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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 2015 – March 2016. We welcome views on this letter by the end of **30 September 2015**.

Forecast costs

Our forecast cost for the administration of the RO for 2015-16 is **£3,121,446**. This represents less than 0.01% 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 **20%** from last year (£3,918,099). This reduction is down to several reasons, including the efficiencies we have introduced, the size of the prior year adjustment and the extent of the legislative changes made this year compared to last.

During this year we have implemented a number of changes to RO legislation. Scheme amendments require us to develop new guidance, amend our systems and processes and discharge our duties against the legislation once it has been made. In addition to legislative changes, we have implemented a number of continuous improvement initiatives. These will make our administration of the scheme more robust and efficient. They will also improve the experience of our scheme participants.

As always, we will continue to take steps to improve efficiency 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 the early closure of other technologies, implementation of further grace periods and scoping of a new IT system for the administration of the scheme once it has closed to new applications.

¹ We have calculated the value of the RO in 2015-16 as £3.91 billion by multiplying the estimated supply of electricity in the UK in 2015-16 (303.8 TWh – from DECC prediction available [here](#)) by the GB obligation level (0.29 ROCs per MWh) and the buy-out price (£44.33).

What are the charges paying for?

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

- Accrediting generating stations
- Issuing and revoking Renewables Obligation Certificates (ROCs)
- Establishing and maintaining a register of ROCs
- Granting grace periods
- Maintaining and upgrading the IT system used to administer the RO
- Publishing a list of accredited and pre-accredited generating stations
- Auditing generators and suppliers to monitor adherence to the requirements of the Orders
- Monitoring compliance with sustainability requirements
- 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 can 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 2015-16

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 2015-16³, along with the breakdown for 2014-15 for comparison. The sections below provide a brief explanation behind each component of the budget.

Table 1

Category	2014-15	2015-16
IT (Development)	£348,277	£165,000
IT (Ongoing)	£312,590	£281,592
Legal support	£217,502	£199,292
RO operational team	£1,842,630	£1,868,251
Overheads	£565,335	£618,824
	£3,286,334	£3,132,959
Legislative changes	£819,549	£441,424
Prior year adjustment	(-£187,784)	(-£452,937)
	£3,918,099	£3,121,446

IT development & ongoing Costs

These costs include the support and infrastructure costs of our IT system. They also include development costs which account for IT changes that allow the system to run more efficiently and improve its usability. Initiatives this year include streamlining of our accreditation application and attending to known user interface issues. Any costs for IT consultancy are included in both the 'IT (Development)' and 'IT (Ongoing)' categories.

Legal support

² The Renewables Obligation Order 2009 (as amended), The Renewables Obligation (Scotland) Order 2009 (as amended) (ROS), The Renewables Obligation (Northern Ireland) Order 2009 (as amended) and the Renewables Obligation Closure Order 2014 (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 2015-16. These are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

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.

RO operational team

This includes members of the Renewable Electricity directorate, as well as other teams, who work on the operation of the scheme. It also includes our external consultants and auditors. From data we downloaded on 20 August 2015⁴ we issued over 71.2m ROCs in 2014-15, compared with around 62.5m reported in this letter last year. The number of generating stations we accredited during 2014-15 was 6,593 (a lot of which are stations under 50kW in Northern Ireland), compared to 3,741 reported last year.

Despite an increased volume of activity across the scheme and new legislative responsibilities, our 2015-16 costs are in line with those for the previous year. This is due to a number of reasons, including more efficient processing of applications and new data validation processes that have reduced the number of audits we need to undertake.

Legislative changes

This category relates to the IT and staff costs we incur when implementing the amendments that the government has made to legislation. The changes in question include the closure of the scheme for small scale solar PV in Great Britain, sustainability requirements for solids and gases, consolidation of the RO Order and the reduction in support for solar PV microgenerators in Northern Ireland.

Overheads

The overhead charge was calculated as 20.14% of budgeted costs and fixed at this level.

Prior year adjustment

Any under- or overspend against the previous year's budget will be carried forward to the following year. In 2014-15 we underspent by £452,937. This is due to our administration costs for the whole year being lower than we had forecast, particularly legal costs and some operational activity.

Timing of costs

We intend to recover these costs in October 2015 from money paid into the buy-out fund.

Responding to this letter

You should send responses to the RO Compliance team, using the contact details given at the top of this letter, by the end of **30 September 2015**.

Yours sincerely,



Luke Hargreaves

Head of Renewables, Renewable Electricity
Ofgem E-Serve

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