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Date: 10 October 2024

Dear Stakeholder,

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

This letter sets out our proposed charges for administration of the RO for the period April 2024 – March 2025.

### **Forecast Costs**

Our forecast cost for the administration of the RO for 2024-25 is **£10,396,747**. This represents an increase on the cost of administration in 2023-24 and includes a prior year adjustment of £657,176 within this cost. This adjustment relates to the fact that actual costs to administer the RO last year were higher than originally forecast, with the accrual applied to the 2024-25 forecast costs. Without the addition of this accrual, our forecast cost for 2024-25 represent a 12% increase over and above 2023-24 costs (refer to **Table 1**, in **Appendix 1**). In real terms, our administration costs remain stable at around 0.12% of the estimated value<sup>1</sup> of the scheme.

There are several contributing factors for the 12% year on year increase in cost this year:

- Increased RO activity by Ofgem Delivery and Schemes. For example, a 270% increase in amendments over the same period last year. Further detail is provided throughout Appendix I on specific examples from the various workstreams.
- Ofgem Delivery and Schemes staff costs have increased in line with Civil Service pay awards.
- Our necessary use of professional and agency services to RO activities have increased in cost for new and existing contracts. For example, we have seen an

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<sup>1</sup> We have calculated the value of the RO in 2024-25 as £8.4 billion by multiplying the estimated supply of electricity in the UK in 2024-25 (264.7 TWh – from DESNZ prediction available [here](#)) by the GB obligation level (0.491 ROCs per MWh) and the buy-out price (£64.73).

inflation-linked increase in the cost of professional services related to the RO audit programme. Our audit and compliance work had a heavy focus on biomass-related matters, relative to previous years, and we anticipate this focus continuing.

- Increased corporate overhead costs which has increased scheme administration costs for Delivery and Schemes; including the RO scheme.
- The Renewable Electricity Register (RER) project is due to continue this year, with completion expected this Financial Year. The RER project will provide a new Register to replace the existing R&CHP Register with one that is easier to use, provides a better user experience and ensures it is fit for purpose going forward.

For a full breakdown of the cost for the administration of the RO for 2024-25 please refer to **Appendix 1**.

We continue to review our processes and activities to improve efficiency and minimise costs where possible. Delivery & Schemes finances are subject to internal governance and budget scrutiny at portfolio and corporate level, and Ofgem's finances are audited by the National Audit Office.

We do not forecast the cost of our administration of the RO further forward than annually 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>2</sup> include (but are not limited to):

- Issuing and revoking Renewables Obligation Certificates (ROCs).
- Processing accreditation amendments for generating stations.
- Maintaining and upgrading the IT system used to administer the RO, including the register for receiving and transferring ROCs.
- 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 RO Orders.
- Monitoring supplier compliance and receiving/redistributing buy-out and late payments.

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<sup>2</sup> The Renewables Obligation Order 2015 (as amended), The Renewables Obligation (Scotland) Order 2009 (as amended) (ROS), The Renewables Obligation (Northern Ireland) Order 2009 (as amended).

- Publishing the annual report on the RO.
- Handling enquiries and processing scheme information requests.

### **Timing of costs**

We intend to recover these costs in October 2024 from the money paid into the buy-out fund in respect of the 2023-24 Compliance period. 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.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil L', written in a cursive style.

Neil Lawrence

**Executive Director of Delivery and Schemes**

## Appendix 1 - Cost for the Administration of the RO for 2024-25

**Table 1**

Workstream	2023-24 Forecast	2024-25 Forecast
IT Development & Support	£2,682,357	£2,873,586
Legal Support	£288,664	£271,918
Amendments <sup>3</sup>	£244,009	£500,506
Audit & Compliance	£2,659,072	£2,732,338
Servicing Participants & Reporting	£950,806	£1,378,418
Policy, Enquiries & Stakeholder Engagement	£395,579	£632,859
Overheads	£916,965	£1,349,946
	<b>£8,137,454</b>	<b>£9,739,571</b>
Prior Year Adjustment	(-£78,058) <sup>4</sup>	£657,176 <sup>5</sup>
	<b>£8,059,396</b>	<b>£10,396,747</b>

### Breakdown of costs for 2024-25

Table 1 shows the breakdown of forecast costs that make up the total for 2024-25<sup>6</sup>, along with the breakdown of 2023-24 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

#### *IT Development and Support*

These costs include the support and infrastructure costs of our existing IT system. They also include development and infrastructure costs which account for IT changes that allow the system to run more efficiently and improve its usability. IT development cost has a forecast increase for 2024-25 to continue working with a software development company partner to increase the resource capacity and speed of delivery of the RER project. It is worth noting that once RER goes live there will be ongoing development and Continuous Improvement (CI) costs attributed to the project. The need for additional resource bolsters the analysis and development capacity to help deliver the project.

<sup>3</sup> Heading updated to reflect changes to the nature of the work. Previously reported as Applications & Amendments

<sup>4</sup> This is an accrual to adjust the 2022-23 costs

<sup>5</sup> This is an accrual for under forecasting our 2023-24 costs

<sup>6</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 2024-25. These are not included in the listed Ofgem costs but will be recovered from the RO buy-out funds.

## *Legal Support*

This includes internal legal team support costs as well as external legal costs for advice on the most complex legal issues. It also includes the costs of defending any legal proceedings such as current or anticipated court costs. The forecast costs have decreased relative to those in 2023-24 which reflects an anticipated reduction in the amount of complex litigation as the scheme matures.

## *Amendments*

As the scheme is closed to new entrants, processing of applications for accreditation has now ended; however, work on processing amendments is increasing as the scheme ages. We are seeing a greater number of generators making changes due to the age of the stations and the need to find more novel or efficient ways (such as utilising different fuel sources) to run their stations due to the increasing costs. Across 2023-24, we saw a relatively low level of amendments at the outset, which started to increase over the year. To date in 2024-25, demand has increased comparatively by 270% versus the same period in 2023-24.

Amendments are submitted by accredited generating stations wishing to make changes to their application/generating station. This allows Ofgem to assess generators continuing eligibility to remain on the scheme. The amendments we are seeing are for a wide range of reasons:

- as a result of audit findings where Ofgem have not been notified of changes;
- change of ownership of a generating station;
- replacement of parts of generating stations due to age (to keep it functioning properly); or
- the need to change or add supplementary fuels (which needs assessing to ensure they meet the sustainability requirements on the RO).

Effective management of the Amendments workstream is important to ensure changes are processed in a timely manner, to minimise disruption to generators who remain eligible to claim ROCs. As such we have had to increase the size of the team throughout 2023-24 to address increasing demand for amendments. In 2024-25 the team size remains comparatively similar to the size of the team at the end of the 2023-24 financial year.

## *Audit and Compliance*

This workstream covers our participant audit and compliance activities, as well as monitoring suppliers' compliance with their obligations under the RO scheme.

The fourth iteration of the RO statistical audit programme has returned to the usual 12-month delivery schedule, starting in April 2024, and expected to end before 31 March 2025<sup>7</sup>. The previous RO statistical audit programme consisted of a higher number of audits but, unlike 2024-25, the programme took place over 18 months, spreading costs across two financial years. In addition, under the Northern Ireland Renewables Obligation (NIRO) the number of micro-NIRO statistical audits taking place in 2024-25 has reduced when compared to 2023-24. As a result, there is a slight reduction in the total number of RO and micro-NIRO statistical audits taking place in 2024-25 when compared to 2023-24. However, this reduction in audits is offset by an increase in 2024-25 costs due to an increase in forecasted audit contractor costs, particularly in relation to statistical audits.

The budget attributed to compliance is anticipated to increase slightly in 2024-25. Additional resource has been added to support work related to biomass assurance and controls. Resource requirements for existing compliance functions are to remain similar to last year to ensure compliance investigations continue to be progressed and closed within appropriate timeframes. The team continues to review processes to ensure they align to the audit processes and are robust.

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<sup>7</sup> For further information on the 2024-25 RO statistical audit programme please see: [Audits of Renewables Obligation \(RO\) Generating Stations 2024/25 | Ofgem](#)

## *Servicing Participants and Reporting*

The overall costs in this category have seen an increase since 2023-24. This is partly due to the way we categorise and present different costs following internal structural changes, as well as some increases in resourcing needs and senior management capacity.

This wide-ranging category covers:

- The Operational costs associated with processing Generator's output data for ROC claims;
- The assessment of fuelling and sustainability (F&S) data & audit reports submitted by generators, to evidence their compliance with the sustainability requirements on the RO, in order to remain eligible for ROC issuance;
- Additionally, this category also includes essential business support activities, such as risk and assurance, strategy, business planning and management and data reporting. This area has seen an increase in costs as a result of an increase in necessary business activities, as well as the aforementioned change in structure.

The Operational team continues to review and validate ROC claims in advance of issuing certificates, including a significant drive to issue 'banked ROCs' in the run up to the annual compliance deadline. Additionally, as the scheme ages we are seeing an increasing number of requests to estimate output data, due to aging plant equipment faults. These cases are often complex and resource intensive, to understand whether these claims are acceptable. Additionally, we have seen some growth in F&S space following the NAO report into '[The government's support for biomass](#)' and the outcome of Ofgem's investigation into Drax's sustainability profiling submissions. Following these pieces of works' completion, Ofgem has undertaken work to review and further develop the effectiveness of its administration of sustainability assessment on the RO. Both of these areas of Operations on the RO have required a proportionate amount of resource growth to deal with increased demands and this represents a c.25% Ops increase under this category from the previous year.

### *Policy, Enquiries, and Stakeholder Engagement*

This covers our interactions with scheme participants and members of the public, as well as dealing with any emerging issues or new policy.

The significant increase in cost for this workstream is due to several factors. Most notably, a greater volume of policy development is expected. Further resource has also been required to address a higher volume and complexity of enquiries and to support stakeholder management. Additionally, there have been changes in the internal structure of the policy portfolio, including the necessary reinforcement of the senior management team.

### *Overheads*

Corporate overhead costs for the Delivery and Schemes directorate in Ofgem increased this year, which has increased scheme administration costs for all schemes administered by Delivery and Schemes, including the RO. Overhead costs account for 13% of the total RO administration cost. As part of meeting its obligations, Delivery and Schemes rely on corporate services, such as Finance, HR, Data and Digital Services, Estates, Cyber, Communications and GEMA/EXEC board and governance functions, to help overall management and delivery. Cost recharges are done on an FTE percentage, service proportion for shared platform services, and/or a direct consumption basis. There has been a headcount increase from 2023-24 budget levels across Delivery and Schemes. As the total FTE in Delivery and Schemes has increased, cost recharges for corporate services have also increased as we require more support from the service, or the number of people required to deliver the service has increased.