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for energy consumers

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Dear Stakeholder

Ofgem costs for administering the Renewables Obligation (RO)

This letter sets out our proposed charges for administration of the RO for the period April 2018 – March 2019.

Forecast costs

Our forecast cost for the administration of the RO for 2018-19 is **£4,416,747**. This represents just over 0.08% of the estimated value¹ of the scheme and remains substantially below benchmarks for the cost of administering government schemes. This year's costs represent an increase of **5.4%** over the cost of administration in 2017-18.

A particular area that will contribute to this increase in costs is an increased focus on assurance activity. Alongside this, we will be embarking on a significant project to redevelop the Renewables & CHP Register later this year.

During this year we will be implementing a number of changes to RO legislation. Scheme amendments require us to develop new guidance, amend our systems and processes and discharge our duties in the context of new legislation. 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 customer experience of our scheme participants.

As always, we will continue to take steps to improve efficiency and minimise costs where possible. Our department's 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.

¹ We have calculated the value of the RO in 2017-18 as £5.5 billion by multiplying the estimated supply of electricity in the UK in 2017-18 (295.9 TWh – from BEIS prediction available [here](#)) by the GB obligation level (0.409 ROCs per MWh) and the buy-out price (£45.58).

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

Breakdown of costs for 2018-19

Our method of accounting is the same as we used in the letter we published on 18 August 2017 and our revised forecast which was published on 11 October 2017. Table 1 shows the breakdown of costs that make up the total for 2018-19³, along with the breakdown of 2017-18 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

Table 1

Category	2017-18	2018-19
IT (Development)	£571,563	£724,927
IT (Ongoing)	£295,944	£193,367
Legal Support	£148,548	£208,917
RO Operations Team	£2,471,406	£2,583,851
Overheads	£482,628	£445,022
	£3,970,089	£4,156,085
Legislative Change	£221,725	£214,497
Prior Year Adjustment		(+£46,166)
	£4,191,814	£4,416,747

Timing of costs

We intend to recover these costs in October 2018 from the money paid into the buy-out fund in respect of the 2017-18 Compliance period. 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.

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

² The Renewables Obligation Order 2015 (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 2018-19. These are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

efficiently and improve its usability. Costs this year have increased as we will be forming a project team to scope and gather requirements for a replacement for our register, which builds on the feasibility work carried out last year. They also account for system changes required as a result of our office move earlier in the year. Work is also being carried out to update the fuel flow methodology within our register so it can deal with new and innovative fuel combinations proposed by generators.

Legal Support

This includes 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 costs. The costs have increased over those in 2017-18 and reflect the increased support we need from our legal team as we deal with novel application scenarios and complex applications driven by the closure of the scheme to new entrants.

RO operational team

The costs of the RO operational team have increased slightly since 2017-18. The budget attributed to audit and compliance activity has increased from 2017-18 and the audit activity continues to be focused primarily on the generation side of the scheme. In particular we are concentrating our resources on stations where we need increased assurance on evidence presented to us in respect of commissioning activity and commissioning date.

This year also sees the RO operational team dealing with the remaining applications from the large influx we received in the run up to the closure of the scheme to new entrants in March 2017. The team has also been working through applications received under the grace period provisions up to 31 March 2018. The number of staff working on accreditations will reduce toward the end of the year to reflecting a decline in this activity. The team will continue to review an ever increasing volume, and value, of ROC claims in advance of issuing the certificates.

Legislative changes

This category relates to IT and staff costs we incur when implementing changes to legislation. We set about these activities in such a way as to give our stakeholders as much notice as possible in respect of the changing legislative landscape. These activities include workshops, webinars and updated guidance. For some changes we also need to update our IT system functionality. Despite scheme closure, we are continuing to work on a number of legislative changes, such as the biomass cost control, as we become sighted on emerging policy from BEIS and the devolved administrations. We shall also be implementing updates required as a result of the Energy Intensive industries changes introduced by BEIS.

Overheads

The overhead charge was calculated as 13.4% of budgeted costs for the E-Serve division in Ofgem and fixed at this level.

Yours sincerely



Carmel Golden

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