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

RO@beis.gov.uk

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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. This has created additional burden on Ofgem and consumers who must pay twice for the RO and fund the mutualisation arrangement. The 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]

From the options that the consultation proposes, we think that a legislative requirement for suppliers to settle their RO more frequently, or provide adequate credit cover, is the best

[1] https://www.ofgem.gov.uk/environmental-programmes/fit/electricity-suppliers
[2] https://www.gov.uk/government/collections/electricity-market-reform-cfd-supplier-obligation

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. However, we also recognise concerns raised by Government around the timing and profile of ROC issuance and believe that some flexibility may be required to address these elements. 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.

In this context, we fully support option 1-C of the consultation and believe this strikes a balance between more frequent settlement, the complexities associated with legacy commercial agreements and ROC timing. 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 and impact the short-term ROC market.

We note that a change in the scheme might increase the administrative burden but believe that the benefits of early settlement outweigh this cost. In this specific point, we think that BEIS could consider including additional administration costs in the ROC Obligation setting calculation. This would recover the additional costs from suppliers and would ensure that costs are covered by who is best placed to bear them.

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 recommend that the Scottish Government takes the same approach for the Renewable Obligation Scotland (ROS).

In the longer term we believe that Government should further consider the merits of a fixed ROC scheme, where the fixed price covers both the buy-out and recycle price.

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

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

Yours sincerely,

Angeles Sandoval | Policy Manager Networks & Markets

Scottish Renewables