Department for
Business, Energy
& Industrial Strategy

Changes to the Renewables Obligation scheme

Consultation and call for evidence on changes to mutualisation arrangements

Closing date: Consultation - 11 January 2021
Call for evidence - 19 January 2021

December 2020

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Contents

General information

Purpose of this document - consultation and call for evidence

The Renewables Obligation (RO) is our biggest renewable electricity support scheme, supporting almost 30% of the electricity supplied in the UK. Whilst it is now closed to new generating capacity, it continues to place an annual obligation on electricity suppliers to obtain and present Renewables Obligation Certificates (ROCs) to Ofgem in proportion to the amount of renewable electricity they have supplied over the course of each obligation year. As an alternative, suppliers may make a cash payment – cash payments are recycled back to suppliers who met their RO with ROCs.

Supplier RO payment default has only emerged in the past few years. In 2017/18, 12 suppliers in England & Wales defaulted on £53.4m. This increased to 21 suppliers and £88.1m (equivalent to about 1.5% of the scheme's £6bn annual cost) in 2018/19. In 2019/20, it fell to 13 suppliers and £31.4m. Payment default is usually preceded, or accompanied by, supplier market exit.

The scheme features a mutualisation mechanism which recovers unmet obligations from other suppliers once they collectively exceed a threshold which is currently fixed at £15.4m. Mutualisation payments are then recycled back to suppliers who met their RO with ROCs. The mechanism was introduced to protect ROC prices.

Mutualisation has been triggered in each of the last 3 years. Whilst the level of payment default has been relatively small to date (in comparison to the overall scheme value) it nevertheless places a financial strain on those suppliers who are required to make mutualisation payments. The Government has therefore reviewed mutualisation arrangements to ensure that they remain fit for purpose and has identified two areas where improvements could be made.

The first relates to the mutualisation threshold which has failed to keep pace with growth in the scheme. The Government is of the view that this enables mutualisation to be triggered too easily and proposes to link the threshold with the annual cost of the scheme to suppliers. In the first instance, this would increase the threshold to around £62m, but it would rise or fall in future years as the cost of the scheme changes. This new arrangement would restore the balance of risk between generators and suppliers that was established when the mutualisation mechanism was first introduced. It will ensure that suppliers that have met their RO are not unduly exposed to the unmet obligations of their competitors. It is likely that this will be of benefit to their customers too as they are less likely to face pass-through costs.

The second area relates to the way the mutualisation amount is calculated. Currently, the entire payment shortfall is mutualised once the level of default exceeds the threshold. The Government has reflected on this arrangement and thinks that it might be unfair on suppliers because it exposes them to the full cost of supplier default - and generators to none - by virtue of a threshold having been crossed. A fairer and more progressive approach might be to require only the amount in excess of the threshold to be mutualised, subject to an additional administrative threshold being exceeded. This would represent a departure from existing policy, and the Government is keen to learn more before deciding whether to progress to a consultation on the matter. Consequently, this document seeks the views of stakeholders through a call for evidence.

Stakeholder views

The Government's proposals could have an impact on scheme participants:

- the owners of RO accredited generating stations and PPA off-takers who sell renewables obligation certificates (ROCs) to suppliers and brokers;
- electricity suppliers who are under an obligation to acquire renewables obligation certificates (ROCs) or make payments into the scheme's 'buy-out' fund;
- businesses involved in the scheme (eg ROC brokers; financiers, advisers etc);
- consumers who ultimately fund the scheme through their electricity bills.

The Government is keen to hear the views of all stakeholders on its proposals.

Consultation details

Issued: 11 December 2020

Respond by: Consultation - 11 January 2021

Call for evidence - 19 January 2021

Enquiries to: RO@beis.gov.uk (Covid-19 restrictions mean BEIS is unable to provide a postal address at this time).

Consultation reference: Consultation on RO mutualisation arrangements.

Audiences:

Renewable generators, electricity suppliers, brokers, financiers, consumers and their representatives.

Territorial extent:

This consultation applies to England and Wales only – separate schemes operate in Scotland and Northern Ireland.

How to respond

Email to: RO@beis.gov.uk (Covid-19 restrictions mean BEIS is unable to provide a postal address at this time).

A response form is available on the GOV.UK consultation page: https://www.gov.uk/government/consultations/renewables-obligation-changes-to-mutualisation-arrangements

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Our proposals

Background

The Renewables Obligation (RO) was launched in 2002 and continues to play an important role in the delivery of renewable electricity - almost 30% of the electricity supplied in the UK is now supported by the scheme. Whilst the scheme is now closed to new generating capacity, it remains government's biggest renewables support scheme, valued at over £6bn per annum – it is paid for by electricity suppliers and their customers. The RO will continue to support renewable electricity generation until its closure in 2037.

How the scheme works

An obligation on electricity suppliers to acquire ROCs

Renewables Obligation Certificates (ROCs) are issued by Ofgem, the scheme's administrator, to accredited RO generators for each MWh of renewable electricity they generate. Electricity suppliers are under an obligation (the Renewables Obligation) to obtain a certain number of these ROCs in relation to the amount of electricity they supply to customers and present them to Ofgem. The exact number, expressed as ROCs per MWh, is determined and published annually by government six-months ahead of the obligation year (April to March) to which it relates. The scheme is designed in such a way that ROCs will almost always be in short supply and will therefore remain in demand.

Typically, suppliers agree a price with generators for their ROCs in a bilateral agreement enabling generators to receive a premium payment in addition to the wholesale price of their electricity. Electricity suppliers then pass the costs of meeting their obligation onto their customers.

Alternative cash payments

As an alternative to buying ROCs, suppliers may make a cash "buy-out" payment in lieu of each ROC. The buy-out price, which increases annually in line with the Retail Price Index, is £50.05 for the current (2020/21) obligation year. Suppliers have until 1st September following each obligation year to present their ROCs and/or buy-out payments to Ofgem as evidence of compliance. A further two months is available for suppliers to make "late-payments", but these attract interest charges which are levied at 5% above the Bank of England base rate. Suppliers may not present ROCs during the late payment period. About 10% of the RO is met with cash payments with the balance met with ROCs.

The recycling of cash payments

Cash payments, net of Ofgem's administration costs, are recycled back to suppliers on a per-ROC presented basis giving ROCs additional value (Table 1, row 3 illustrates). The notional

ROC value is determined as the buy-out price plus the per-ROC recycle value (Table 1, row 4). There is a working assumption that, one way or another, recycle payments are passed onto generators. For example, a ROC purchase agreement between a generator and a supplier might specify that any recycle payments received by the supplier shall be passed through, either in part or in full, to the generator. Alternatively, where there is no arrangement for recycle payments to be passed through, the expectation of recycle payments is likely to drive an increase in the price that a supplier is willing to pay for ROCs (whether this is via a bilateral purchase agreement or at auction) and this will provide the generator with a ROC premium over and above the buy-out price. Regardless of ROC purchase arrangements, supplier compliance costs will remain broadly the same.

Protection of cash-funds

Payment default and mutualisation

When suppliers fail to discharge their obligation, a shortfall is left in the buy-out/late payment funds. This means that suppliers who met their obligation with ROCs will receive less in recycle payments than would otherwise have been the case. This will have an impact on those suppliers who met their obligation with ROCs but who do not have a pass-through arrangement with a generator – it is likely that such suppliers will factor this recycle-risk into the price they are willing to pay for ROCs. It will also impact those generators who were expecting pass-through payments. To prevent excessive shortfalls in recycle payments from occurring, the RO (England & Wales) has a mutualisation mechanism which requires suppliers who met their obligation in part or in full to pay the unmet obligations of those suppliers who did not meet theirs.

Mutualisation is currently triggered when the shortfall in the cash funds, as determined at close of business on 31st October, is equal to or in excess of a threshold of £15.4m. Once triggered, the entire shortfall is mutualised. Each supplier’s contribution is based on its share of the obligation during the obligation year to which the shortfall relates. The first of four quarterly payments is due before 1st September the following year. Payments received from mutualisation are recycled back to suppliers in the same way as buy-out and late payments, i.e. on a per-ROC presented basis.

The introduction of mutualisation and its effects

Mutualisation was introduced into the scheme in 2005 in response to a £23m shortfall in cash payments two years earlier (caused largely by the failure of a single supplier). The 2004 consultation[1] which preceded its introduction recognised that payment default threatened ROC prices.

At its inception, the mutualisation threshold was set at £1m per percentage point of the level of the obligation. At the time, the level of the obligation was a fixed target which required

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[1] The Renewables Obligation Order 2005 Statutory Consultation is available at: https://webarchive.nationalarchives.gov.uk/20060214112936/http://www.dti.gov.uk/renewables/renew_2.2.4.htm

suppliers to demonstrate that a certain proportion of the electricity they supplied to their customers came from renewable sources – suppliers met this requirement by acquiring and presenting ROCs to Ofgem. In its first year (2005/06), the threshold was set at £5.5m, corresponding to a renewables obligation of 5.5%. This meant the threshold was equivalent to about 1% (0.94%) of the cost of the scheme - in other words, it established an arrangement under which up to about 1% of the cost of the scheme (or the notional ROC value) was at risk of going un-mutualised in the event of supplier payment default. The threshold was set on an upwards trajectory, increasing annually in line with the increasing fixed RO target, reaching £15.4m for the 2015/16 obligation year, and remaining fixed at this level until 2026/27.

In 2009 a headroom mechanism was introduced into the RO to work in parallel with the existing fixed target approach (the headroom mechanism currently sets the level of the obligation). The mechanism aims to ensure that the size of the obligation placed on suppliers will exceed the number of ROCs issued in an obligation year, but not excessively so since this would increase scheme costs unnecessarily[2]. It was introduced to increase ROC price certainty for generators. Coupled with the introduction of ROC banding (the award of multiple ROCs per MWh of renewable output for certain generating technologies), the headroom mechanism contributed to an acceleration in the size of the scheme in the years that followed. However, because the mutualisation threshold was, and remains, linked to the old RO fixed target, it did not keep pace and is no longer reflective of the size of the scheme. The threshold is currently frozen at £15.4m (as per the trajectory established in 2005/06). However, for the 2019/20 obligation year (the most recent year for which data is available), this is equivalent to about 0.24% of the cost of the scheme, illustrating that the balance of risk associated with RO payment default has shifted away from generators and towards suppliers.

Updating mutualisation arrangements

2010 consultation on raising the mutualisation threshold

In 2010, the Government of the time consulted on a number of changes to the RO[3]. Amongst these, and in recognition of the fact that the mutualisation threshold had not kept pace with the size of the scheme, were proposals for potential changes to the mutualisation threshold. Views were sought on three options: leave *as-is*; link to the size of the obligation as set by the headroom mechanism; or choose a new trajectory/level for the trigger. Broadly speaking, consultee opinion was divided between leave *as-is* and link to the size of the scheme. In the event, it was decided to leave the threshold untouched. However, the Government response said that in the longer term, consideration would be given to amending the threshold in line with the increasing size of the Obligation as set by the headroom mechanism.

[2] The headroom mechanism sets the level of the obligation to be 10% above the ROC forecast.
[3] The Statutory Consultation on the Renewables Obligation Order 2011 is available at: https://www.gov.uk/government/consultations/consultation-on-the-renewables-obligation-order-2011-roo-2011-and-on-changes-to-renewable-energy-guarantees-of-origin-regos

Recent mutualisation events

The failure of 12 suppliers to meet their obligation meant that mutualisation was triggered for the first time in 2017/18 when the shortfall in the England & Wales buy-out/late payment funds was £53.4m. It was triggered again in 2018/19 (21 suppliers, £88.1m) and again in 2019/20 (13 suppliers, £31.4m). On each occasion, the full shortfall was (or will be in the latter case) mutualised because it exceeded the £15.4m threshold. Once mutualisation payments have been made, they are recycled back to suppliers on a per-ROC presented basis. Table 1, row 5 shows the mutualisation recycle value for 2017/18 and 2018/19 (which assumes that the full mutualisation amount is recovered and recycled). Row 6 shows this as a proportion of the notional ROC value.

Table 1: Significance of RO mutualisation in relation to other scheme metrics

	2017/18	2018/19
Nominal UK scheme cost	£5.37 billion	£6.03 billion
Buy-out price per ROC	£45.58	£47.22
Buy-out/late payment fund recycle value per ROC	£5.85	£7.82
Notional ROC value	£51.43	£55.04
E&W mutualisation recycle value, per ROC	£0.52	£0.82
Mutualisation recycle value as fraction of notional ROC value	1.0%	1.5%

Many electricity suppliers have expressed the view that existing arrangements leave them (and their customers) overly and unfairly exposed to the liabilities of their competitors when they fail to fulfil their obligation.

Consultation Proposals and Call for Evidence - overview

The Government has reviewed mutualisation arrangements in England and Wales. Our conclusion is that the existing arrangements are in need of updating. Two areas have been identified which could be reformed:

1. The way the mutualisation threshold is determined. The Government proposes to link the mutualisation threshold to the annual cost of the scheme to electricity suppliers. This will have the effect of raising the threshold at which mutualisation is triggered and is consulting on this proposal in this document. Subject to consultation, government would aim for any changes that might be made to the calculation to be introduced to

take effect in respect of the 2021/22 obligation year, i.e. in respect of the buy-out/late payment fund as it stands at close of business on 31st October 2022.

2. The way the mutualisation amount is calculated and distributed amongst electricity suppliers once the payment shortfall has exceeded the new threshold. The Government is calling for further evidence from stakeholders on a revised approach to require only the sum in excess of the threshold to be mutualised. To progress to a proposal on the matter, any changes that might be made to the scheme would be subject to further consultation and would likely take effect in respect of the 2022/23 obligation year at the earliest.

Details of each are given in the proposal and call for evidence section below. Government has also considered the option of “do nothing”, but in both instances is of the view that the case for taking action is compelling.

Some stakeholders have suggested that the Government should also review arrangements that enable suppliers to exit the market having accumulated substantial unmet obligations – this can lead to shortfalls in the buy-out/late payment funds and, more recently, the triggering of mutualisation. The Government is currently considering this issue with stakeholders and with Ofgem but does not intend to address it within this consultation/call for evidence.

Proposal – Link the mutualisation threshold to the annual cost of the scheme to electricity suppliers

As discussed earlier, the mutualisation threshold has failed to keep pace with the size of the scheme, primarily because the threshold has remained linked to the old RO fixed-target (which has remained static since 2015/16) whilst the size of the scheme has grown considerably. The Government proposes to rectify this by requiring the threshold to be updated annually and linking it to the annual cost of the scheme to participants.

Under the proposal, the threshold would be determined as 1% of the forecast cost of the scheme for the obligation year in question – this is broadly consistent with the original arrangement which set the threshold at £1m per percentage point of the obligation. Two inputs would be required to determine the threshold: the total UK obligation and the buy-out price (per ROC). BEIS determine the former as part of the annual level setting exercise. The latter is updated and published annually by Ofgem. Under this proposal, the threshold would be calculated and published by Ofgem before the start of each obligation year. The Government recognises that this will not be possible in respect of the 2021/22 obligation as the enabling legislation will not be in place in time. In this instance, the Government proposes that Ofgem publishes the threshold as soon as is practically possible after the introduction of legislation.

By way of an example, if the proposed approach had been in place for the current obligation year, i.e. 2020/21, the mutualisation threshold (set to one decimal place) would have been:

1% of total obligation of 124.1m ROCs x buyout price of £50.05 = £62.1m.

If this formula were applied retrospectively to the three obligation years where mutualisation was triggered, i.e. 2017/18 (£53.4m payment shortfall), 2018/19 (£88.1m payment shortfall) and 2019/20 (£31.4m payment shortfall), mutualisation would not have been triggered in 2017/18 and 2019/20 but would still have been triggered in 2018/19.

Applying this formula retrospectively to the 2005/06 obligation year (i.e. the year mutualisation was introduced, where the total UK obligation was 18,032,904 ROCs, and the buy-out price was £32.33 per ROC) results in a mutualisation threshold of £5.8m. The 2005/06 threshold was actually £5.5m, illustrating the consistency of the proposed new arrangement with the original arrangement.

Our proposal will restore the balance of risk (of some suppliers defaulting on their RO payments) between generators and suppliers back to where it was when mutualisation was first introduced. It will ensure that suppliers that have met their RO are not unduly exposed to the unmet obligations of their competitors. This may have benefits for their customers too – mutualisation is less likely to be triggered which means pass-through costs (i.e. higher bills) are more likely to be avoided.

Call for evidence – Revise the way the mutualisation amount is calculated

As noted earlier, existing mutualisation arrangements require the full shortfall in the buy-out/late payments funds to be mutualised once the shortfall equals or exceeds £15.4m. Where a shortfall is beneath the £15.4m threshold, it remains unpaid.

The Government's view is that a more progressive approach would be to require only the sum in excess of the threshold to be mutualised in the event that mutualisation is triggered. This would remove the current arrangement where the cost of supplier default is transferred abruptly, and entirely, from generators to suppliers once the payment shortfall exceeds the threshold, and would replace it with a more tapered arrangement.

Requiring only the sum in excess of the threshold to be mutualised would soften the impact of mutualisation on suppliers and could offer consumer benefits too as they are likely to face lower pass-through costs on their bills. It is also consistent with an arrangement that already countenances a certain sum going unpaid (i.e. the amount up to the threshold) and for which generators already have to make preparations.

Such an arrangement would introduce a new obstacle in that very small sums could potentially be mutualised if the threshold were exceeded by a relatively small amount – this could result in many suppliers receiving mutualisation bills for very small sums. To address this, it might be necessary to introduce an additional threshold to sit on top of the mutualisation threshold. This 'administrative' threshold would need to be equalled or exceeded before the sum were mutualised across other suppliers. The Government welcomes views on this approach and what might be an appropriate level (if any) for such a threshold.

If for example these arrangements were applied to the 2020/21 obligation year (i.e. as outlined in the 'proposal' section above), the mutualisation amount would be determined as the buy-out/late payment fund sum in excess of £62.1m. However, it would only be mutualised (i.e.

passed onto suppliers) in the event that the shortfall in the buy-out/late payments funds equalled or exceeded the sum of the mutualisation threshold plus the administrative threshold.

Making changes to the way the mutualisation amount is determined would represent a departure from existing policy. The Government therefore wishes to understand more fully the impact of this potential new policy approach, before deciding whether to proceed to consultation on a formal policy proposal. Consequently, at this stage the Government seeks the views of, and evidence from all stakeholders on existing arrangements, whether this is an area that needs addressing, and how the possible changes outlined above might impact their participation in the scheme.

Impacts

Proposal – Impacts of linking the mutualisation threshold to the annual cost of the scheme to electricity suppliers

Our proposal to set the mutualisation threshold at 1% of scheme value restores a balance of risk between suppliers and generators comparable to that which was established when mutualisation was introduced. Because that risk has become increasingly tilted towards suppliers, the immediate effect of our proposal would be to push it in the opposite direction – in practical terms this means the mutualisation threshold would be increased. For the 2020/21 obligation year, the amount at risk of going un-mutualised would increase from £15.4m to £62.1m.

Raising the threshold could reduce compliance costs for suppliers. First, mutualisation will be less likely to be triggered and as such the administration costs for Ofgem and each supplier might not be incurred. Second, suppliers will be less likely to have to make mutualisation payments. Using the 2020/21 obligation year as an example, our proposals mean suppliers could avoid making mutualisation payments of up to 50p per obligated ROC[4] in the event of a shortfall in the buy-out/late payment funds.

Of course any such change that is to the advantage of suppliers will be to the detriment of generators. Therefore, if the mutualisation threshold were to be raised, it would increase the sum that might remain unrecovered in the event of supplier default – this would have a negative impact on the returns of generators.

The Government has assessed the sums involved, compared to overall recycle payments, to place this additional risk in context. Taking 2020/21 as an example, the maximum amount at risk under existing arrangements is about 14p per ROC (determined as the £15.4m mutualisation threshold divided by the 2020/21 ROC forecast of 112.9m ROCs). Government's proposal to link the threshold to scheme cost would increase this to a possible 55p per ROC

[4] Calculation assumes that a supplier's compliance cost is the buy-out price per ROC (around £50 in 20/21) with generators' per-ROC income comprising ROC buy-out price plus recycle payments. As the headroom mechanism sets the obligation to be 10% above the ROC forecast, it is assumed generators receive, on average, 10% additional income due to recycle payments (i.e. around £50 + £5 = £55 in 2020/21). A 1% variation therefore has an impact of 50p per obligated ROC for suppliers and 55p per ROC for generators

(determined as the new threshold of £62.1m divided by the 2020/21 ROC forecast of 112.9m ROCs). This is equivalent to an increase from about 0.25% to 1% of the £55 “notional value” of a ROC[5]. For further context, we note that recycle payments have varied between £0 and £7.82 per ROC since 2011.

The Government is therefore of the view that its proposal to increase the mutualisation threshold is fair because it restores the balance of risk back to where it was when mutualisation was introduced. In the context of the annual variability in per-ROC recycle payments, the impact on the notional value of a ROC is small.

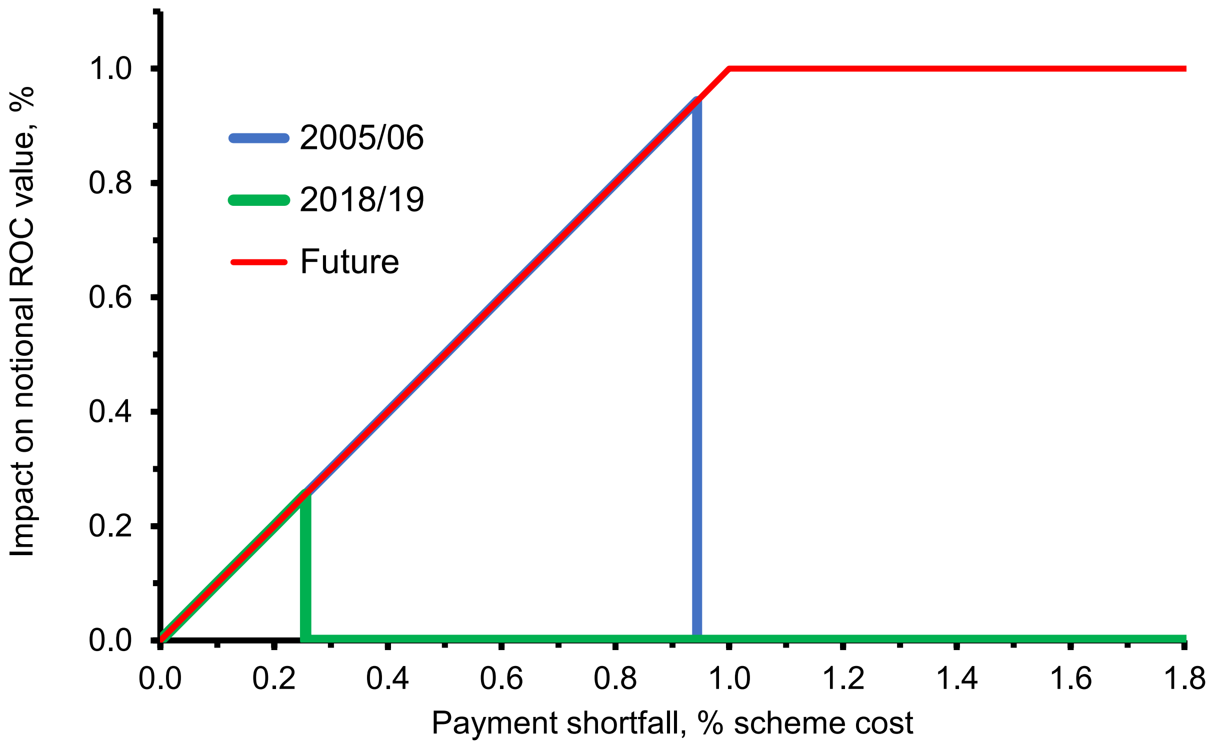
Call for Evidence – Impacts of revising the way the mutualisation amount is calculated

As noted earlier, current arrangements lead to the risk associated with supplier payment default shifting abruptly and entirely from generators to suppliers either side of the mutualisation threshold. The more progressive arrangement described above would require only the sum in excess of the threshold to be mutualised. In doing so it would transfer some of the cost of supplier payment default from suppliers to generators, where the level of default exceeds the threshold. The impact of the combined arrangements which the Government sets out in its proposal and call for evidence on the notional ROC value, compared with 2005/06 and 2018/19 arrangements are illustrated in figure 1.

Figure 1: The impact of RO buy-out/late payment fund shortfalls (which are shown as a percentage of annual scheme costs) on the notional value of a ROC for: 2005/06 (when mutualisation was first introduced); 2018/19 (the most recent obligation year where the notional ROC value is available); and under a potential future arrangement where the mutualisation threshold is increased from a fixed level of £15.4m to 1% of forecast annual scheme cost (the consultation) and only the amount above the threshold is mutualised (the call for evidence).

The chart shows that since mutualisation was introduced in 2005/06, the maximum impact of payment shortfalls on the notional value of a ROC has fallen from about 0.94% (blue line) to about 0.25% (green line) - this is because the mutualisation threshold has not kept track with the cost of the scheme. The chart also shows that the arrangement described in our proposal (red line) would restore the level of risk approximately back to where it was 2005/06. The red line also shows that the arrangement described in our call for evidence would maintain the level of risk at 1% of the notional ROC value for payment shortfalls that exceed 1% of scheme cost.

[5] The “notional value” is determined as the buy-out price plus the value of any recycle payments which ROCs subsequently attract – it is an indicator of what a ROC is worth. For 2020/21, it is estimated this will be about £55 which comprises the £50.05 buy-out price with the balance made up of recycle payments.



The maximum additional cost to generators would occur where a shortfall in the buy-out/late payment funds equals or exceeds the mutualisation threshold, i.e. at 1% of scheme costs or greater. Under current arrangements, and in real terms, up to 14p per ROC *could* be at risk of going un-mutualised. Under the arrangement described the risk becomes a certainty because the amount below the threshold would remain unpaid even in the event the payment shortfall equals or exceeds the threshold (where the red line becomes horizontal in figure 1). When combined with our proposal to increase the threshold, up to 55p per ROC (i.e. 1% of the notional ROC value) *would* be at risk of going un-mutualised. There would be no administration cost savings for suppliers or Ofgem under this arrangement as it would not affect whether or not mutualisation is triggered. In the event that mutualisation does occurs, suppliers would avoid mutualisation payments of up to 50p per obligated ROC under this proposal.

Government's view is that the existing arrangement may be unfair to suppliers. The introduction of more progressive, risk-sharing arrangements may be fairer, and our assessment as outlined above is that the impact on generators would be relatively small. However, before proceeding to consultation, the Government is seeking further views/evidence from all stakeholders.

Consultation 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.**

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?**

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.**

Call for evidence

4. **What are your views on requiring only the amount in excess of the threshold to be mutualised? Do you think this would be a fairer approach? Please explain your reasoning.**

5. **How and to what extent would requiring only the amount in excess of the threshold to be mutualised impact any existing commercial arrangements that might exist for the supply or sale of ROCs?**

6. **What are your views on introducing an additional administrative threshold to prevent relatively small amounts from being mutualised (assuming that only the amount in excess of the threshold were to be mutualised)?**

7. **What do you think would be an appropriate level for a new administrative threshold? Please explain your reasoning.**

Next steps

The consultation closes on **Monday 11 January 2021**. The Government will give careful consideration to all the responses it receives before it publishes a decision on updating the mutualisation threshold. Government aims is to implement any changes as soon as possible, with a target of 31 March 2021 to make the necessary legislative amendments.

Our call for evidence closes on **Tuesday 19 January 2021**. The Government will give careful consideration to all the responses it receives before making a decision on whether to proceed to consultation. Government will consider whether any of the responses to the call for evidence are relevant to our consultation proposal to update the mutualisation threshold, before publishing any decision on this.

This consultation is available from: www.gov.uk/government/consultations/renewables-obligation-changes-to-mutualisation-arrangements

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