

Ofgem E-Serve
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Date: 1 September 2014

Dear Stakeholder

Comment period on Ofgem E-Serve's costs for administering the Renewables Obligation (RO)

This letter sets out our proposed charges for administration of the RO for the period April 2014 – March 2015. We welcome views on this letter by the end of **29 September 2014**.

Forecast costs

Our forecast cost for the administration of the RO for 2014-15 is **£3,918,099**. This represents roughly **0.12%** of the estimated value¹ of the scheme and remains substantially below benchmarks for the cost of administering government schemes. This year's costs represent a decrease of 8.1% from last year (£4,261,165). This is mainly because a large portion of our costs last year were due to major changes to banding, whereas legislative changes for 2014-15 were less significant.

While there were still some legislative amendments that required development work, we undertook a major IT project to enhance the performance of the Renewables and CHP Register, the platform on which the RO is administered. Our costs also take account of new operational responsibilities, higher volumes of accreditation applications and the implementation of change requests to make our administration of the scheme more robust and efficient.

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, as with any government organisation, are audited by the National Audit Office.

We do not 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 may increase costs in the future are increased volumes of accredited stations and certificates issued, the impact of the transition to the RO's successor, Contracts for Difference (CfD), and the introduction of grace periods for solar PV.

¹ The value of the RO is calculated at £3.17 billion by multiplying the estimated supply of electricity in the UK in 2014/15 (300.46 TWh – from DECC prediction available [here](#)) by the GB obligation level (0.244 ROCs per MWh) and the buy-out price (£43.30).

What are the charges paying for?

Our responsibilities under the RO Orders² include (but are not limited to):

- Accrediting generating stations
- Issuing Renewables Obligation Certificates (ROCs)
- Establishing and maintaining a register of ROCs
- Maintaining and upgrading the IT system used to administer the RO
- Publishing a list of accredited and pre-accredited generating stations
- Revoking ROCs
- 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
- Adjusting the buy-out price and the mutualisation ceiling every year to reflect changes in the Retail Prices Index (RPI)
- Monitoring and enforcing compliance with the requirements of the Orders
- Receiving and redistributing buy-out and late payments
- Publishing the annual report on the RO

As described in legislation, we only use the RO buy-out fund to recycle payments to suppliers who present ROCs for compliance and to cover our administration costs.

Breakdown of costs for 2014-15

Our method of accounting is the same as we used last year. Table 1 shows the breakdown of costs that make up the total for 2014-15³, along with the breakdown for 2013-14 for comparison. The sections below provide a brief explanation behind each component of the budget.

Table 1

Category	2013-14	2014-15
IT (Development)	£62,000	£348,277
IT (Ongoing)	£367,779	£312,590
Legal support	£275,889	£217,502
RO operational team	£1,495,555	£1,842,630
Overheads	£456,293	£565,335
	£2,657,516	£3,286,334
Banding	£1,782,705	N/A
2014-15 legislative change	N/A	£819,549
Prior year adjustment	(£179,055)	(£187,784)
	£4,261,165	£3,918,099

IT Development & Ongoing Costs

These costs include running and making 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.

Development costs for 2014-15 are higher than those from 2013-14 due to our 'RO Re-architecture' project. This addressed performance and stability issues experienced by the

² The Renewables Obligation Order 2009 (as amended), The Renewables Obligation (Scotland) Order 2009 (as amended) (ROS) and The Renewables Obligation (Northern Ireland) Order 2009 (as amended).

³ These costs relate to our administration of the RO for England & Wales, Scotland, and Northern Ireland. The Utility Regulator Northern Ireland (UREGNI) has its own costs for administration of the NIRO for 2014-15. These are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

Register, to ensure that it will be able to handle projected volume increases for at least the next five years. There were also a number of change requests that we carried out after last year's banding changes that we couldn't do last year.

Legal Support

This covers internal legal team support costs, external counsel, and solicitors' costs for advice on complex legal issues. It also includes the costs of defending any legal proceedings such as current or anticipated court cases. We expect our legal costs to be lower than last year as we have allocated a lower amount to consultancy because of reduced Judicial Review activity recently.

RO Operational Team

This includes members of the Renewable Electricity directorate and other teams who work on the RO and also our external consultants and auditors. From data downloaded on 11 August 2014⁴ we issued over 62.5m ROCs, compared with around 41.9m reported in this letter last year. The number of generating stations accredited during 2013-14 was 3,741 (most of which are stations under 50kW in Northern Ireland), compared to 584 reported last year. These increases in volume required additional staff resources, hence the increase in the figure from last year.

Overheads

The overhead charge is 20.46%, down from 24% last year due to additional efficiency E-Serve has achieved this year. A portion of these costs are IT costs from 2013-14, which were calculated at 24%.

2014-15 legislative change

These are the costs for our work ahead of legislative changes introduced in April 2014. This includes the transition to CfD, enhanced sustainability criteria for biomass feedstocks, and banding work under the ROS and NIRO.

Prior year adjustment

Any under- or overspend against the previous year's budget will be carried forward to the following year. In 2013-14 we underspent by £187,784. This is due to operational costs being lower than we had forecast.

Timing of costs

We intend to recover these costs in October 2014 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.

Responding to this letter

Responses should be sent to the RO Compliance team, using the contact details given at the start of this letter, by the end of **29 September 2014**.

Yours sincerely,

⁴ These figures are subject to change, eg accreditation dates may be amended and ROCs may be revoked.

A handwritten signature in black ink that reads "Luke Hargreaves." The signature is written in a cursive style and is positioned at the top left of the page.

Luke Hargreaves

Head of Renewables, Renewable Electricity
Ofgem E-Serve