RO Team
Department for Business, Energy and Industrial Strategy
3rd Floor Spur
1 Victoria Street
London
SW1H 0ET

RO@beis.gov.uk

07 October 2021

To whom it may concern,

**Consultation on addressing supplier payment default under the Renewables Obligation**

Scottish Renewables is the voice of Scotland’s renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy transition. We represent around 260 organisations across the full range of renewable energy technologies in Scotland and around the world, ranging from energy suppliers, operators and manufacturers to small developers, installers, and community groups, as well as companies throughout the supply chain.

We welcome that the consultation proposes to 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]](#footnote-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]](#footnote-2)

From the options that the consultation proposes, we think that a legislative requirement for suppliers to settle their RO more frequently is the best approach for lowering the risk of payment default. 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 increasing supplier engagement with the ROC market. We would also note that the Government has committed previously[[3]](#footnote-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.

In this context, we fully support option 1-C of the consultation. This option would reduce the maximum amount of obligation that suppliers could default from 19 months to 6 months. This option also proposes that suppliers have additional flexibility in the way they settle their obligation, which will help to mitigate the risk of electricity suppliers struggling to settle their quarterly obligations if the supply ROCs are delayed in any way. Option 1-A and 1-B also proposes to settle RO more frequently, but these options do not address the issue of possible shortages in the supply of the ROCs, which could affect suppliers to settle their quarterly obligation.

As this consultation applies to England & Wales, we notice that if a legislative requirement for suppliers to settle their RO more frequently goes ahead, this will leave Scotland operating under the previous methodology, with a risk of default payment of 19 months. Therefore, we would expect that the Scottish Government takes the same approach for the Renewable Obligation Scotland (ROS).

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

Yours sincerely,

Scottish Renewables

1. <https://www.ofgem.gov.uk/environmental-programmes/fit/electricity-suppliers> [↑](#footnote-ref-1)
2. <https://www.gov.uk/government/collections/electricity-market-reform-cfd-supplier-obligation> [↑](#footnote-ref-2)
3. <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/42822/3884-planning-electric-future-technical-update.pdf> [↑](#footnote-ref-3)