- Publishing the annual report on the RO
- Any specialist technical support required to carry out the duties above

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 2012-13

The method of accounting reflects that of last year. Table 1 shows the breakdown of costs that makes up the total for 2012-13². The sections below provide a brief explanation behind each component of the budget.

Table 1

Consultation letter	Sep-2012
IT (Development)	£621,588
IT (Ongoing)	£643,560
Legal Support	£215,146
Renewable Obligation Team	£1,263,718
Overhead	£360,750
	£3,104,762
Prior year adjustment	£425,091
	£3,529,853

Prior year adjustment

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

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

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 2012-13, which are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

requirements in extremely short timescales. They include a portion of the overheads. The cost for IT consultancy is included in both the 'IT Development' and 'IT Ongoing' 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

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 2011-12 RO period Ofgem issued over 33.3 million ROCs compared with just over 24.5 million in 2010-11. The number of new accreditations for generating stations during 2011-12 was 281, compared to 183 during 2010-11. Overall the total number of generating stations accredited under the RO as at the end of June 2012 was 2,254. Staff recruitment has increased this year due to the increasing complexity and volume of scheme administration. This includes extra responsibility under fuelling and sustainability auditing requirements and increasing our overall fraud and audit capability.

RO Sustainability

This year our costs do not include any portion for banding and sustainability work. This is because decisions on policy have yet to be confirmed and we are unable to forecast final costs with certainty at this stage. These will be reflected in next year's administration costs.

Overheads

The overhead charge is now 24% compared to 25% last year and 33% the year before. This reflects Ofgem's commitment to drive efficiency in its operations.

Timing of costs

We intend to recover these costs in September 2012 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 3rd September 2012. Responses should be sent to:

Annie Gibbons
Ofgem
9 Millbank
London
SW1P 3GE
Email: Annie.Gibbons@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