

# **Changes to the Renewables Obligation (Scotland) scheme**

**September 2022**



**Scottish Government**  
Riaghaltas na h-Alba  
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## **Renewables Obligation (Scotland) scheme changes consultation: Our response**

UK Government made an amendment in March 2021 to its Renewables Obligation Order 2015 increasing the level of the mutualisation threshold, reducing the likelihood of it being triggered.

We asked for your views on making the same changes to mutualisation arrangements under the RO(S) legislation to address electricity supplier payment default.

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### **Scottish Government response to Consultation on amendments to the Renewables Obligation (Scotland)**

#### **Consultation on changes to mutualisation arrangements to address electricity supplier payment default under the RO(S) scheme**

##### **Background**

1. This document provides an analysis of responses to the above consultation, which was published in November 2021.

UK Government made an amendment in March 2021 to its Renewables Obligation Order 2015 increasing the level of the mutualisation threshold, reducing the likelihood of it being triggered.

We asked for your views on making the same changes to mutualisation arrangements under the RO(S) legislation to address electricity supplier payment default.

2. The consultation closed on 23 December 2021, receiving a total of 8 responses. These came from a broad range of stakeholders, including energy companies, Scottish Water and Dumfries and Galloway Council.

3. Four of the respondents gave consent for the Scottish Government to publish their response. These can be viewed at [Changes to the Renewables Obligation \(Scotland\) scheme - Scottish Government - Citizen Space \(consult.gov.scot\)](https://consult.gov.scot/changes-to-the-renewables-obligation-scotland-scheme)

##### **Analysis of responses**

4. Four respondents disagreed with the proposal to increase the RO(S) mutualisation threshold and were concerned that this would not address the issue of supplier default.

5. Stakeholders also raised concerns with the transfer of risk from suppliers to generators in Scotland that would occur with this change. This is because the one

percent threshold would increase the frequency of shortfalls not being recovered and ROC prices being pushed down as a result.

6. Ultimately, the view of these stakeholders was that changing the mutualisation threshold does not reduce the likelihood of a shortfall occurring, it simply changes who bears the cost.

7. A number of responses also sought further detail on the methodology that would be used to calculate the mutualisation threshold in Scotland citing concern that due to the RO threshold being set at 1% of the total scheme cost (both RO and RO(S)), applying the same threshold in Scotland could lead to 'double counting'.

8. There were three responses in favour of the change who cited the administrative benefits of aligning the mutualisation threshold for the RO(S) with the RO.

One of the respondents stated its view that an increase in the mutualisation threshold would restore the balance of risk between suppliers and generators given the value of the scheme has grown significantly since the threshold was set at £1.54m.

9. In addition to mutualisation the consultation also sought views on a number of options proposed in a recent BEIS/Ofgem consultation that could be used to tackle the issue of supplier default more directly.

While the RO is not the source of supplier default in the GB market, several respondents noted that the administrative arrangements do not provide necessary checks and balances.

10. All respondents stated their support for more substantive changes on the issue of supplier default and encouraged Scottish Government to continue to work with BEIS and Ofgem as these options are developed to ensure that a consistent approach is delivered across GB.

## **Outcome**

11. Based on the feedback received Scottish Government intends to increase the mutualisation threshold to coincide with the 2023/24 obligation year. We will begin the legislative process in October this year to enable legislation to be enacted before 31 March 2023.

12. The decision to introduce this change in 2023/24 has allowed for consideration of options to tackle the issue of supplier default as well as monitoring the impact on RO buy-out payment shortfalls in the context of ongoing market volatility.

13. With regards to detail on the methodology that would be used to calculate the mutualisation threshold in Scotland, BEIS rationale for setting the RO threshold at 1% of scheme costs was to restore the threshold to the original intention when mutualisation was introduced for the 2005/06 obligation year, giving an actual RO mutualisation threshold for 2021/22 of £63.7m.

The RO(S)'s threshold was originally set at 0.1% of scheme costs, to reflect the smaller electricity supply market in Scotland. If the same principle of restoring the current threshold to 0.1% of scheme costs was used, the RO(S)'s threshold for 2021/22 would be £6.37m (rather than the current £1.54m).

A supplier's obligation under the RO is based only on the electricity they supplied to customers in England and Wales. So, although the RO'S mutualisation threshold is calculated based on 1% of UK-wide costs, the resulting figure (e.g., a shortfall of £63.7m to trigger mutualisation for 2021/22) is applied only to the England and Wales obligation. A supplier's obligation under the RO(S) is based only on electricity supplied to customers in Scotland, and that mutualisation threshold is only applied to the RO(S). So, there will be no 'double counting.'

14. Following the outcome of the UK Government consultation on addressing supplier payment default under the Renewables Obligation (RO) we will work closely with colleagues in BEIS and Ofgem to investigate a move to Fixed Price Certificates, to ensure a coordinated approach is taken across the RO and RO(S). <sup>[1]</sup>

<sup>[1]</sup> [BEIS/Ofgem joint response to the Consultation on addressing supplier payment default under the Renewables Obligation \(RO\) | Ofgem](#)



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