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To whom it may concern,

Renewables obligation: changes to mutualisation arrangements

We, the undersigned organisations, represent the full range of renewable technologies supported by the Renewables Obligation. In response to the consultation on changes to mutualisation arrangements, we share a number of serious concerns regarding the proposals.

Firstly, we do not believe that the proposed increase of the mutualisation threshold to 1% of the value of the Renewable Obligation (RO) scheme will restore the balance of risk but instead simply shifts additional risk onto generators. Under the proposed new threshold, generators will be exposed to £0.55 per ROC of value loss before mutualisation is triggered, up from £0.14 per ROC. Whilst suppliers are able to pass through additional costs caused by a retrospective adjustment to the scheme, generators have no means of recovering this loss. Given that the existing threshold has been breached for the last three years, increasing the threshold would merely reduce the renewables obligation in real terms without identifying or considering the root cause of the shortfalls. When combined with the increase in audits of RO accredited sites, the proposals as they stand would create a policy environment that further erodes the future financial stability of sites which are reliant on income from ROCs. The cumulative effect undermines the viability of renewable generation schemes across the UK, ultimately threatening our ability to meet our legally-binding climate targets.

In response to the call for evidence, we do not support a move to recovering only the amount in excess of the mutualisation threshold. Where a shortfall exists, we believe the full amount should be recovered. The proposal to create an administrative burden threshold above the mutualisation threshold would also introduce additional and unnecessary complexity, particularly given that the purpose of the existing threshold was to avoid the administrative burden of applying the mutualisation process for di minimis amounts.

We feel it is important to highlight that the proposals do not address the underlying structural issue of supplier default that has triggered mutualisation in recent years. The annual cycle of the RO scheme leads to suppliers accruing a large liability and this has resulted in recent years with multiple suppliers failing at the same point in the annual compliance cycle, ultimately creating additional burden on Ofgem and the Supplier of Last Resort process. This annual reconciliation is currently out of step with other support schemes. For example, the Feed-in Tariff requires a quarterly levelisation process between suppliers[1] while the Contracts for Difference scheme has a daily process of payments against an interim amount (with a lump sum paid upfront) with quarterly reconciliations.[2]

We note that neither the consultation nor call for evidence consider the move to more frequent redemption periods. Increasing the frequency of redemption periods could reduce the risks to consumers as it would lessen the money lost from the system and reduce a supplier's ability to use ROC revenues as working capital, potentially reducing the occurrences of default and increase supplier engagement with the ROC market. We would also note that the Government has committed previously[3] to introduce quarterly redemption periods before 2027 to enable Fixed Price ROCs. By introducing this now it could both address issues with supplier default and be a first step in this transition.

We would be keen to engage further with this agenda and would be happy to discuss our views in more detail.

Yours sincerely,

RenewableUK

Scottish Renewables

Solar Trade Association

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[1] https://www.ofgem.gov.uk/environmental-programmes/fit/electricity-suppliers

[2] https://www.gov.uk/government/collections/electricity-market-reform-cfd-supplier-obligation

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/42822/3884-planning-electric-future-technical-update.pdf