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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 2019 – March 2020.

Forecast costs

Our forecast cost for the administration of the RO for 2019-20 is **£5,538,665**. This represents just under 0.09% 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 **25.4%** over the cost of administration in 2018-19.

One of the primary reasons for this cost increase is the large scale rewrite project for the Renewables & CHP Register, the system used to manage our administration of the RO scheme. The current Register was developed in 2006 and is now considered a legacy system, with limited support available and outdated security specifications. A number of key processes are not catered for in the existing system, meaning they are performed outside of the Register, leading to higher operational costs and increased risk. The outdated user interface and limited functionality also leads to a poor user experience. We now have a full rewrite project team in place and they are currently in the discovery phase of the project. The team have been performing user research and gathering requirements to guide the development of the new system, which is due to begin in September 2019. We are also in the latter stages of appointing a co-sourcing delivery partner to assist in the delivery of the project, which accounts for a large proportion of this cost.

We do not expect there to be any significant changes to the RO legislation within 2019-20. Instead we will continue to work with BEIS to develop scheme administration and identify continuous improvement opportunities where appropriate. We would expect continuous improvement exercises to make our administration of the scheme more efficient, robust and improve the customer experience. Amendments to the scheme may require us to develop new guidance, amend our systems and processes and discharge our duties in the context of new legislation.

¹ We have calculated the value of the RO in 2018-19 as £6.4 billion by multiplying the estimated supply of electricity in the UK in 2018-19 (291.6TWh – from BEIS prediction available [here](#)) by the GB obligation level (0.468 ROCs per MWh) and the buy-out price (£47.22).

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.

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
- Monitoring supplier compliance and receiving/redistributing buy-out and late payments
- Publishing the annual report on the RO

Breakdown of costs for 2019-20

Our method of accounting is the same as we used in the letter we published on 23 August 2018. Table 1 shows the breakdown of costs that make up the total for 2019-20³, along with the breakdown of 2018-19 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

Table 1

Category	2018-19	2019-20
IT (Development)	£724,927	£1,828,166
IT (Ongoing)	£193,367	£227,011
Legal Support	£208,917	£225,549
RO Operations Team	£2,583,851	£2,578,207
Overheads	£445,022	£582,351
	£4,156,085	£5,441,284
Legislative Change	£214,497	£142,970
Prior Year Adjustment	(+£46,166)	(-£45,589)
	£4,416,747	£5,538,665

Timing of costs

We intend to recover these costs in October 2019 from the money paid into the buy-out fund in respect of the 2018-19 Compliance period. As described in legislation, we can only

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 2019-20. These are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

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 associated with our IT system. Our infrastructure costs have risen slightly as a result of software and technical support updates. This area also includes development costs which account for IT changes that allow the system to run more efficiently and improve its usability. Costs this year have increased significantly, largely as a result of the Renewables & CHP Register rewrite.

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 2018-19 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 overall costs of the RO operational team have remained largely the same since 2018-19. The budget attributed to audit activity has increased from 2018-19 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 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 final grace period closed 31 March 2019 so the team has continued to work through applications received under the grace period provisions. The number of staff working on accreditations has reduced to reflect a decline in this activity. However, though volumes have decreased, the remaining queue of accreditation applications involves more complex cases that require significantly higher effort to complete. Furthermore, we are dealing with increasing levels of supplier non-compliance, with supplier failures and the mutualisation process contributing to this. The team also continues to review an ever increasing volume, and value, of ROC claims in advance of issuing the certificates. Finally, a significant amount of operational resource has been committed to both the Banked ROCs project and processing amendments in 2019-20.

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 and this year we have deployed functionality to deal with legislative change in previous years such as the changes required to accommodate the exemptions for Energy Intensive Industry. Since the scheme has now closed, we are not anticipating major amendments to the scheme legislation over 2019-20. We will, however, continue to work with BEIS and the devolved administrations to improve the administration of the RO and deal with any emerging issues or new policy. Where this requires us to create new guidance or update our systems, we will do so.

Overheads

The overhead charge was calculated as 22.7% of budgeted costs for the E-Serve division in Ofgem and fixed at this level.

Beyond 2019-20

With the RO scheme now closed, we intend to review how we categorise and present the different costs associated with administering the scheme in future cost letters. Furthermore, we expect the transition of the RO to a legacy scheme to be accompanied by an increase in assurance based activity. We intend to develop our compliance and audit programmes, for example, by introducing a random statistical audit programme into the strategy for the RO in 2020-21.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Jackson', written in a cursive style.

Chris Jackson
Senior Policy Manager