

Decision

Decision on operational changes to Renewables Obligation and Customer Credit Balance Ringfencing guidance and templates

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We consulted from 9 May 2024 to 7 June 2024 on making operational changes to Renewables Obligation (RO) and Customer Credit Balance (CCB) ringfencing guidance and templates.

We proposed to modify the Ringfencing the Renewables Obligation Guidance and RO Credit Cover Mechanism Templates to provide greater clarity and readability. In addition, we proposed updating Credit Balance Support Arrangement Templates – mirroring relevant changes to the RO Credit Cover Mechanism Templates and amending the Guidance on the Operational Capability and Financial Responsibility Principles to provide further clarity on the calculation of the amount of any credit balance to be protected.

This document sets out our decision to proceed with these modifications.

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Foreword

The Renewables Obligation (RO) is a UK government policy designed to encourage electricity providers to produce a certain amount of their power from renewable sources. This helps reduce carbon emissions and supports the growth of green energy. Licensed electricity suppliers are under an obligation to source a certain amount of renewable energy for their customers and evidence this through the presentation of Renewable Obligation Certificates (ROCs) or payment into a fund.

Consumers pay for the RO via their electricity bills. Before RO ringfencing was introduced, licensed electricity suppliers could use money collected from consumers to pay for the RO as risk-free working capital rather than setting it aside to meet their RO. If a supplier fails, payments due under the RO scheme are effectively insured through mutualisation above a certain threshold. This means that these costs would be met by other licensed suppliers - who pass this on to consumers through increased bills.

To address this, we introduced changes to the Standard conditions of electricity supply licence (SLCs) that place a requirement on licenced electricity suppliers to protect their RO through a process of 'ringfencing'. This involves licensed electricity suppliers either holding sufficient ROCs in their account and/or putting in place one or more financial instruments (such as a letter of credit from a lender) covering an equivalent value.

By requiring licensed electricity suppliers to ringfence an amount equivalent to their RO, consumers money is protected in the event of a licensed electricity supplier failing. In addition, requiring ringfencing means licensees no longer have access to risk-free working capital that may incentivise them to adopt risky business models.

Following the introduction of RO ringfencing in April 2023, licensed electricity suppliers and Ofgem have embedded new processes to deliver against these new requirements. During this initial period of implementation, we have identified improvements to the process, guidance and accompanying templates used to arrange ringfencing protection. This decision sets out the detailed changes we are making to these documents.



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David Hall, Deputy Director – Financial Resilience and Controls
Duly authorised on behalf of the Gas and Electricity Markets Authority
17 July 2024

Executive Summary

In April 2023 we published our [Decision on Strengthening Financial Resilience](#). Part of this decision was to proceed with requiring licensees to ringfence Renewables Obligation (RO) receipts attributable to domestic supply for the 2023/24 RO scheme year onwards. We required licensees to provide evidence of having ringfenced their RO receipts for Quarters 1 and 2 of the 2023/24 scheme year in Quarter 3 of the scheme year (November 2023) and each quarter thereafter.

Ringfencing has now been successfully introduced, and through our engagement with licensees, we have received useful feedback on the first ringfencing rounds. This has included identifying minor operational changes to both the RO Credit Cover Mechanism Templates and accompanying licensee guidance that will help smooth the regular data and credit cover submission process. We have also identified other minor changes which we believe will help further enhance operational arrangements.

Some of the changes are also relevant to the Credit Balance Support Arrangement templates used for Customer Credit Balance (CCB) ringfencing. We have identified some minor changes that will add clarity and ease the operationalisation of the CCB ringfencing arrangements.

In our May consultation we also highlighted our intention to make minor corrections via an erratum notice to Standard Licence Condition (**SLC**) 30, which relates to our proposed changes to the licensee guidance supporting the RO ringfencing requirements and to SLC 4B and SLC 4D to correct drafting errors.

Proposed Changes

We proposed to make the following changes:

- **Amendments to the [Ringfencing the Renewables Obligation Guidance](#)** – to provide greater clarity on what is included as part of domestic supply volumes and clarifying arrangements where an element of estimation is required in submitting supply volumes.
- **RO Credit Cover Mechanism Template amendments** – minor changes to either provide additional clarity or improve the readability of the templates.
- **Credit Balance Support Arrangement Template amendments** – mirroring relevant changes to the RO Credit Cover Mechanism Templates and providing additional clarity or improvements to the readability of the templates.
- **Amendments to the Guidance on the [Operational Capability and Financial Responsibility Principles](#)** – to provide further clarity on the calculation of the Protected Amount (the amount of any credit balance to be protected).

Implementation

The changes we set out later in this document take immediate effect.

With regards to RO ringfencing, we intend for licensees to use the new Credit Cover Mechanism Templates for Q1 of the new Renewables Obligation Ringfencing scheme year 2024/2025 onwards, including if they already have protection mechanisms in place for the 2024/2025 scheme year. Credit Cover Mechanism arrangements in place for the 2023/2024 scheme year do not need to be updated to the new templates.

Any Credit Balance Support Arrangements established for CCB ringfencing from this point onwards should be set up using the CCB Credit Balance Support Arrangements Templates published alongside this decision.

Introduction

Section summary

This section sets out the context of this decision to update the RO and CCB guidance and templates, alongside an overview of responses to the consultation. We outline the documents published in parallel with this decision, including an erratum to the Standard Licence Conditions. This section also details the structure and overall headings for the remainder of this decision document.

Structure of this Decision Document

This document is split into three chapters:

- The introduction provides the context for this decision.
- Chapter 1 sets out our proposals, stakeholder responses and Final Decision on Ringfencing the Renewables Obligation Guidance Changes.
- Chapter 2 sets out our proposals, stakeholder responses and Final Decision on the RO Credit Cover Mechanisms.
- Chapter 3 sets out our proposals, stakeholder responses and Final Decision on Credit Balance Support Arrangement Template and Guidance on the Operational Capability and Financial Responsibility Principles Changes.

Related Publications

Alongside this document, we are publishing the following:

- Guidance on the Operational Capability and Financial Responsibility Principles (CCB)
- Guidance on ringfencing the Renewables Obligation (RO)
- Declaration of Trust (CCB)
- Declaration of Trust (RO)
- First Demand Guarantee (CCB)
- First Demand Guarantee (RO)
- Standby Letter of Credit (CCB)
- Standby Letter of Credit (RO)

We are also publishing an erratum notice alongside this decision explaining minor amendments to SLC 30, SLC 4B and SLC 4D. The amendments will correct errors in the current drafting.

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We will align the version control dates on the above documents with the date of this decision.

Overview of Consultation Feedback

The consultation closed on 07 June 2024. We received responses from four stakeholders. Overall, these responses agreed with the changes outlined in the consultation. In this decision document, we summarise the feedback and suggestions we received and provide our responses on how we will proceed.

In addition to responding to the consultation questions, one stakeholder requested transparency on licensee compliance with the ringfencing obligations of 2023/2024, as the scheme year has now closed. They requested reassurance for stakeholders that the RO ringfencing obligations are on track to deliver the intended outcomes and provide transparency on the performance of Ofgem’s framework.

Although the scheme year has now drawn to a close, the date for settlement of the obligation is still in the future, and as such, we are not publishing the position of licensees against the obligation at this time.

The Renewables Obligation Annual Report on the year 2023 to 2024, which is required to be published by 1 April for the scheme period ending 31 March in the previous calendar year,¹ will provide a comprehensive overview of the Renewables Obligation ([2022 2023 report](#)). In addition, Ofgem publishes a [Supplier Performance Report](#) bi-annually, which covers incidents of non-compliance recorded in the reporting period. Furthermore, any formal compliance or enforcement action resulting from a breach of SLC 30 will be published in accordance with our existing practice.

Having considered responses to our consultation, this document sets out our decision to proceed with introducing operational changes to the Renewables Obligation and Customer Credit Balance ringfencing guidance and templates.

¹ Paragraph 57(f) of The Renewables Obligation (Scotland) Order 2009, paragraph 86(f) of The Renewables Obligation Order 2015 and paragraph 49(e) of The Renewables Obligation Order (Northern Ireland) 2009.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision document. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk

1. Ringfencing the Renewables Obligation

Guidance

Section summary

In this section, we set out the proposed changes to Ringfencing the Renewables Obligation guidance, address the stakeholder responses to our May consultation and detail what we have decided to implement. We have decided to proceed with the additional clarification on the definition of Domestic Customer and amendments to calculated Quarterly Cumulative Obligations (QCOs). The updated guidance will be published alongside this document.

What we consulted on

Additional clarification on the definition of Domestic Customer

- 1.1 We proposed additional clarificatory text in the licensee guidance on Ringfencing the Renewables Obligation on the definition of Domestic Customer to include reference to SLC 6. This is because when licensees have submitted volumetric data to Ofgem, some have questioned how consumers supplied under Multi-Site Contracts should be treated for the purposes of RO ringfencing, and SLC 6 guides licensees on this point. We also proposed to move the explanation of how domestic supply volumes should be derived to Section 2 of the guidance – Calculating the Quarterly Cumulative Obligation.

Amendments to calculated Quarterly Cumulative Obligations (QCOs)

- 1.2 In feedback on the operationalisation of RO ringfencing, we received requests from licensees to amend their QCO as a result of having more accurate data available post originally submitting data used to calculate their QCO.
- 1.3 In our May consultation (paragraph 1.7) we noted that there is often an element of estimation in the quarterly supply volumes submitted for FIT Quarterly levelisation, there is no legislative pathway in place whereby licensees can submit revised quarterly supply volumes (which are also used for Relevant Domestic Electricity Supplied (RDES) calculations) based on more 'up to date' third party validation data. In order to meet the quarterly ringfencing schedule, Ofgem

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retains the same timelines as the FIT levelisation schedule, as this streamlines the process for both Ofgem and licensees.

- 1.4 In the May consultation (paragraph 1.8) we also noted that the policy intent is for licensees to meet their RO obligation on an annual basis. We wish to highlight that the quantities of ROCs/buyout payments required by licensees in relation to their obligations are ultimately reconciled on an annual basis. These are based on fully settled data/supply volumes for both domestic and non-domestic supply. We proposed including drafting to this effect in the Ringfencing the Renewables Obligation licensee guidance.

Stakeholder Responses Summary

- 1.5 Overall, respondents agreed with our proposal to improve the clarity of the guidance on Ringfencing the Renewables Obligation.

Additional clarification on the definition of Domestic Customer

- 1.6 There were no comments on our proposal to clarify the definition of Domestic Customer.

Amendments to calculated Quarterly Cumulative Obligations (QCOs)

- 1.7 One respondent agreed that the quarterly process aligned to FIT submissions is a proportionate way to evidence ringfencing and agreed that Ofgem’s approach is reasonable. They also noted that the FIT process is already in place and audited at least annually, so the risk of material manipulation is very low. The respondent acknowledged that while introducing further updates to volumes could increase the accuracy of credit cover requirements, the scheme is not intended to provide contemporaneous cover for licensee obligations. The respondent commented that it operates in arrears with credit cover lagging licensees’ submissions by circa. six weeks; in this context, they considered Ofgem’s approach to be reasonable.
- 1.8 We received a suggestion from one stakeholder that Ofgem should consider the limitations of using the Energy Price Guarantee (EPG) scheme document to determine domestic electricity supply volumes. The EPG methodology refers to Profile Classes 1 & 2 for Non-Half Hourly volumes, which they said will no longer

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be applicable under Market Wide Half Hourly Settlement (MHHS). They also suggested that Ofgem should consider that the EPG methodology has known limitations, including that non-domestic volumes are captured across several licensees and also that this could exclude some domestic portfolios not identified as being in Profile Class 1 or 2, which would have unintended consequences. They suggested that Ofgem provide scope within the guidance on Ringfencing the Renewables Obligation to allow licensees to use alternative approaches where the level of tolerance of that alternative approach is low and credit cover is in surplus.

RO Credit Cover Mechanism guidance

- 1.9 One respondent requested clarification from Ofgem regarding paragraph 3.5 of the guidance on Ringfencing the renewables Obligation, which requires licensees to use the approved protection mechanism templates when complying with the RO Ringfencing requirements, and paragraph 3.7 that notes where a new RO Credit Cover Mechanism is created, licensees must use the current version of the template. The respondent asked for clarification on whether licensees are required to replace existing mechanisms to align with new templates when they are updated and to confirm if the new templates we consulted on introducing would only be used for new mechanism arrangements.

Our Decision

- 1.10 Having acknowledged the feedback from stakeholders, we have decided to proceed with our proposed changes to the licensee guidance on Ringfencing the Renewables Obligation. Below, we respond to the comments raised in responses, along with our reasons for proceeding.

Additional clarification on the definition of Domestic Customer

- 1.11 There were no comments on our proposal to clarify the definition of Domestic Customer, and we are therefore implementing the amendment as originally proposed.

Amendments to calculated Quarterly Cumulative Obligations (QCOs)

1.12 Our EPG approach is outlined in the guidance on Ringfencing the Renewables Obligation in paragraph 2.3. We did not propose any changes to the EPG approach itself in our May consultation. This approach provides a standard, consistent methodology that all licensees use to derive domestic supply volumes using Consumption Component Class Id’s 42 & 45 for half hourly volumes and Profile Class 1 & 2 for non-half hourly volumes. While this calculation is used to estimate QCOs, it is acknowledged that because the RO volumes are estimated, there is usually some adjustment when the figures are reconciled at the end of the year using fully settled data/supply volumes. The current position (where the licensee submits volumes based on the EPG methodology and Ofgem validates these using Elexon data) allows volumes to be validated using a common and consistent methodology.

Assessment of volumes according to a licensee’s own bespoke methodology could create a significant administrative burden for Ofgem as well as for the licensee and may be difficult to validate as the underpinning data would not necessarily be available to Ofgem. This is likely to create difficulty in the timely processing of RO ringfencing.

1.13 In summary, because the quarterly volumes are an estimate and because the current methodology allows for validation and consistency across licensees, we do not intend to introduce alternative options.

1.14 With regards to the comment that Profile Class 1 & 2 is ceasing to be utilised for settlement purposes under MHHS, we intend to monitor any impact of this on RO ringfencing. We will continue to monitor the process on an ongoing basis to ensure it remains fit for purpose, and we will keep licensees updated on any process changes at the appropriate time.

RO Credit Cover Mechanism guidance

1.15 In our consultation, we proposed that the requirement to use the new Credit Cover Mechanism Templates would take effect immediately upon publication of our decision. We intended this to mean that Credit Cover Mechanisms established from Q1 in the 2024/2025 scheme year onwards would need to be presented using the revised templates².

² [Renewable Obligations Ringfencing Schedule 2024/25 | Ofgem](#)

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- 1.16 We assessed the implications of allowing licensees to transition to the new Credit Cover Mechanism Templates on the expiry of their existing arrangements. However, the variation of these expiry dates across licensees over a significant time period means the additional improvements and protections afforded by our proposed amendments would not be realised consistently and in time to cover the entirety of the 2024/2025 scheme year.
- 1.17 Where Credit Cover Mechanisms are already in place for the 2024/2025 year, licensees will need to transition their arrangement onto the templates published with this decision. We confirm that existing and approved Credit Cover Mechanisms will remain valid until such time as they are replaced in accordance with SLC 30.3 and the Guidance, and once Ofgem has provided written confirmation that the Credit Cover Mechanism is released in accordance with the requirements of the relevant mechanism.

Accessibility update to Table 2: the Quarterly Cumulative Obligation (quarterly view)

- 1.18 We have updated **Table 2: the Quarterly Cumulative Obligation (quarterly view)** in the guidance on Ringfencing the Renewables Obligation to improve the readability and accessibility for screen readers. We have not changed the content or meaning of the table.

2. RO Credit Cover Mechanism Templates

Section summary

In this section, we set out the proposed changes to the RO Credit Cover Mechanism Templates, address the stakeholder responses to our May consultation, and discuss what we have decided to implement. We have decided to proceed with the changes we consulted on and other minor amendments to the Declaration of Trust, First Demand Guarantee, and Standby Letter of Credit to improve the readability of the templates. The updated templates are published alongside this document.

What we consulted on

Declaration of Trust: Terms

- 2.1 The terms of the Declaration of Trust currently do not explicitly state that a licensee may withdraw funds from the trust account for the purpose of settling the annual RO Discharge Payment. We therefore proposed amending clause 2.3 by adding clause 2.3(D) to allow funds to be transferred from the trust account straight to Ofgem for this specific purpose. We also proposed making other changes to this clause for readability and clarification.

Declaration of Trust: Clause 3.5 – No transfer or disposal

- 2.2 Clause 3.5 limits the instances where a trustee may transfer or dispose of funds from the trust account. The clause already references clause 2.3, which sets out the situations in which the licensee may withdraw amounts from the trust account. However, following a review of the template, we proposed that it should also reference clause 2.4, which lists the situations where payments from the account should be made to Ofgem or at its direction.

First Demand Guarantee: Guarantor details

- 2.3 Following a review of the template, we proposed making the registered address and company number of the Guarantor clearer. We believe this will reduce errors with clause 6(a) (where the licensee provides details of the Guarantor, including address and email, which may be different to the registered address).

First Demand Guarantee and Standby Letter of Credit: Expiry Date

2.4 The First Demand Guarantee (**FDG**) and Standby Letter of Credit both currently specify that the expiry date should be 18-months from the day of issue. The 18 month time period, however, may not be appropriate in every situation. For example, where a FDG commences more than 18 months before the late payment period for the relevant RO scheme year, the mechanism could expire before Ofgem might need to draw upon the credit cover. We therefore proposed amending clause 3.5 to provide additional clarity and ensure that the protection mechanism expires at least one month after the end of the relevant late payment period.

Other minor amendments to improve the readability of the templates

2.5 Following a review of the templates, we identified several amendments that will aid in their readability and reduce the likelihood of future errors. The proposed changes were:

- **Standby Letter of Credit:** Clause 6 “ISP 98/UCP 600” – minor changes to the layout and footnote drafting to remove brackets and to add the additional instruction of “delete option as appropriate” to the footnote.
- **Declaration of Trust: Definitions** – adding a definition for ‘Trust Property’.
- **Declaration of Trust: Schedule 1** – amending the reference to the Beneficiary in paragraph 2 by replacing ‘The Office of Gas and Electricity Markets’ with ‘The Gas and Electricity Markets Authority’.
- **First Demand Guarantee: Clause 8 “Jurisdiction and service of process”** – re-order to improve the flow and remove the requirement to delete paragraphs if the Guarantor is incorporated in England and Wales, instead including a statement at the start of clause 8 to make it clear when the clauses apply.
- **Standby Letter of Credit, Declaration of Trust and First Demand Guarantee: Definitions** – capitalise the reference to the RO in the definition for a ‘Non-Payment Event’.

Stakeholder Responses Summary

2.6 Overall, respondents supported the changes to the RO Credit Cover Mechanism Templates, although we did receive feedback on a number of points as detailed below.

Transitioning to the new Credit Cover Mechanism Templates

2.7 We received feedback from stakeholders requesting clarity on the process for transitioning to the new Credit Cover Mechanism Templates, in particular with regard to protection in place for the 2023/2024 scheme year.

2.8 While there was broad agreement with the proposed changes, it was highlighted that because Ofgem is proposing to amend the definition of the expiry date for the FDG and SBLC Credit Cover Mechanisms so that it falls one month after the relevant late payment period (that is, 30 November), we should take appropriate steps to release any Credit Cover Mechanism that is no longer required, as soon as practicably possible, where a licensee has discharged their obligation by 31 August of the relevant year.

2.9 Although one stakeholder understood why Ofgem proposed this amendment (to ensure that the Credit Cover Mechanism remains in place for sufficient time to allow us to draw down on credit cover where applicable), they argued that the amendment is likely to place an increased and unnecessary financial burden on licensees. Additionally, it was noted that an extension of the FDG and SBLC Credit Cover Mechanism expiry date would mean that the period of overlap of guarantees would extend into Q2. As a result, licensees will be expected to cover the cost of having double guarantees in place for a longer period, which would increase costs. To keep costs to a minimum, it was suggested that, where a licensee has discharged their RO obligation by 31 August of the relevant scheme year, Ofgem should release a licensee from its obligations under the associated Credit Cover Mechanism. For compliant licensees, it was said this would reduce the length of overlap, reduce any associated costs of having a Credit Cover Mechanism in place and only penalise those suppliers who have acted in a non-compliant manner.

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Key dates and deadlines in the 2023/24 scheme year

2.10 One respondent requested clarity from Ofgem on the approach to this proposal for the remaining key dates and deadlines of the 2023/24 scheme year. In our May 2024 consultation, we stated that proposed changes would “take effect immediately upon publication of our decision (expected in summer 2024)”. The respondent suggested that existing FDGs may expire prior to 30 November 2024, and steps will therefore need to be taken to ensure that appropriate cover is in place until the revised expiry date. In terms of amending any existing FDG, they suggested either varying the existing FDG or implementing a 1-month FDG in the summer that doesn’t take effect until 1 November 2024. Furthermore, they suggested that where a licensee has discharged their obligation by 31 August 2024, no such requirement would be necessary. They stated that alternative options are likely to be less efficient. Additionally, they argued that revoking the existing FDG would require the Beneficiary to return the FDG and formally acknowledge that it won’t claim on it. If this can only be done once the replacement FDG has been received, there would be a period where licensees would be expected to provide double cover. This would add unnecessary costs to the business and may also require a higher internal approvals process.

Ofgem Response times

- 2.11 With regards to SBLC specifically, a minor amendment to clause 3(a) was suggested with the addition of “The Beneficiary undertakes to respond to any correspondence from the Issuer in relation to this Letter of Credit within two Business Days”. The respondent argued that this would give some comfort to licensees/lenders that the SBLC will be lifted in good time if the obligation is satisfied in advance of the expiry date. Additionally, they stated that this is even more important if the expiry date is extended beyond the scheme end year, as licensees would expect to have satisfied all obligations by the end of the scheme year and not the late payment date. So, licensees would expect the relevant proportion of the SBLC obligation to fall away to avoid issues of “double protection” and inefficient use of cash.
- 2.12 Clarity was also requested on the process for terminating a trust deed. The respondent argued that Ofgem does not currently have a set process in place, which can result in delays and licensees having to double-protect RO funds. The respondent suggested implementing a standard termination or release template for this process.

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2.13 In addition to processing a Credit Cover Mechanism termination request within two business days, one respondent suggested that Ofgem should operate a two-working-day response time SLA for all RO ringfencing enquiries.

SBLC guarantee classification

2.14 In response to the consultation, one stakeholder requested that consideration should be given to the classification of a SBLC in terms of whether the guarantee should be classified by lenders as a “performance guarantee” or a “financial guarantee”. They noted that lenders are generally required to go through their own credit committee risk assessments, which will rate the lending requirement as a “financial guarantee” (higher risk) or a “performance guarantee” (lower risk) and will then set their cost of capital for lending accordingly. The respondent suggested Ofgem could discuss this assessment process with lenders with a view to the guidance and SBLC template being updated to clarify that this is a performance guarantee.

Our Decision

2.15 While acknowledging the feedback from stakeholders, we have decided to proceed with our proposed changes. Below we outline the rationale behind our decision.

Transitioning to the new Credit Cover Mechanism Templates

2.16 To simplify the transition to the new Credit Cover Mechanism Templates as far as possible, we have decided that we will only require licensees to use the new templates for the 2024/2025 scheme year onwards, including if they already have protection mechanisms in place for the 2024/2025 scheme year. Any arrangements in place for the 2023/2024 year do not need to be amended. While we recognise there may be cases where cover arrangements that are already in place for Q1 of 2024/2025 will need to transition to the new templates, we consider the start of a new scheme cover period (Q1 2024/2025) to be an appropriate point to switch over with the least negative impact overall. We assessed the implications of allowing licensees to transition to the new Credit Cover Mechanism Templates on the expiry of their existing arrangements, but

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because of the variation of these dates across licensees over a significant time period, the additional improvements and protections afforded by our proposed amendments would not be realised consistently and in time to cover the entirety of the 2024/2025 scheme year.

Key dates and deadlines in the 2023/24 scheme year

- 2.17 It was noted by one respondent that the extension of the expiry date for FDG ensures that the Credit Cover Mechanism is in place for sufficient time for Ofgem to draw down on the credit cover where necessary. However, this has the effect of lengthening the period when cover is required for two scheme periods simultaneously, which could increase the financial burden for licensees.
- 2.18 We recognise the benefits of being able to terminate a Credit Cover Mechanism once the RO obligation has been settled for the relevant period, rather than leaving it in place until after the expiry date when it is no longer required. We note that the ability to terminate after an obligation has been settled is already available to licensees.
- 2.19 Paragraph 4(a) of the FDG template and paragraph 3(a) of the SBLC template state that the Guarantor (for FDG) or Issuer (for SBLC) shall be released from its obligations on the date notified by the Beneficiary (i.e. the Authority) to the Guarantor (for FDG) or Issuer (for SBLC) in writing as the date upon which the obligations of the Guarantor (for FDG) or Issuer (for SBLC) under the FDG or SBLC are released.
- 2.20 This means that once the obligation has been settled, it is possible for Ofgem to release the Guarantor or Issuer from its obligations under the FDG or SBLC. We will closely monitor the RO ringfencing data for each licensee in the approach to the settlement date and would encourage engagement with our RO Ringfencing team (roringfencing@ofgem.gov.uk) on any specific concerns or sensitivities during this period. Ofgem will process any requested release as soon as practical, provided that the obligation has been fully settled. This should help limit the period of overlapping protection of different scheme years. It will also limit any period of protecting RO obligations that have already been settled (although, in any event, there will be some overlap as the 2023/2024 scheme year concluded on 31 March 2024, with Credit Cover Mechanisms still required to be in place until licensees have discharged their 2023/2024 Renewables Obligation).

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2.21 As indicated above, we are requiring licensees to use the new templates for the 2024/2025 scheme year, including if they already have protection mechanisms in place for the 2024/2025 scheme year. Any arrangements in place for the 2023/2024 year do not need to be amended. We trust this explanation has provided respondents and other licensees with clarity as to these requirements.

Ofgem response times

2.22 It was suggested by one respondent that a standard release template could assist in speeding up the Credit Cover Mechanism release process. We have considered the benefits of this and agree that a standard release template may be helpful in this respect whilst recognising that termination requests may vary in complexity and, therefore processing time cannot be guaranteed. We aim to produce a standard release template in the near future and will share this with licensees when available.

2.23 Ofgem will process the termination of a protection mechanism arrangement as soon as practical. The varying complexity of circumstances of each termination means that Ofgem cannot, however commit to an SLA such as the suggested two business day response. We will, as detailed in paragraph 2.20 above, closely monitor RO Ringfencing data in the approach to the settlement date and work with licensees to ensure any requested mechanism release is actioned as early as possible after settlement. The planned availability of a standard release template should help ensure this.

SBLC guarantee classification

2.24 We understand that lenders may have different approaches to the calculation of risk, and their assessment will consider a number of factors that will vary between lender and licensee, and this in turn will impact on cost. Whilst it would not be possible or appropriate for Ofgem to dictate, through templates and guidance how risks should be assessed by lenders, we agree that it may be beneficial for Ofgem to set up discussions with relevant lenders to share details of RO Ringfencing and discuss the risks, and we will arrange this where possible.

3. Credit Balance Support Arrangements and Guidance on the Operational Capability and Financial Responsibility Principles Changes

Section summary

In this section, we set out the proposed changes to the Credit Balance Support Arrangements Templates and Guidance on the Operational Capability and Financial Responsibility Principles, address the stakeholder responses to our May consultation and set out what we have decided to implement. We have decided to proceed with the changes to the Declaration of Trust, Standby Letter of Credit and Guidance on the Operational Capability and Financial Responsibility Principle. The updated templates and guidance are published alongside this document.

What we consulted on

- 3.1 We proposed mirroring the following proposed changes for the RO Credit Cover Mechanism Templates in the Credit Balance Support Arrangement templates:
- Standby Letter of Credit: Clause 6 “ISP 98/UCP 600”
 - Declaration of Trust: Definitions
 - Declaration of Trust: Clause 3.5 - No transfer or disposal (adding a reference to clauses 2.4 and 2.5)
 - First Demand Guarantee: Guarantor details
 - First Demand Guarantee: Clause 9 “Jurisdiction and service of process”

Declaration of Trust: Clause 2.3

- 3.2 We proposed amending clause 2.3 in the Declaration of Trust template to allow funds to be sent to a third party. This may be necessary in circumstances where Ofgem requires the funds to be sent to a specific party or to refund credit balances to consumers.

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Declaration of Trust: Schedule 1

- 3.3 We proposed removing the reference to “The Office of Gas and Electricity Markets (the Authority)’ in paragraph 2 and replacing it with “The Gas and Electricity Markets Authority’.

Standby Letter of Credit: Definitions

- 3.4 We also proposed correcting an error in the definition for ISP 98 in the Standby Letter of Credit. Rather than reference paragraph 7, the definition should refer to paragraph 6.

Guidance on the Operational Capability and Financial Responsibility Principles: Protected Amount

- 3.5 To provide additional clarity on the calculation of the Protected Amount, we proposed amending paragraph 4.12 of the guidance and providing a calculation example.

Stakeholder Responses Summary

- 3.6 Respondents did not comment on the proposed changes to the Credit Balance Support Arrangements Templates. However, we received one suggested change to the Guidance on the Changes in Operational Capability and Financial Responsibility Principles, which is outlined below.
- 3.7 One licensee proposed revising paragraph 4.12 to ensure it is clear that the unbilled consumption relates only to the period up to and including the day of the calculation rather than including periods after this date. Their proposed updated text of paragraph 4.12 is as follows:

The Protected Amount is calculated as follows: At close of business on the day the calculation is required (for the Initial Period or the Relevant Period, see SLC 4D.5 and paragraph 4.14 below), the licensee will calculate the Gross Credit Balance net of Unbilled Consumption they hold (meaning they will calculate the aggregate amount by which payments made by Fixed Direct Debit Customers under or in accordance with the relevant Domestic Supply Contracts exceeds the total amount of Charges which are to become payable by Fixed Direct Debit Customers under those Domestic Supply Contracts for periods up to and including the day of

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calculation minus any amount refunded to the Domestic Customer during that period). This balance will be multiplied by the Adjustment Percentage. An example of the calculation is as follows:"

Our Decision

- 3.8 We agree that the additional suggested wording should be added, and the guidance has been updated accordingly. We will also proceed to implement the other proposed changes to the Credit Balance Support Arrangements Templates.