ofgem e-serve

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Date: 1 August 2013

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) scheme for the April 2013 – March 2014 period. Ofgem's costs in administering the RO have been taken from the buy-out fund in respect of the 2009-10 obligation period onwards. Ofgem welcomes views on this letter by 29 August 2013.

Forecast costs

Our forecast cost for administration of the RO for 2013-14 is £4,261,165. This represents roughly 0.16%[1] of the anticipated overall value of the scheme and remains substantially below benchmarks for the cost of administering government schemes. This year's costs are an increase of 20.7% over those from last year (£3,529,853) primarily due to the introduction of banding changes, though are lower as a percentage of the total scheme value (0.17% in 2012-13).

As always, we will continue to take steps to improve the efficiency of our operation and reduce costs where possible. Ofgem 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.

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 legislative changes concerning new sustainability requirements and the proposed choice between the RO and its successor, Contracts for Difference (CfD). The Ofgem five year corporate plan provides a high level forecast of the cost of running Environmental Programmes, whereas this letter reports the amount we intend to withdraw from the buy-out fund in September this year.

What are the charges paying for?

Ofgem, on behalf of the Gas and Electricity Markets Authority, administers the RO. Ofgem's responsibilities under the RO Orders include (but are not limited to):

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[1] The value of the RO scheme is calculated at £2.62 billion by multiplying the estimated supply of electricity in the UK in 2012/13 (302.7 TWh – from DECC UEP prediction available here) by the obligation level (0.206 ROCs per MWh) and then multiplying by the 2013/14 ROC buy-out price (£42.02).

- Accreditation of generators under the RO
- Issuing of Renewables Obligation Certificates (ROCs) and Scottish Renewables 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

We administer the Northern Ireland Renewables Obligation (NIRO) in accordance with the NIRO Order on behalf of the Utility Regulator Northern Ireland (UREGNI) under an Agency Services Agreement. Under this agreement, the Authority is required to carry out the functions listed above in respect of the NIRO. However, the UREGNI continues to retain responsibility under the legislation for administering the NIRO.

Legislation only allows the RO buy-out fund to be used to recycle payments to suppliers who present ROCs under the RO and to cover the administration costs of Ofgem. The funding of new schemes will be decided by DECC. The costs of administering the Feed-in Tariff, Renewable Heat Incentive and Energy Companies Obligation schemes are met directly by DECC. Development and administration of these are not funded by the RO buy-out fund.

Breakdown of costs for 2013-14

The method of accounting largely reflects that of last year, with some adjustments. Table 1 shows the breakdown of costs that make up the total for 2013-14[2], along with the breakdown for 2012-13 for comparison. The sections below provide a brief explanation behind each component of the budget.

Table 1

Category	2012-13	2013-14
IT (Development)	£621,588	£62,000
IT (Ongoing)	£643,560	£367,779
Legal Support	£215,146	£275,889
RO Operations Team	£1,263,718	£1,495,555
Overheads	£360,750	£456,293
	£3,104,762	**£2,657,516**
Banding		£1,782,705
Prior year adjustment	£425,091	(£179,055)
	£3,529,853	**£4,261,165**

[2] These costs relate to Ofgem's costs in administering the renewables obligation for England & Wales, Scotland, and Northern Ireland. UREGNI have their own costs for administration of the NIRO for 2013-14, which are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

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IT Development & Ongoing Costs

These costs include running and making the necessary enhancements to our IT system, outside of specific work carried out for legislative changes. The cost for IT consultancy is included in both the 'IT Development' and 'IT Ongoing' categories.

The 2013-14 figure is much lower than that from 2012-13 because nearly all IT development costs were associated with implementing banding changes and because the 2012-13 IT costs included overheads (both explained below).

Legal Support

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

RO Operational Team

This represents costs attributable to members of the Renewables and CHP team who work on the administration of the RO Orders. It does not include any costs associated with our Non Fossil Fuel Obligation (NFFO), Climate Change Levy (CCL) and Renewable Energy Guarantees of Origin (REGO) work. During the 2012-13 RO period Ofgem issued over 41.9 million ROCs compared with around 33.3 million in 2011-12. The number of new accreditations granted to generating stations during 2012-13 was 584, compared to 281 during 2011-12. Staff recruitment has increased this year due to the increasing complexity and volume of scheme administration, as well as expansion to the number and scope of audits of both generators and suppliers.

Overheads

The overhead charge is 24%, as was the case last year. Note that this year's overheads include those associated with IT. In 2012-13 these were included within IT costs.

Banding

Significant legislative amendments across all three RO Orders came into effect on 1 April 2013. These changes reflected Government's final policy with regards to the banding review and required significant changes our guidance and IT system. The costs listed here are those for the full development and first year of operation of the banding changes and are in line with estimates provided to DECC in December 2012.

Prior year adjustment

Any under- or overspend against the previous year's budget is carried forward to the following year. In 2012-13 we under spent by £179,055. This is generally due to legal costs being lower than expected.

RO Sustainability

This year our costs do not include any development work concerning solid and gaseous sustainability. This is because the legislative changes concerning this area do not come into effect until April 2014 and will therefore be reflected in next year's administration costs.

Timing of recovery of costs

We intend to recover the 2013-14 costs in September 2013 from money paid into the buy-out fund. If the buy-out fund is not large enough to cover these costs, we will recover any deficit from the late payment fund.

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Responding to this consultation

Ofgem would welcome views from respondents to these proposals by 29 August 2013. Responses should be sent to:

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Email: Roger.Littlewood@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
Associate Director, Environmental Programmes