



Making a positive difference  
for energy consumers

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Date: 18 August 2017

Dear Stakeholder

### **Ofgem's costs for administering the Renewables Obligation (RO)**

This letter sets out our proposed charges for administration of the RO for the period April 2017 – March 2018. We are publishing details of our administration costs in the interests of transparency, if you have any comments on this letter please send them to us by **close of business on 15 September 2017**.

#### **Forecast costs**

Our forecast cost for the administration of the RO for 2017-18 is **£3,991,814**. This represents just over **0.07%** of the estimated value of the scheme and remains substantially below benchmarks for the cost of administering government schemes. This year's costs represent an increase of **13.6%** over the **£3,513,046** cost of administration in 2016-17. A particular area that will contribute to this increase in costs is assurance activity. We have focused more resource on assessing eligibility of generating stations as we process applications for stations that commissioned on, or just before, 31 March 2017 (the date the scheme closed to new entrants).

We did not publish a 'cost of administration letter' for the 2016-17 year because the scheme was funded in part by central and devolved government for this period. Ofgem usually funds its RO administration entirely from the buy-out fund. In 2016-17, however, there was an over supply of ROCs and suppliers met the vast majority of the obligation with ROCs and made only **£2.43m** of buy out payments, an insufficient amount to meet our administration costs.

This letter now includes the breakdown of the administrations costs in 2016-17, that were met in part by central and devolved government, solely to act as a comparison with the administration costs for the 2017-18 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 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 customer experience of our scheme participants.

As always, we will continue to take steps to improve efficiency and minimise 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.

### What are the charges paying for?

Our responsibilities under the RO Orders<sup>1</sup> 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 2017-18

Our method of accounting is the same as we used in the letter we published on 2 September 2015. Table 1 shows the breakdown of costs that make up the total for 2017-18<sup>2</sup>, along with the breakdown of 2016-17 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

**Table 1**

Category	2016-17	2017-18
IT (Development)	£459,597	£571,563
IT (Ongoing)	£264,443	£295,944
Legal Support	£121,630	£148,548
RO Operations Team	£1,955,816	£2,271,406
Overheads	£528,526	£482,628
	<b>£3,330,011</b>	<b>£3,770,089</b>
Legislative Change	£201,226	£221,725
Prior Year Adjustment	(£18,191)	
	<b>£3,513,046</b>	<b>£3,991,814</b>

### Timing of costs

We intend to recover these costs in October 2017 from the money paid into the buy-out fund.

<sup>1</sup> 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).

<sup>2</sup> 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.

#### *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. The costs this year have increased and include significant initiatives to move our systems to a cloud based platform, preliminary scoping work to assess the feasibility of replacing our register and completing some work on amending ROC statuses to simplify our annual RO compliance processes.

#### *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 2016-17 and reflect the increased support we need from our legal team as we deal with novel application scenarios driven by the closure of the scheme to new entrants.

#### *RO operational team*

The costs of the RO operational team have increased considerably since 2016-17. A large proportion of this increase can be attributed to our increased audit activity. The audit activity will be focused primarily on the generation side of the scheme and in particular 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 a large influx of applications driven by closure of the scheme to new entrants in March 2017. The team saw a 143% increase in the volume of applications received in March of 2017 when compared to March 2016. The team will also be reviewing 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. We are preparing to implement a number of legislative changes as we become sighted on emerging policy from BEIS. These include changes in relation to Energy Intensive industries and Biomass sustainability requirements.

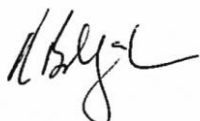
#### *Overheads*

The overhead charge was calculated as percentage of budgeted costs for the EServe division in Ofgem and fixed at this level.

#### **Contacting us**

Any comments you have in relation to our administration costs should be sent to [rocompliance@ofgem.gov.uk](mailto:rocompliance@ofgem.gov.uk) by the close of business on **15 September 2017**.

Yours sincerely,



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Ofgem