9th October 2023

To whom it concerns,

We welcome the opportunity to respond to the call for evidence on introducing Fixed Price Certificates into Renewables Obligation (RO) scheme.

The scheme has significant impacts on domestic and non-domestic consumers. It adds around £75 to a typical dual fuel energy bill - more than any other single policy levy.[1] The scheme design has also contributed to instability in the energy retail market, because obligations are currently paid annually. This means suppliers are free to use the money they raise from consumer bills for the scheme as working capital, while building up large RO liabilities. The RO payment deadline has therefore often acted as a 'trip wire' for supplier's in financial difficulty to to fail, leading to over £200m in mutualised costs which have been added to energy bills.[2] This risk has been somewhat mitigated by Ofgem's new financial resilience rules that require ring-fencing of funds for the RO, though this applies to domestic RO liabilities only, and Ofgem says more regular payment remains the optimal solution.[3]

We are not able to comment on the technical detail of the options set out in the consultation. However, given the high consumer costs and risks related to the scheme, we think the reforms should prioritise options which:

- **Enable more frequent settlement**, preferably monthly, in line with best practice in modern schemes like Contracts for Difference. This would significantly reduce the risk of mutualised costs if suppliers fail.

- **Reduce billpayer costs** by removing the need for headroom and a move to indexation by CPI (in line with Contracts for Difference). Any decision not to take these changes forward should be subject to a high bar - for

[1] Citizens Advice (2023) Balancing Act: The implications of transferring policy levies from electricity to gas bills
[2] Citizens Advice (2021) Market Meltdown: How regulatory failures landed us with a multi-billion pound bill
[3] Ofgem (2023) Decision on Strengthening Financial Resilience

example, expert and independent analysis that doing so would increase costs elsewhere to the extent that it offsets any benefit.

- **Future proof the scheme** for possible changes in the retail market, by designing it to work simply for a range of supply business models and to better enable options to rebalance levy costs.

These changes would be fair to consumers in the context of reform which provide significant benefits for generators through price certainty. Given that the intent to change the scheme design from 2027 onwards has been clearly signalled since 2011, the changes should not be delayed to a later date.

This response is not confidential and may be published. Please don't hesitate to get in touch if you would like to discuss our response further.

Alex Belsham-Harris

Principal Policy Manager, Energy Retail Markets

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