Department for Business, Energy & Industrial Strategy

Consultation

Response form for the consultation on changes to mutualisation arrangements under the Renewables Obligation scheme

Consultation details

The consultation document is available at: https://www.gov.uk/government/consultations/renewables-obligation-changes-to-mutualisation-arrangements

Please return this completed form to: RO@beis.gov.uk

Please do not send responses by post as we may not be able to access them during altered working arrangements as a result of the COVID-19 pandemic.

The closing date for responses to the consultation is Monday 11 January 2021.

About you

What is your name?	Krista Kruja	
What is your email address?	krista.kruja@citizensadvice.org.uk	
What is the name of your organisation?	Citizens Advice	
What type of respondent are you? Please click in the relevant box	Electricity supplier	☐
	Renewable electricity generator	☐
	Trade association	☐
	Local Government	☐
	Charity or social enterprise	x
	ROC broker/PPA offtaker	☐
	Financier/investor	☐
	Consultant/adviser	☐
	Academic	☐
	Member of the public	☐
	Other	☐
	Please specify	
Are you content for an unattributed summary of your comments to be published? Please click in the relevant box	Yes	x
	No, I want my response to be confidential	☐

Consultation questions

1. **Do you agree with the Government's proposal to link the mutualisation threshold to the cost of the scheme?**

Please click in the relevant box:

Agree	x
Disagree	☐
Unsure/Don't know	☐
No comment	☐

Please explain your reasoning in the box below:

Citizens Advice agrees with the government's proposals to link the mutualisation threshold to the cost of the scheme. Doing so would align RO payments with the original intents of the policy and mutualisation mechanism, that a 1% shortfall threshold is met before unpaid costs are mutualised

In recent years, we have seen financial strain on suppliers lead to energy supply company failures, affecting over 1 million energy customers. This results in financial detriment as well as hassle and stress for consumers whose energy supply company fails, and higher costs mutualised among all consumers, with the largest costs coming from Renewables Obligation mutualisation.

As outlined in the consultation, although the level of payment default has been relatively low relative to the overall scheme value, mutualisation payments lead to additional financial strain on energy suppliers, and higher costs for consumers. Energy supply businesses are generally considered to have lower profit margins than generation, and therefore it is reasonable that they should face a lower burden of the financial risk. Most energy supply company acquisition tariffs are fixed price, meaning that suppliers cannot reprice upon being faced with new costs. In addition, some risk sharing mechanisms already are in place between generators and energy suppliers. As outlined in the consultation, recycling of ROC cash buy-out payments works on an "assumption that, one way or another, recycle payments are passed onto generators".

It is important to protect ROC prices in order to work towards the UK's decarbonisation goals. However, current arrangements already place too much risk on suppliers relative to generators. The proposed threshold would only place a risk on 1% of the generators' revenue, while reducing risk to suppliers and of increased costs to consumers.

In this consultation, BEIS also highlighted that had the proposed formula been "applied retrospectively to the three obligation years where mutualisation was triggered […] mutualisation would not have been triggered in 2017/18 and 2019/20". If the currently proposed threshold had been applied in recent years, £84.8m (about half the RO costs socialised across 2017-20) would have been saved for consumers.

This consultation aims to restore the balance of risks borne by suppliers and generators, but Government should also act to restore the balance of risk between suppliers who set aside money/pay their RO and suppliers who don't. We have previously called for government to amend legislation to require the bills for the Renewables Obligation to be paid more frequently. Citizens Advice have said that more regular supplier payments, as in other schemes (like Feed-In Tariffs and Contracts for Difference), would be the best way of reducing overall risk, rather than shifting risk from suppliers to generators. Requiring more frequent payments could offer more protection to consumers and generators than the proposed arrangements, since it would constrain bad debts from escalating much more quickly.

While this consultation acknowledges the issue that suppliers are allowed to accumulate substantial obligations prior to exiting the market, no proposals are put forward to immediately address this issue. In its decision, Government should set out whether a more regular payment schedule has been considered, why it isn't being proposed now, and if it could still be introduced in the future. Government should also set out what role the proposal on changing how mutualisation cost is calculated has in mitigating this risk.

In the absence of more regular payments, the risk of suppliers not making payments would need to be managed by Ofgem's new principles based rules. However, given the recency of these rules, their effectiveness on reducing mutualised costs are not yet known. As such, we generally think that requiring more regular payments - alongside these principles based rules - remains a better approach.

2. **How and to what extent does the Government's proposal impact any existing commercial arrangements that might exist for the supply or sale of ROCs?**

   Please explain your thoughts in the box below:

   n/a

3. **Do you agree with the Government's proposal to implement the new mutualisation arrangements in respect of the 2021/22 obligation year?**

Please click in the relevant box:

Agree	x
Disagree	☐
Unsure/Don't know	☐
No comment	☐

Please explain your reasoning in the box below:

We agree with the proposal to implement the new mutualisation arrangements in the 2021/22 obligation year. The new arrangements should come into place as soon as possible to prevent further costs and detriment faced by consumers.

In addition to implementing the current proposals with urgency, Government should hasten the consultation process and implementation of proposals about how mutualisation is calculated. Implementing this second round of proposals in the 2021/22 obligation year would ensure that as much as possible is done to reduce costs unfairly borne by consumers.