

# BEIS Consultation on changes to the Renewables Obligation mutualisation arrangements

## Energy UK Response

11<sup>th</sup> January 2021

### About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies, right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

### Foreword

Energy UK welcomes the opportunity to respond to the BEIS consultation on changes to the Renewables Obligation (RO) mutualisation arrangements. We recognise the issue whereby RO mutualisation has been triggered in each of the last 3 scheme years, and note the additional pressure this places on compliant suppliers, especially in the context of a particularly challenging market environment. We support the intention from government to attempt to ease pressure on compliant suppliers, however, we believe that the proposals in this consultation do not, and will not, address the underlying issue that leads to RO mutualisation being triggered.

We agree that many suppliers are overly and unfairly exposed to the liabilities of their competitors when those competitors fail to fulfil their obligation. However, we do not believe that transferring liability to generators is the correct solution to this problem. The consultation document rightly notes that payment default is usually preceded, or accompanied, by supplier market exit. We therefore urge BEIS and Ofgem to work together to ensure that the ongoing Supplier Licensing Review addresses the underlying issues leading to RO mutualisation and supplier failure, thereby tackling the issue of payment default.

Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

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**Response to Questions**

1. Do you agree with the Government's proposal to link the mutualisation threshold to the cost of the scheme? Please explain your reasoning.

Energy UK is keen to reiterate that the proposal to link the RO mutualisation threshold to the cost of the scheme does not solve the underlying issue of increased RO payment defaults caused by poor financial management by some suppliers and ultimately their market exit. We believe that ultimately this is an issue which BEIS and Ofgem need to work together to address, for the benefit of both consumers and the market. Options previously proposed by Energy UK members include via Ofgem's ongoing Supplier Licensing Review and/or by reviewing RO payment timetables. Energy UK is aware that Ofgem is due to publish a consultation on prescriptive measures as part of the next phase of the Supplier Licensing Review, given the context of the current challenges in the market we call for this consultation to be published as soon as possible.

Energy UK understands the rationale behind linking the mutualisation threshold to the cost of the scheme. Putting aside the principle of regulatory stability, we believe that linking the threshold to the annual cost of the scheme would shift the balance of risk from suppliers to generators. We are also concerned about the precedent such a move would create against the principle of regulatory stability for closed support schemes. We are further concerned about the impact the proposal will have on generators who have aligned investment decisions to the existing framework.

Following the 2010 consultation on raising the mutualisation threshold, government decided against linking the threshold to the size of the scheme. The government response to the consultation included a comment that further consideration would be given to amending the threshold in line with the increasing size of the Obligation. However, Energy UK believes that as a principle, regulatory changes to closed schemes should only occur where there is a compelling reason for that change.

We believe that any change to the RO mutualisation arrangements should have been done prior to scheme closure in March 2017. Making changes to the RO mutualisation arrangements at this point disregards the principle of regulatory stability, setting a concerning precedent, which may impact investor risk perception and therefore potentially lead to increased costs for consumers in future.

As mentioned above, Energy UK believes the proposal should have been implemented several years ago. In the intervening period, generators have aligned investment decisions to the existing framework, assuming regulatory stability, and would now suffer from the implementation of a delayed policy amendment. Should government proceed with implementing the proposal, we believe consideration should be given to ways in which generator impact can be minimised.

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?

Energy UK defers to the individual responses of its members for questions of a commercial nature.

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

Energy UK is keen to reiterate that the proposal to link the RO mutualisation threshold to the cost of the scheme does not solve the underlying issue of increased RO payment defaults caused by poor financial management of some suppliers and ultimately their market exit.

As mentioned above, implementation of the consultation proposal will result in generators suffering from stranded investments, which were based on the assumption of a stable regulatory framework. Should government proceed with implementing the proposal, we believe consideration should be given to ways in which generator impact can be minimised.