UK Government

The Renewables Obligation

Consultation on the introduction of Fixed Price Certificates into the UK-wide Renewables Obligation Schemes

Closing date: 12 January 2027

Department for Energy Security and Net Zero (2026)

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General information

Why we are consulting

The Department for Energy Security and Net Zero is consulting on the proposed implementation of a Fixed Price Certificate (FPC) system across the Renewables Obligation (RO), the Renewables Obligation Scotland (ROS) and the Northern Ireland Renewables Obligation (NIRO) schemes. A 2023 Call for Evidence sought views on the broad proposal of moving the UK-wide RO schemes to an FPC system.[1] This consultation seeks stakeholder views on the implementation and underlying policy design of a specific proposed FPC model.

Consultation details

Issued: 3 November 2026

Respond by: 12 January 2027

Enquiries to: RO@energysecurity.gov.uk

Consultation reference: Renewables Obligation: Consultation on the proposed implementation of Fixed Price Certificates into the UK-wide Renewables Obligation schemes.

Audiences:

The government welcomes responses from anyone with an interest in the policy area. We envisage that this consultation will be of particular interest to those electricity generators currently in receipt of renewables obligation certificates (ROCs), electricity suppliers, traders and businesses operating in the energy sector, and consumers and environmental groups with an interest in the electricity sector.

Territorial extent:

The Renewables Obligation operates as three separate but complementary schemes, in England and Wales, Scotland, and Northern Ireland. This consultation seeks views on a future Certificate Purchase Obligation scheme that will replace these schemes to facilitate a Fixed Price system for the Renewables Obligation.

[1] https://www.gov.uk/government/calls-for-evidence/introducing-fixed-price-certificates-into-renewables-obligation-schemes-call-for-evidence

How to respond

Your response will be most helpful if it is framed in direct response to the questions we have asked, though further comments and evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation.

We encourage respondents to make use of the online e-Consultation platform, Citizen Space, to respond to this consultation wherever possible. This is the department's preferred method of receiving responses. Alternatively, please use the response form to submit your responses by email. Please do not send responses by post to the department, as we may not be able to access them.

Respond online at: https://energygovuk.citizenspace.com/energy-security/proposed-implementation-fpc-ro

or

Email to: RO@energysecurity.gov.uk

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

Responses to this consultation and related inquiries will be shared with the Scottish Government and the Northern Ireland Executive.

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 may 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: bru@energysecurity.gov.uk.

Introduction

The Renewables Obligation

The UK-wide Renewables Obligation (RO) has been a flagship support mechanism to encourage the development of large-scale renewable electricity projects in the UK from the early 2000s. It operates as three separate, but complementary, schemes: the RO in England and Wales (since 2002), the ROS in Scotland (since 2002), and the NIRO in Northern Ireland (since 2005). For the rest of this consultation, references to the RO mean all three schemes, unless otherwise specified.

Ofgem is the scheme administrator for the RO and ROS. The Northern Ireland Authority for Utility Regulation (UR) retains statutory responsibility for the NIRO. By virtue of arrangements under section 121 of the Energy Act 2004, Ofgem carries out the necessary administrative functions for the NIRO on behalf of UR.

The RO remains the UK's largest renewable electricity support scheme, with over 30% of UK electricity generation in receipt of ROCs[2]. During the period 1 April 2024 to 31 March 2025, there were over 26,600 accredited generating stations across the UK, with a total capacity of 35GW. This includes onshore wind (12GW), fuelled technologies such as biomass (9GW), offshore wind (7GW), and solar PV (6GW), which together account for 95% of total accredited capacity. The majority of generation (93% of the total) was from onshore wind (25.9TWh), offshore wind (20.6TWh), fuelled technologies (16.7TWh), and solar PV (6.3TWh).

The support provided under the RO since 2002 has brought forward the successful large-scale renewable electricity sector that we see today in the UK and has helped bring about the reductions in current technology costs. The scheme was closed to new applicants in 2017, although some accredited generators will continue to receive support until the scheme finally ends in 2037.

How the Renewables Obligation currently operates

Certificate issuance and revenue for generators

The RO is a market-based support scheme operating through a system of tradable Renewables Obligation Certificates (ROCs). Accredited generators receive ROCs from Ofgem in proportion to the electricity they generate. Generators over 50kW submit generation data monthly, typically within two months of generation, while smaller generators (microgenerators) may submit annually, and may do so via an agent.

[2] Renewables Obligation Annual Report: Scheme Year 23 (1 April 2024 to 31 March 2025)

ROCs are usually issued around two to three months after the month of generation, subject to verification. Once issued, generators sell ROCs to suppliers, traders, or intermediaries. This provides generators with additional revenue on top of the wholesale electricity price.

ROC trading and pricing

ROC prices are not fixed and are determined through bilateral contracts, power purchase agreements (PPAs), or auctions. In practice, most ROCs are traded under PPAs, with payments typically made monthly or quarterly in arrears.

Although market-determined, ROC prices are influenced by the scheme's compliance framework. In particular, the value of a ROC reflects:

- the buy-out price (a fixed payment suppliers can make instead of presenting ROCs), and
- the redistribution of buy-out and late payments funds to compliant suppliers.

The buy-out price is set annually by Ofgem and adjusted in line with inflation. From 1 April 2026, inflation indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The buy-out price for 2026-27 is £69.34.

Supplier obligation

Electricity suppliers are required to present a specified number of ROCs to Ofgem for each megawatt hour (MWh) of electricity they supply during an obligation period (1 April to 31 March). Alternatively, they may make a buy-out payment in lieu of ROCs.

Generators receive ROCs free of charge from Ofgem in relation to their renewable electricity generation, and they sell them to suppliers, traders or third parties. That gives generators a premium in addition to the wholesale price of their electricity. The value of a ROC is not fixed and is a matter for negotiation between the generator and buyer.

The level of the obligation is set in two stages:

- a total scheme obligation, based on forecast electricity supply and expected ROC issuance (including headroom), and
- a per-unit obligation (ROCs per MWh), which is applied to each supplier's actual supply.

A lower obligation is applied in Northern Ireland, meaning suppliers there are required to present fewer certificates per MWh than in Great Britain.

Headroom

A 10% headroom is applied to the obligation to ensure that demand for ROCs exceeds expected supply. This helps maintain a stable certificate price by reducing the risk of oversupply.

Exemptions

Certain electricity supply is excluded when calculating the level of the obligation in Great Britain. In particular:

- electricity supplied to eligible Energy Intensive Industries (EIIs) is exempt, and
- under the forthcoming Business Industrial Competitiveness Scheme (BICS), further exemptions from RO costs will be introduced from April 2027.

These exemptions reduce the level of supply against which the obligation is calculated.

Compliance and payments

Suppliers must meet their obligation by 31 August each year, either by presenting ROCs or making buy-out payments. Late payments can be made until 31 October.

Buy-out payments are collected into a central fund and redistributed in October to suppliers who presented ROCs. Late payment funds are typically redistributed in December. Some suppliers share a proportion of these payments with generators under contractual arrangements.

Mutualisation

If a supplier fails to meet its obligation and the resulting shortfall exceeds the statutory threshold, a mutualisation process is triggered. This requires compliant suppliers to make additional contributions to cover the shortfall.

The thresholds are linked to total scheme costs:

- 1% of the annual cost in England and Wales,
- 0.1% in Scotland.

Mutualisation has not been triggered since 2021/22. It does not currently apply in Northern Ireland.

2023 Call for Evidence on Fixed Price Certificates

In 2011, a previous government announced an intention to transition the RO from a live-traded scheme to a Fixed Price Certificate (FPC) based system from 2027 onwards. This was intended to address volatility in the market price of certificates, expected to emerge when early accredited stations come to the end of their period of support on 31 March 2027. At this point, it was estimated that around 25% of current generating capacity that receives RO support will leave the scheme, with a steady reduction in capacity thereafter until the scheme ends in 2037.

In July 2023, a Call for Evidence was published seeking views on moving the UK-wide RO schemes to an FPC model. This outlined proposals for how an FPC system could be designed and implemented. This was motivated by the desire to assess the benefits of FPCs in

addressing a number of issues, including mitigating the risk of price volatility in the ROC market towards the end of the scheme's life as stations drop off, and reducing the risk of supplier default.

The Call for Evidence acknowledged that due to a steep increase in stations joining the RO ahead of its closure in 2017, price volatility was expected to emerge later than originally thought. Analysis commissioned by DESNZ suggests that volatility in the price of ROCs is not expected to emerge until the early to mid-2030s. The Call for Evidence acknowledged, however, the need to deliver a stable transition in the latter stages of the RO scheme's life to maintain price stability for generators and preserve returns for those invested in RO assets. The Call for Evidence also set out a number of ancillary benefits of transitioning the RO to a system of FPCs, notably the opportunity to reduce the overall cost of the scheme borne by consumers.

Stakeholders responding to the 2023 Call for Evidence broadly recognised the underlying rationale for introducing an FPC system at some point in the future. In particular, there was general acceptance that, as the scheme winds down and the volume of ROCs declines, the market could become thinner and more volatile, reducing the effectiveness of market-based price formation. Many respondents therefore saw merit in an FPC model as a potential long-term solution to provide greater price stability, reduce exposure to supplier default and mutualisation, and improve predictability of generator revenues and investor returns.

However, support expressed for the transition was conditional and strongly linked to the timing and design of any transition. A consistent theme across responses was that the existing ROC market is currently functioning well, with sufficient liquidity and established commercial arrangements, and that intervention should only occur where there is clear evidence of a problem. Respondents emphasised that the expected risk of significant price volatility has shifted later than originally anticipated, with most stakeholders agreeing that it is now unlikely to emerge until the early to mid-2030s, rather than in the late 2020s. As a result, many argued that introducing FPCs in the near term would be premature and could impose unnecessary costs and disruption on market participants.

Proposal to transition to a Fixed Price Certificate system

The government continues to see merit in transitioning to an FPC system as a means of ensuring the long-term stability and resilience of the RO as it matures. In particular, FPCs could offer a credible mechanism to manage the risk of increasing price volatility as the scheme winds down. However, the government also recognises widespread stakeholder sentiment that such volatility is now more likely to emerge in the early–mid 2030s rather than in the late 2020s.

At the same time, we consider there is a reasonable case for proceeding ahead of the period of greatest anticipated volatility if this can deliver tangible benefits for consumers. Improving energy affordability remains one of the most pressing challenges facing households today, and reducing energy bills is a central priority for this government. Should bringing forward reforms

unlock potential consumer cost savings this strengthens the case for implementation sooner than the 2030s, ahead of the point at which volatility risks are forecast to fully materialise.

HMG's overarching strategy for RO assets

A transition to FPCs would sit alongside a wider package of reforms the government is taking forward, or actively considering, to ensure that electricity policy costs remain fair and deliver value for money as the scheme reaches maturity. This includes the government's commitment to relieve consumers from scheme costs by covering 75% of the RO's GB domestic costs via Exchequer funding for three years, as well as revisions to indexation arrangements to better reflect current economic conditions. The Department for Business and Trade (DBT) have also introduced the British Industrial Competitiveness Scheme (BICS) which will exempt businesses from various levies, including the RO, with the aim of cutting industrial electricity bills by up to 25%.

More recently, in April the government announced a package of measures aimed at reducing the impact that volatile gas prices have on the price of electricity. This included committing to offering existing low-carbon generators (including RO assets) the option to accept a fixed price for the electricity they generate. This offer – a 'wholesale Contract for Difference' (WCfD) would see eligible generators give up their current forward wholesale revenues in exchange for a fixed power price achieved via a CfD. In parallel, an increase to the Electricity Generator Levy (EGL) was announced, aimed at taxing exceptional revenues generated when gas prices spike. Together, this will ensure that consumers are protected from excess profits arising during periods of high wholesale prices.

Taken as a package, these measures demonstrate a broader strategy to rebalance the costs of the energy transition, reduce pressure on consumer bills, and ensure that support remains targeted and proportionate. **The government has weighed up evidence on the anticipated price volatility risks as well as the potential ancillary benefits of an FPC system for consumer costs and proposes transitioning the RO to a fixed price model no sooner than the start of the 2028/29 scheme year.** We consider that this approach balances the need to prepare ahead of emerging risks with the importance of avoiding premature disruption to a market that is currently functioning effectively.

We fully recognise the importance of regulatory stability for maintaining the UK's attractiveness to global capital. The changes this consultation seeks views on will aim to strike an appropriate balance and minimise further uncertainty for legacy assets while sending a clear signal that the UK remains committed to ensuring a stable and transparent regulatory environment. This approach reflects our wider commitment to ensuring that the UK retains its reputation as a safe and predictable investment environment for renewables.

Response scales in this consultation

Throughout this consultation, some questions ask respondents to indicate the extent to which they agree or disagree with a proposal. Where this is the case, respondents should assume the following response scale applies:

a. Strongly agree
b. Somewhat agree
c. Neither agree nor disagree
d. Somewhat disagree
e. Strongly disagree

Respondents are encouraged to provide supporting evidence and reasoning alongside their selected response, where appropriate.

Next steps

All responses to this consultation will be reviewed and analysed by the Department for Energy Security and Net Zero (DESNZ). The government will publish a formal response to this consultation in due course, which will provide a summary of the views expressed by respondents.

We are committed to ongoing engagement with stakeholders throughout the consultation period. This will include opportunities for bilateral engagement and stakeholder events to support understanding of the proposals and gather further views. Further information on engagement opportunities will be shared through established departmental channels.

We reserve the right to consult on policy again in the future.

The government recognises the interaction between proposals set out in this consultation and wider reforms to support low-carbon generation, including the proposed introduction of WCfDs. Participants should consider the potential interaction between these policy areas, so far as they are able to at this stage, when responding.

Final policy design of the material detailed in this, and any future consultations, will be compliant with the UK's domestic subsidy control regime and any relevant international equivalents.

Proposed FPC Design

This section sets out the rationale, scope and overarching design of a proposed Fixed Price Certificate system. It revisits the two models previously consulted on in 2023 and explains why the government is minded to proceed with Model 1 – a system that would remove the trading of certificates. This is considered the optimal model for addressing future ROC market volatility, reducing supplier default risk as well as creating scope for reducing the costs of the scheme.

Fixed Price Certificate models

FPC Model 1: Central counterparty, no trading in certificates

Model 1 proposed a move away from the current market-based trading of ROCs and towards a fully centrally administered system. Under this model, the existing approach, where certificates are issued as tradable instruments and sold between generators, suppliers, and traders, would end. Instead, a central counterparty would buy certificates from generators at a fixed price and recover the associated costs from electricity suppliers.

Generators would continue to receive certificates from the scheme administrator based on the level of their renewable generation. Those certificates would no longer be tradable. Instead, generators would be paid directly by the central counterparty at a fixed price per certificate. That price would be set administratively, rather than through market trading, to provide greater revenue certainty as the scheme closes and certificate volumes in the market decline.

Suppliers would no longer need to purchase certificates directly from generators or traders. Instead, they would meet their obligations by making payments to the central counterparty, based on their electricity supply volumes and the overall costs of the scheme. The central counterparty would then use those funds to pay generators for the certificates issued. This would remove the need for suppliers to participate in the certificate market and reduce exposure to price volatility and counterparty risk.

By removing trading, Model 1 was intended to address concerns that, as generators leave the RO over time, the certificate market could become increasingly thin and volatile. The model would help avoid sharp price fluctuations, reduce the risk of a collapse in certificate prices, and mitigate the risk of supplier default arising from late or non-payment for certificates. It would also simplify scheme administration by reducing the number of transactions and intermediaries involved.

FPC Model 2: Central counterparty with continued trading in certificates

Model 2 proposed retaining a greater degree of continuity with the current RO scheme by allowing continued trading of certificates, while still introducing a central counterparty and fixed

pricing. As in Model 1, generators would continue to receive certificates from the administrator for eligible renewable generation, and suppliers would continue to acquire certificates to meet their obligations. However, generators would have had a choice to either sell certificates on the market – for example, to suppliers – or directly to the central counterparty at a fixed price. This approach would have maintained an element of market participation while also providing a guaranteed route to sale.

Model 2 was intended to preserve some of the benefits of the existing RO arrangements, including trading flexibility, continuation of existing commercial practices, and a degree of price signalling. At the same time, the presence of a fixed price buyer was intended to act as a stabilising mechanism, provide a price floor, and reduce the risk of severe price volatility as certificate volumes declined.

However, allowing continued trading would have meant that some exposure to market dynamics and volatility remained, particularly if trading volumes fell significantly over time. The model may, therefore, have provided less certainty than Model 1 and could have involved greater complexity in scheme administration, as both market trading and central counterparty functions would have needed to operate in parallel.

Proposal

Following the Call for Evidence, the government has worked to refine and develop those proposals, taking into account stakeholder responses, and assessed which is best placed to deliver scheme stability moving forward. As a result of that process, the government is proposing that Model 1 be taken forward as the basis for an FPC system.

Within responses to the 2023 Call for Evidence there was a broad acceptance that an FPC model would be a suitable option to address the risk of future price volatility in the ROC market. Respondents recognised that Model 1 offered a structural solution to supplier default risks once the scheme matures by providing price certainty for the remainder of the scheme. In turn, this price certainty is also a benefit to generators who will receive a guaranteed income for the remainder of their eligibility. However, there were respondent concerns over transitional costs, differing impacts on generators (particularly microgenerators), impacts to supplier liquidity when funding the switch to levy payments, and possible weakening of relationships between generators, suppliers, and traders which may have an impact on other areas of the market, such as REGOs.

We believe our approach to the transition, discussed later in this consultation, and the approaches outlined below mitigate these risks which we also acknowledge. In comparison, feedback in support of Model 2 largely reflected the inverse of the negatives submitted for Model 1; primarily that Model 2 supported greater flexibility for managing cashflows, lower transition impacts, and maintenance of market relationships between generators and suppliers. However, Model 2 does not tackle the central issue of expected increasing price volatility until scheme closure, which is a key aim of FPCs.

When directly compared, a greater proportion of respondents preferred Model 1 over Model 2, largely due to the certainty it provides to generators. They reported a preference for Model 1 because:

- Model 1 supports predictable and timely generator payments, creating consistency by removing exposure to certificate price volatility as generators increasingly drop off the scheme in sizable numbers until scheme closure in 2037.
- Advanced levy payments in Model 1 mean funds are collected before generator payments are due, which significantly reduces the risk of payment delays and mutualisation activation compared to the retrospective compliance cycle retained under Model 2. Transitional measures will also be implemented to mitigate cash flow risks to suppliers.
- By eliminating certificate trading, Model 1 is a simpler scheme which comparatively reduces administration costs for scheme participants and the administrator.

These views reflect the government's own assessments of the relative merits of Model 1. This alignment, and taking into account stakeholder feedback to the Call for Evidence, has motivated the government's proposal to proceed with introduction of an FPC system based on Model 1.

Questions

1. **To what extent do you agree or disagree that implementing FPCs using a Model 1 approach is the best option on balance? If you disagree, please briefly explain why.**

FPCs Scope

Despite being a significant shift in design enabled by powers in the Electricity Act 1989, the FPC system detailed in this document should not be considered as an entirely new scheme. Its scope extends only to the mechanics of how certificates are calculated, circulated to industry, and paid for, alongside the required mechanisms to ensure administrator solvency.

The fundamental aims and principles of the scheme remain unchanged, that is to support the ongoing management of renewable generation in the UK. The scheme remains closed to new entrants and there will be no changes to eligibility criteria or existing accreditations for participating generators. This includes the length of these accreditations and existing banding arrangements. We are not proposing changes to existing requirements on scheme participants, unless where required to facilitate transfer to the new scheme structure.

The FPC system will retain equivalent audit and compliance processes and use of public registers to publish key scheme data, as are currently in place.

Implementation and Legal Framework

This section sets out the government's proposal that the transition to FPCs should occur no sooner than the start of the 2028/29 scheme year (SY27). It explains the legislative framework for FPCs, and the intention to replace the current three separate RO schemes with a single, UK-wide equivalent. It also sets out the intention for a single UK-wide delivery body to run the FPC system, and the various roles that the delivery body will undertake. It seeks views on the impact of FPCs and any measures that could mitigate any risks.

Proposal

The government continues to see clear merit in transitioning to an FPC system as a means of ensuring the long-term stability and resilience of the RO as it matures. In particular, FPCs offer a credible mechanism to manage the risk of increasing price volatility as the scheme winds down. However, the government also recognises widespread stakeholder sentiment that such volatility is now more likely to emerge in the early–mid 2030s rather than in the late 2020s.

At the same time, we consider there is a strong case for proceeding ahead of the period of greatest anticipated volatility where this can deliver tangible benefits for consumers. Improving energy affordability remains one of the most pressing challenges facing households today, and reducing energy bills is a central priority for this government. Bringing forward reforms which could unlock potential consumer cost savings therefore provides a reasonable argument for implementation sooner than the 2030s, ahead of the point at which volatility risks are forecast to fully materialise.

We are proposing to formally transition the RO scheme to an FPC model no sooner than the beginning of the 2028/29 scheme year (SY27). This reflects the government's longstanding concerns about future ROC market volatility and the need to provide clarity and certainty to industry ahead of this period. The transition also offers the potential to reduce the overall cost of the scheme at a time when affordability remains a key priority, and it is, therefore, appropriate to review the scheme in light of these objectives.

We recognise the importance of balancing the potential benefits of an earlier transition against the need to minimise disruption to industry, and acknowledge prior representations from stakeholders expressing concern around an earlier than anticipated implementation for FPCs. Specifically, industry stakeholders have already emphasised the implementation challenges of possible renegotiations within the Power Purchase Agreement (PPA) market.

The government intends to provide as efficient a transition as possible, minimising disruption for industry. To that end we have developed a series of transitional measures to bridge the gap between the RO and FPCs and are keen to further understand industry's views in relation to the timing and broader impacts of the transition. We are therefore seeking views on the

impacts and appropriate timing of a transition to FPCs, the feasibility of doing so by April 2028 (SY27) and the respective risks and benefits.

Questions

2. **What are the implications for your organisation of implementing this transition no earlier than scheme year 2028/2029? Please indicate the main types of impacts (e.g. cost, systems, processes), whether these would be primarily one-off or ongoing, and the lead-in required to implement them.**

3. **Which of the following areas do you expect to be materially affected by the introduction of FPCs? Select all that apply.**

    a. **Power Purchase Agreements (PPAs)**

    b. **Tariff-setting and forecasting (suppliers)**

    c. **Revenue certainty and financing (generators)**

    d. **Cashflow or working capital management**

    e. **Operational or settlement processes**

    f. **Other (please specify)**

4. **Would you prefer a later implementation of FPCs? If 'yes', please explain your rationale and how this may affect the transition's impact on your organisation, including relevant evidence.**

5. **Are these impacts consistent across different timelines for delivery? If 'no', please explain how they differ.**

Legislative framework

Implementing a Model 1 approach can be facilitated by existing primary powers. The government proposes to make a certificate purchase order under s.32N of the Electricity Act 1989 to deliver these reforms. These powers allow the three existing Renewables Obligation schemes (RO, ROS, and NIRO), to be replaced by a UK-wide certificate purchase obligation (CPO) scheme that provides the basis for what we call a Fixed Price Certificate system.

These powers create several new statutory roles: the levy administrator, the certificate purchasing body, and the relevant authority. The first two roles are replicated in both Great Britain (GB) and Northern Ireland (NI), while the relevant authority is Ofgem in respect of GB and the NI Authority in respect of NI.

The government's intention is for a single delivery body to perform all these functions across both jurisdictions (see the NI section for further detail). This will require, as under the current RO, the NI Authority to delegate administration of the scheme to Ofgem.

Section 32Y of the Electricity Act 1989 requires the Secretary of State to replicate several elements of the existing RO scheme within the new system. These relate to a wide range of areas that will be detailed in the relevant sections below. While the relevant primary powers create and refer explicitly to a 'certificate purchase obligation', for consistency this consultation will continue to refer to a 'Fixed Price Certificate' or 'FPC' system.

Devolved Governments and the NIRO/ROS

What is commonly referred to as the current 'RO' scheme in fact comprises three complementary schemes across the UK. The Renewables Obligation (RO) in operation across England and Wales, the Northern Ireland Renewables Obligation (NIRO), and the Renewables Obligation Scotland (ROS).

As set out above, the FPC proposals in this consultation will replace these three distinct schemes with a single, UK-wide equivalent. However, the effect of doing so on devolved nations will differ given Scotland and Northern Ireland's respective legislative arrangements.

Scotland

Scottish Ministers have the power to make (and amend) the RO orders establishing the ROS. This allows them to determine elements of the ROS scheme such as obligation levels, banding, eligibility, and compliance rules.

In practice however the same provision has largely been made for the ROS as for the RO, which facilitates effective UK-wide RO operations. Both schemes are administered by Ofgem. The powers provided by a CPO order to facilitate this UK-wide FPC system would result in centralising all decision making across the scheme, with DESNZ Secretary of State being ultimately responsible, albeit with the ongoing involvement and collaboration of Devolved Governments.

As the ROS contains a more or less equivalent composition of generators as under the RO, the government feels there is no need to provide specific accommodations for those generators when transitioning to a UK-wide FPC scheme.

Northern Ireland

The legislative framework that facilitates the NIRO is distinct from the RO and ROS equivalent. However, as with the ROS, in practice the scheme reflects the core policy approach as the RO. Statutory responsibility for the scheme sits with the Northern Ireland Authority for Utility Regulation, although Ofgem administers it in practice under a statutory agreement.

The NIRO manages the majority of generators under the RO with around 23,700 accredited stations. The overwhelming majority of these are micro generators that manage a different set of commercial and logistical arrangements when compared to large scale equivalents.

The proposals below seek to ensure continuity between how these stakeholders engage with the existing RO and the new FPC system; for example, in the context of generator payment schedules. This continuity is also reflected on the supplier side where we propose to retain the current distinction between GB and NI supplier obligations under new FPC levy designs.

As above, the CPO legislation provides for several NI specific roles under this FPC system which we envisage ultimately being delegated and carried out alongside GB equivalents by a single, UK-wide, delivery body.

Scheme administration

Section 32 to 32Z2 of the Electricity Act 1989 distinguishes between the roles of the relevant authority, levy administrator, and certificate purchasing body across GB and NI. These roles are legally discrete, reflecting different statutory functions. However, for the purposes of the FPC scheme, and pending delegation of NI specific roles, the government expects they will all be carried out by a single body which this consultation refers to accordingly as the 'FPC administrator'. This approach is intended to simplify scheme administration, reduce complexity, and provide a clearer and more efficient interface for industry participants.

The government proposes that many of the existing functions currently undertaken by Ofgem as administrator of the RO scheme would be delivered by the FPC administrator. These include; for example: receiving and processing supply and generation data from stakeholders, and overseeing audit, compliance, and assurance arrangements. In addition to these retained functions, the FPC administrator would take on a new role in managing the flow of funds through the FPC system. This would include receiving levy payments from suppliers, issuing FPCs, and making corresponding payments to generators in respect of eligible electricity supported under the scheme.

Following conclusion of the government's Ofgem Review there are remaining question over which organisation should manage the long-term administration of the RO scheme.[3] The Ofgem Review, which focussed on Great Britain, was motivated by the need to sharpen the division of responsibilities between government and the independent regulator. The Review concluded that as the energy system is becoming increasingly complex, Ofgem's role should evolve to focus more clearly on its core regulatory functions, consumer protection responsibilities and strategic oversight of the energy system. The Review set out that, as part of this refocusing, Ofgem would no longer be responsible for the administration and delivery of social and environmental schemes except where it remains the best-placed body to do so.

[3] Ofgem Review: final report (April 2026) Ofgem Review: final report - GOV.UK

In light of the Review's findings, the government is considering the most appropriate delivery model to implement and administer a future FPC system. This includes considering whether the scheme should continue to be administered by Ofgem or whether future responsibility should transfer to an alternative body. We are currently exploring the relative merits, costs and deliverability of each option.

Impacts on suppliers

This section sets out proposals for how the levy used to determine the level of supplier payments is calculated. It considers the optimal frequency for suppliers to pay that levy, and the process of reconciling suppliers' levy payments against the funds needed by the FPC administrator. It also considers measures to maintain the solvency of the FPC administrator, including requiring suppliers to hold credit cover, maintaining a reserve, and mutualisation. Views are sought on all these issues.

Moving to a Supplier Levy format

Transitioning the RO to an FPC system would remove the traded element of the scheme. Instead of purchasing certificates from generators or third-party traders, suppliers will be required to make payments to the FPC administrator. One of the core objectives of an FPC system is to maintain stability and predictability within the scheme. This principle informs scheme design across multiple mechanisms, while seeking to avoid unnecessary impacts on stakeholders.

To provide a clear and workable way to collect payments from suppliers to cover the costs of the scheme, the government is minded to introduce a levy. This would allocate costs consistently across suppliers, based on the amount of electricity they supply – similar to the Contracts for Difference scheme. The levy would fund the purchase of certificates from generators and cover the administrative costs of running the FPC scheme.

Consideration of the current obligation-setting methodology

The government has considered whether the existing methodology used to set the level of the obligation could be adapted for use under an FPC system. The current approach was developed for a tradable certificate scheme, where outcomes are influenced by interactions between renewable generation, supplier demand, and certificate trading. While some of the underlying inputs, such as generation and supply, would remain relevant, the purpose of the levy under an FPC system is different.

Under an FPC system, the supplier levy would be designed to ensure sufficient funds are collected to enable the purchase of certificates from generators and to cover administrative costs. Given this different objective, the government considers it appropriate to explore alternative approaches to setting the levy, rather than directly carrying forward the existing methodology.

Proposed approach

The policy intent of a levy under an FPC system is to determine how much an individual supplier should pay to ensure efficient functioning of the FPC system. It should do so in a way

that delivers an accurate and fair distribution of costs across suppliers, reflecting the electricity they have sold to consumers.

The level of the obligation under the RO is currently calculated and published by 1 October before each scheme year to give suppliers clarity and certainty over the costs they need to recover when setting tariffs for the year ahead. Moving away from confirming suppliers' compliance requirements annually before a scheme year begins could result in suppliers facing greater cost uncertainty, and they may need to reflect this in their tariffs, which could raise costs for consumers. To avoid this, the government proposes calculating and publishing the supplier levy under an FPC system ahead of each period, aligning with current timings under the RO, to provide suppliers with the certainty required to budget and set prices responsibly.

The government also proposes making the necessary legislative changes to ensure that, on the 1 October preceding the first scheme year under an FPC system, the government will not be obliged to publish an RO level (even in circumstances where the legislation underpinning the FPC system is not in force by the 1 October preceding the first scheme year). This would avoid the publication of a conflicting supplier levy and RO obligation level in advance of the first FPC period, minimising confusion for suppliers.

Costs Covered under the Supplier Levy

Under the RO, suppliers fund renewable scheme administration through their obligations, and while certificates will no longer be traded under an FPC system, we propose that this funding relationship is retained.

In moving to a levy-based model, the government has considered the various costs required to operate a stable FPC system and how these should be recovered.

Certificate Purchase Costs

The primary costs to be recovered through the levy will be the funds required for the FPC administrator to purchase certificates from generators. This represents the core cost of supporting renewable generation under the scheme and broadly mirrors the costs that suppliers currently incur in purchasing ROCs under the RO.

Under an FPC system, this cost will be directly linked to the volume of certificates issued and the fixed price attached to them. As such, the total funding requirement can be estimated by combining forecast renewable generation, which determines the expected number of certificates, with the applicable fixed price. The levy will, therefore, need to be set at a level that ensures sufficient funds are collected to meet the FPC administrator's requirements.

Administrative and Operating Costs

Under the RO, administrative costs are recovered indirectly through overall supplier compliance costs, via the buy-out fund. As this mechanism will not continue under an FPC system, an alternative approach to recovering these costs is required.

The government's initial view is that these costs should continue to be recovered from suppliers through the levy. This reflects the established principle that suppliers fund the costs of delivering renewable support schemes and maintains continuity with existing arrangements.

Administrative and operating costs are expected to represent a limited proportion of overall scheme costs. However, the impact on individual suppliers may vary depending on their current compliance approach under the RO.

Calculating the Supplier Levy

The government is considering two approaches to calculating the levy. These options differ primarily in how supplier contributions are determined and the extent to which they rely on forecast or historic data.

FPCs in Northern Ireland

As under the RO, the UK government is minded to reflect existing differences in the treatment of suppliers in Great Britain and Northern Ireland in the calculation of the supplier levy.

Exemptions and Government Support

As under the RO, the calculation of the supplier levy will take account of applicable exemptions, including those for EIIs and other schemes such as BICS.

While these exemptions affect the distribution of costs across suppliers, they do not change the underlying total levy requirement. Similarly, decisions on Exchequer funding, such as the government's current policy to cover 75% of domestic RO costs, are determined separately from the levy calculation. Where these schemes are in operation concurrently with FPCs, the government expects existing arrangements to continue under the new FPC system.

Option 1 – Levy rate

Under this approach, the levy would be set as a £/MWh rate, maintaining close alignment with the existing RO framework where a supplier's obligation is determined by applying the level of the obligation for a given period to the volume of electricity supplied in that period. The levy rate would be calculated by dividing forecast FPC costs by eligible electricity supply. However, unlike the current RO framework where individual supplier obligations are calculated towards the end of the obligation period using audited data on actual electricity supplied, this approach would require the use of forecast electricity supply. This reflects the proposal for suppliers to settle their levy requirements quarterly in advance (see the section below on **Supplier Settlement Schedule**). While forecasts are efficiently used across the energy sector and widely incorporated in the design of government schemes, this represents a departure from the RO approach and increases reliance on forecasting, both in relation to electricity generation and supply. This introduces concerns about potential misalignment between forecasts and actual outturns, which could result in an unrepresentative levy rate. As this rate would be applied to all suppliers, any discrepancy would have scheme-wide effects, potentially reducing predictability and stability within the scheme.

The government is continuing to develop the methodology for this option, including exploring appropriate forecast data sources and the frequency with which the levy rate would be updated; for example, whether the rate should be adjusted quarterly to reflect updated forecasts.

Option 2 – Levy allocation

Under this approach, the total levy requirement would be allocated to suppliers based on their estimated share of electricity supplied during the levy period. This estimate could be informed by audited data from a previous reference period; for example, by using historic supply volumes as a proxy for expected market share. This broadly reflects the current RO approach where supplier obligations are ultimately determined using verified electricity supply volumes. While this differs from a rate-based methodology, the approach remains consistent with the underlying principle that suppliers' contributions should be proportionate to the electricity they supply. Under this approach, full recovery of the levy is achieved by design as the total levy amount is distributed across suppliers in advance, based on estimates. This differs from a rate-based approach where the total amount ultimately recovered depends on how a uniform rate is applied across suppliers' electricity sales. This could improve predictability and stability for both suppliers and the FPC administrator. However, it introduces concerns about potential misalignment where a supplier's estimated share differs significantly from its actual electricity supply during the levy period. This could result in some suppliers contributing more or less than would be implied by their real-time market position, depending on how closely estimates align with outturn supply.

The government is considering the appropriate approach to estimating supplier contributions under this option, including the choice of reference period (for example, whether to draw data from the previous year, quarter, or month) and how to best ensure estimates remain aligned with supply in the relevant levy period. This includes drawing on examples from existing schemes that allocate costs based on supplier's historic demand over a defined reference period.

Under both options, the reconciliation mechanism described in the section below on **Supplier Reconciliation** would play an important role in managing data differences. Reconciliation is intended to correct for discrepancies between estimated and actual data, helping to ensure that suppliers' final contributions more accurately reflect outturn costs and supply volumes, and supporting overall fairness and cost recovery within the scheme.

Questions

6. To what extent do you agree or disagree that calculating and publishing the supplier levy ahead of each FPC period will provide sufficient clarity and predictability to suppliers?

7. To what extent do you agree or disagree that removing the need to calculate and publish an RO obligation level by 1 October 2027 preceding the first FPC period

will be helpful in providing clarity and predictability to suppliers? Please provide evidence or reasoning to support your view.

8. **To what extent do you agree or disagree that suppliers should continue to fund the administrative costs of the scheme? Please provide evidence or reasoning to support your view.**

9. **To what extent do you agree or disagree that differences in the treatment of suppliers in Great Britain and Northern Ireland should be reflected in the supplier levy calculation?**

10. **What evidence can you provide on the reliability of forecasts and historic data used to set estimates for supplier processes (for example, estimates of electricity supply used to set tariffs or manage risk)?**

11. **Which of the proposed approaches would be most appropriate for calculating the supplier levy, based on the information provided? Please explain your reasoning, including any uncertainties or assumptions.**

Supplier Settlement Schedule

Proposed approach

Under the FPC system, suppliers will pay the costs of the scheme solely via levy payments to the FPC administrator. There will be no trading of certificates so suppliers will no longer purchase ROCs (or FPCs) from generators (or traders). Instead, the FPC administrator will purchase the certificates from generators each month (as set out in the section below on **Fixed Price Certificate pricing, issuance and payments)** using funds provided by suppliers.

Generators have an expectation of when they will be paid under the current RO. The aim is that they should not wait any longer for payment under the FPC system than they do under the RO (however, as noted in the section below on **Generator Payment Schedule**, that may not always be possible in exceptional circumstances where the FPC administrator is temporarily short of funds). The supplier settlement schedule for the FPC system must, therefore, ensure that the FPC administrator has sufficient and timely funds to pay generators according to the certificate payment schedule, and to cover the FPC administrator's on-going administration costs. If the FPC administrator does not receive the necessary incoming flow of funds from suppliers, it cannot purchase certificates regularly. That may cause generators serious cashflow difficulties. A delay in receiving funds may also have impacts on the FPC administrator's operations. However, suppliers' settlement frequency must also take account of cashflow for suppliers, and the increased administrative burden on both suppliers and the FPC administrator that comes with more frequent settlement.

The following options for supplier settlement have been considered for Year 2 of the FPC system onwards (special arrangements will be needed for Year 1, as set out in the section below on **Transition to FPCs**):

- Retrospectively - daily, weekly, monthly, quarterly, six monthly, or annually; or
- In advance - daily, weekly, monthly, quarterly, six monthly, or annually.

Retrospective settlement has the advantage of being based on actual costs and actual electricity supply, rather than forecasts, so giving suppliers more certainty over their levy costs. But any supplier default would delay the purchase of certificates, with consequential impacts on generator cashflow. Daily or weekly settlement would incur significant administration costs for both suppliers and the FPC administrator, although monthly or quarterly settlement would ease that burden. Retrospective six monthly or annual payments would routinely cause a shortage of funds at certain times of the year. That would routinely delay the purchase of certificates and would also leave the FPC administrator unable to cover operational costs.

Advanced settlement has greater admin resource implications as the levy would be based on estimated costs and estimated electricity supply, both of which would need to be subsequently reconciled with actual data. However, it has the advantage that any of the frequencies for settlement would allow the FPC administrator to purchase certificates promptly and cover operational costs, with a reduced impact in the event of supplier default. The increased

certainty for the FPC administrator that comes with advanced settlement would also reduce the size needed for a reserve. Daily or weekly advance settlement is not necessary to ensure the FPC administrator has sufficient funds, so it cannot be justified in view of the administrative burden on suppliers. Six monthly or annual advanced settlement would require significant funds to be collected from consumers in the year before, alongside the funds collected for that year, and that would impose a cost burden on consumers. That leaves advanced monthly or quarterly settlement as possible options as either would ensure the required incoming flow of funds to the FPC administrator.

Given the above considerations, we are minded to implement quarterly settlement in advance as the approach that best balances the impacts on suppliers, consumers, the FPC administrator, and generators. It would not impose significantly higher administrative burdens on most suppliers, and there would be no adverse impact on consumers, who will continue to pay for the scheme monthly through their electricity bills. The FPC administrator would have a lower risk of being left short of funds, which reduces the risk of delays in purchasing certificates from generators. The risk of a shortage of funds can be mitigated by the FPC administrator maintaining a sufficient reserve.

However, in view of the serious consequences to the FPC administrator of any delays in receiving funds from suppliers, we propose to impose a late payment penalty to encourage prompt payment. In line with the current RO, any late payments would accrue daily interest, charged at 5% per annum over the Bank of England base rate until the debt is fully paid.

Government support to reduce RO costs for consumers

Under the “RO to Exchequer scheme” [4], the UK government has committed to provide funding to suppliers in Great Britain for three years, from 1 April 2026 to March 2029, to cover 75% of their RO costs attributable to domestic consumers. Those payments are made to suppliers by the 5th working day of each month. A similar scheme is being set up for Northern Ireland. Where these schemes are in operation concurrently with FPCs, the government expects existing arrangements to continue under the new FPC system.

Detailed steps for the supplier payment schedule

We propose the following steps for the supplier payment schedule noting special arrangements will be needed to collect the funds for the first quarter of the first FPC scheme year, as set out in the section below on **Transition to FPCs** (The details of what the levies cover and how they are calculated are set out in the section above on **Moving to a Supplier Levy format)**:

- Forecasts of the expected cost of the scheme will be published well before the start of the scheme year, so suppliers have time to set consumer tariffs to collect the necessary funds during the forthcoming RO scheme year. Ofgem’s energy price cap[5] will take the levy into account;

[4] RO to Exchequer and ECO costs schemes: guidance for suppliers (HTML) - GOV.UK
[5] Energy price cap | Ofgem

- The FPC administrator will issue a quarterly invoice to individual suppliers for their levy payments, three clear months in advance of the payment date;
- Suppliers will pay their levies by the 10th working day of April, July, October, and January. That will allow them time to collect three full months of funds in advance from consumers, before making the levy payments. For the first year of FPCs, GB and NI suppliers will also have received three payments from the UK and Northern Ireland governments respectively, under the schemes to reduce RO costs for domestic consumers. The FPC administrator will receive the levy payments 2½ months before the funds are needed;
- Any late payments will accrue daily interest, charged at 5% per annum over the Bank of England base rate until the debt is fully paid.

As an example for year two of the FPC system, the levy invoice for Y2-Q2 (to collect funds for July to September) will be issued by the FPC administrator in the preceding December (i.e. six months in advance of the quarter). Suppliers will pay that invoice by the 10th working day of April (i.e. 2½ months before the quarter starts).

Questions

12. Do you agree with the proposed approach for the supplier payment schedule above? If 'no', please explain which aspects you disagree with and why.

Supplier Reconciliation

The FPC administrator must always have sufficient funds to meet the generator payment schedule (as set out in the section below on **Generator Payment Schedule**). So, it is important that the money used to purchase certificates is frequently reconciled with incoming levy payments from suppliers to ensure the two are aligned. The process must also reconcile the forecasts of suppliers' electricity supply against actual supply to ensure each supplier is paying their appropriate share of the overall cost. Any underfunding must be addressed promptly. Any overfunding is less urgent but still needs to be resolved to avoid unnecessary consumer costs.

Proposed approach

The government has considered whether reconciliation should be carried out daily, weekly, monthly, quarterly, six-monthly, or annually. The two aspects being reconciled are intertwined: if more or less money is needed to pay generators, each supplier's share of the revised costs must also be reviewed to ensure they are not over or under paying their share of the total cost. The chosen frequency for reconciliation must give a high degree of comfort that there will always be sufficient funding to purchase certificates from generators on time (so maintaining generator cashflows). That must be balanced against giving suppliers as much certainty as possible on their levy, and the minimum of admin for both suppliers and the FPC administrator. However, for all the options, reconciliation will not be a "once done, never reviewed" exercise. All previous data on both generation and electricity supply will need to be re-assessed at each reconciliation until the data is confirmed as being the final version (even with an annual reconciliation, the data in the last few months of the year will not be finalised until into the start of the next year).

It should be noted that reconciliation will be used to balance the routine flow of funds into and out of the FPC administrator, to match the normal ups and downs in generation and electricity supply. Any shortage in funds arising from supplier default will be dealt with under separate arrangements (see the section below on **Maintaining FPC Administrator Solvency**).

It is unlikely there will be significant daily or weekly variation in the predicted costs for purchasing certificates, but electricity supply is likely to fluctuate widely. Daily or weekly reconciliation of each supplier's share of the levy would create uncertainty for suppliers, and impose an unnecessary large admin burden on both the FPC administrator and suppliers. Daily or weekly reconciliation is therefore not considered to be a viable option.

At the opposite end of the scale, six-monthly or annual reconciliation would be light on administration, and would have firmer data, both on the actual purchase of certificates from generators and suppliers' actual market share. But it would leave the FPC administrator at too great a risk of a shortage of funds, so delaying the purchase of certificates. It would be possible to allow the FPC administrator to issue ad-hoc top-up invoices between planned six-monthly or annual levy payments, but that would create uncertainty for suppliers. Alternatively,

a large reserve could be included in the routine levy payments. That would remove uncertainty, but it would significantly increase consumer costs in the early months of the scheme. Six-monthly or annual reconciliation is therefore also not considered to be a viable option.

That leaves monthly or quarterly reconciliation. Monthly reconciliation would be the more robust option, with very little risk of delayed payments to generators. But there is an admin burden in carrying out 12 reconciliations a year on the highly unfinalised electricity supply data being reconciled. In addition, it can take a significant amount of time for final data to become available on electricity supplied to industries and businesses exempt from RO costs[6]. So an apparent under- or overfunding from a supplier in one month could easily go the opposite way as the supply figures are firmed up in the next month.

Quarterly reconciliation would reduce the admin burden by requiring only 4 runs a year. As the FPC administrator would always have one quarter's levy payment in hand, there would be little risk of delayed payments to generators. The risk of a funding shortage could be managed by including a small reserve payment in the routine levy. Although the data being reconciled quarterly would still not be completely finalised, it would be more robust than the monthly data. Quarterly reconciliation also matches the recommended quarterly settlement frequency for suppliers' levy payments. Suppliers in Great Britain will be used to quarterly reconciliation as that is the frequency used for the Contracts for Difference scheme. However, this may be a new concept for suppliers in Northern Ireland.

Under a quarterly system, after each quarter has ended, the FPC administrator will reconcile the levy payments received from suppliers against payments owed to generators, taking account of more recent data on electricity supply. That will determine whether additional funds are needed from suppliers or whether excess funds have accumulated. Any requirement for additional funds, or refunds due, will be taken into account in the next available levy invoice.

Using the same Y2-Q2 example as in the section above on **Supplier Settlement Schedule**, the FPC administrator will reconcile the July to September Y2-Q2 quarter in early October. Any adjustments needed will be included in the levy invoice issued in December for Y3-Q2. That delay is because the October reconciliation for Y2-Q2 will take place after the issue of the levy invoices for Y2-Q3, Y2-Q4 and Y3-Q1 (which are issued in March, June and September respectively).

The process for reconciling the supplier levy

The earlier section on **Moving to a Supplier Levy format** sets out two alternative ways of setting the supplier levy: Option 1 - levy rate, and Option 2 – levy allocation. Each would need a slightly different process for reconciliation, as set out below.

Option 1 reconciliation with a levy rate (expressed as £ per MWh of electricity supplied during the year). The FPC administrator will forecast both total scheme costs and electricity

[6] These are energy intensive industries (EIIs) and businesses covered by the British Industrial Competitiveness Scheme (BICS)

supply as part of the process to set the levy rate. At the end of each quarter, reconciliation would involve the calculation of the following:

- The actual costs incurred by the FPC administrator in the quarter;
- The total amount of money actually received by the FPC administrator from all the suppliers' quarterly levy payments;
- The difference between the first two bullets;
- The amount of electricity each supplier actually supplied in the quarter, and the amount of EII and BICS exempt electricity, using the same data source as used to calculate the initial levy payments (avoiding discrepancies that would occur if different data sources were used);
- The amount that each supplier actually owes for the quarter based on their actual electricity supply; i.e., multiplying the £/MWh levy rate by the actual outturn electricity supply, minus actual outturn EII and BICS exempt electricity. The revised figures for all the suppliers would then be added up to check that the resulting £ total is sufficient to cover the costs in the first bullet above;
- The additional amounts to be paid by, or the refunds due to, each supplier, taking account of levy payments already made. Where the amounts have changed solely because of changes in electricity supply, the additional sum due (or refund) will be the £ difference between the levy already paid and the amount each supplier should have paid, based on their revised electricity supply. Where additional money is needed (or refunds are due) because of a change in the FPC administrator's costs, the £/MWh levy rate will be recalculated for the quarter. The additional money (or refunds) will be based on the revised levy rate multiplied by actual electricity supply, excluding EII and BICS exempt electricity, minus the levy already paid. Any additional money needed will be added to the next available levy invoice, and any refunds will be deducted from that invoice.

Option 2 reconciliation with a levy allocation (expressed as a £ sum based on the suppliers past share of the electricity market). The FPC administrator will forecast both total scheme costs and electricity supply as part of the process to set the levy rate. At the end of each quarter, reconciliation would involve the calculation of the following:

- The actual costs incurred by the FPC administrator in the quarter;
- The total amount of money actually received by the FPC administrator from all the suppliers' quarterly levy payments;
- The difference between the first two bullets;
- The actual market share for each supplier in the quarter, and the amount of EII and BICS exempt electricity, using the same data source as used to calculate the initial levy payments (avoiding discrepancies that would occur if different data sources were used);

- The amount that each supplier actually owes for the quarter based on their actual market share; i.e., dividing the FPC administrator's actual costs between the suppliers in proportion to their actual (weighted) market share in the quarter (excluding outturn EII and BICS exempt electricity). The revised figures for all the suppliers will then be added up to check that the resulting £ total is sufficient to cover the costs in the first bullet above;
- The additional amounts to be paid, or the refunds due to each supplier, taking account of levy payments already made. Regardless of whether the change in the levy is because of changes in suppliers' market share or the FPC administrator's costs, suppliers' levy payment for the quarter will be recalculated by dividing the revised total cost for the quarter between the new percentages for market share, minus the levy already paid by each supplier. Any additional money needed will be added to the next available levy invoice, and any refunds will be deducted from that invoice.

Questions

13. Do you agree with the proposed approaches for reconciliation above? If 'no', please explain which aspects you disagree with and explain your reasoning.

Maintaining FPC Administrator Solvency

The integrity of the FPC system is fundamentally reliant on the FPC administrator's ability to meet its obligations to purchase certificates from generators. This principle has informed design choices over several structural elements of the scheme with the aim of providing an inherent level of protection for cashflow through the system; i.e. the advanced supplier settlement schedule, retrospective generator payment schedule, and the reconciliation mechanism.

However, further protections are required to guard against unexpected circumstances that present serious risks to the FPC administrator's solvency; for example, significantly higher than forecasted generation or supplier default.

This section sets out proposals on a series of measures to protect against these scenarios, reinforce the FPC administrator's solvency, and provide assurance to stakeholders. Specifically, we propose:

- A preventative mechanism for industry - credit cover
- A preventative mechanism for the FPC administrator - a reserve
- A reactive measure for use in extreme circumstance - mutualisation

These measures require careful balancing to minimise cashflow pressures for suppliers and the government will provide further detail on how it intends to do so in the next consultation. This consultation will include details on how these mechanisms will operate as a cohesive package, and the threshold and payment schedule for emergency mutualisation measures.

Credit Cover

The government is considering requiring suppliers to provide credit cover. This would act as the first line of protection against supplier default, ahead of using the reserve or emergency mutualisation. It would protect compliant suppliers from the impact of a defaulting supplier. That is because only the defaulting supplier's credit cover would be drawn upon to recover the funds that the defaulting supplier had failed to pay (a shortage in funds due to higher than expected generation or lower than expected electricity supply would be recovered from the reserve, not from credit cover, as explained in the section below). This approach reduces the scale and duration of any funding gap arising from supplier default, particularly in the period between a missed payment and completion of the Supplier of Last Resort process. It would minimise disruption to suppliers' cashflow management and financing arrangements, particularly for smaller suppliers, while maintaining continuity of the purchase of certificates from generators.

Credit cover would be needed in advance, aligned to a supplier's expected quarterly levy bill. In calibrating any supplier credit cover requirement, the government would take a proportionate approach that builds on existing protections under the existing RO and the CfD scheme. Suppliers in Great Britain are familiar with the ringfencing/credit cover arrangements under the current RO and the CfD scheme. However, we recognise that moving from the RO's retrospective ringfencing to upfront collateral requirements could create short-term cash-flow pressure for suppliers. We consider that advanced credit cover protects all suppliers from the risks and consequences of always having to immediately initiate a full mutualisation process in the event of supplier default.

There are various mechanisms that could be considered. Drawing on both the RO and CfD schemes, these include:

- Cash payments to the FPC administrator's bank account
- A standby letter of credit
- A first demand guarantee - covering both third party and parent company guarantees
- A trust account
- A mix of the above, either in fulfilling one quarter's requirement, or to use a different mechanism in a subsequent quarter.

Government is still considering the merits of this approach and would welcome views.

Reserve Charge

Under an FPC system, funds no longer flow directly between suppliers and generators. Instead, generators receive payments for certificates purchased by the FPC administrator, while suppliers are required to pay a levy. Together, the proposed FPC funding arrangements have been developed to support stable and predictable scheme operation.

The scheme is being designed to ensure the FPC administrator's ability to collect and release funds in a timely and predictable way through a range of design options set out throughout this consultation. However, there are certain factors that may affect the smooth operation and resilience of the scheme in specific circumstances, including forecast error.

Forecasts are widely used across the energy sector and play an established role in the design and operation of government schemes, such as the CfD scheme. However, the government recognises forecasts are, by nature, an estimate and may not always align precisely with actual outcomes. Within the FPC supplier levy, forecast uncertainty may arise at two key points in the design of the scheme:

- Estimates of renewable electricity generation are used to determine the number of certificates issued to generators.

- Estimates of electricity supply are used to determine how the cost of those certificates is shared between suppliers.

Together, these are used to determine the total level of funding the FPC administrator is required to collect, and how this funding is proportionately allocated between suppliers, to purchase certificates over an obligation period.

Where there are significant discrepancies between estimates and actual outturn data, this could result in a mismatch between levy funds collected and payments due under the scheme. In particular, under-recovery could leave the FPC administrator temporarily short of funds, delaying the purchase of certificates and payments to generators. Addressing this possibility is, therefore, important to maintaining the core objectives of the FPC system, including ensuring a stable and predictable framework for participants.

The government recognises that existing scheme design features play an important role in addressing both forecast difference and supplier default. In particular, the reconciliation mechanism (discussed in the section above on **Supplier Reconciliation)** is intended to correct discrepancies between estimated and actual data. However, the mechanism will operate on a defined periodic basis. In certain circumstances, this means that the FPC administrator could experience a temporary shortfall of funds within a specific period, before the mechanism takes effect.

In such a scenario, the FPC administrator may not be able to wait until the next reconciliation cycle to meet payment obligations. The government is, therefore, considering two options to manage short-term cashflow pressures and ensure the FPC administrator can purchase certificates and make timely payments to generators:

Option 1 – Responsive Adjustment Mechanism

Under this option, where the FPC administrator identifies a prospective shortfall of funds, it would be able to apply a targeted adjustment to the levy charged to suppliers to cover the gap.

This approach would avoid the need to collect additional funds upfront beyond the main supplier levy. However, it could introduce greater volatility in levy changes during an obligation period. This may increase uncertainty for suppliers, creating cashflow pressures, and making it more difficult for suppliers to plan and manage their costs over time, which could ultimately be reflected in higher costs to consumers. Considering the significant trade-offs, the government is not minded to adopt this approach.

Option 2 – Reserve Mechanism

The government is minded to introduce a reserve charge within an FPC system. The reserve would provide a buffer to manage short-term funding shortfalls, supporting the FPC administrator’s ability to make timely payments to generators.

The wider FPC framework is designed to minimise the risk of under-recovery. The reserve would, therefore, operate as a stabilising measure, and the government anticipates the size of

a reserve to be proportionate and targeted, reflecting its role as a short-term mitigating measure rather than a primary source of funding.

This approach would require additional upfront contributions from suppliers but would provide greater stability and predictability in levy charges and scheme operation, aligning with the core aims of an FPC system. The use of a reserve mechanism is consistent with approaches adopted in other schemes, such as the CfD, where reserve funds support reliable generator payments and overall scheme resilience.

The purpose of the reserve is to address temporary funding shortfalls that could otherwise affect the FPC administrator's ability to purchase certificates and make timely payments to generators. The reserve would only be drawn on where such short-term shortfalls arise and would not alter who bears the costs within the scheme. As certificate purchase costs are met by suppliers through the levy, and the reserve would be used to support those payments, the government considers it appropriate that the reserve is also funded by suppliers.

The government recognises that introducing a reserve charge within the supplier levy would increase costs for suppliers in the near-term, and that these costs could ultimately be passed through to consumers. There is also consideration that, if the reserve were set at a level higher than necessary, suppliers could make contributions in excess of what is ultimately required, creating avoidable cashflow pressures.

The government is committed to avoiding unnecessary additional costs on suppliers that could weaken market resilience or increase volatility in consumer tariffs. In designing a reserve, the government is considering how to determine a level that is appropriate to the risks it is intended to address, and which supports scheme stability while minimising impacts on suppliers and consumers.

In considering how an appropriate level of reserve may be determined, the government is exploring a range of possible approaches, drawing on successful examples from existing schemes. For example, one approach could be to set the reserve as a percentage of expected certificate purchase costs, similar to the uplift currently applied to the expected number of ROCs, used to determine the total obligation. Another approach being explored is a probabilistic method, as used in the CfD scheme, where the reserve is calibrated to ensure the counterparty can meet its payment obligations across a defined set of scenarios (for example, in 19 out of 20 scenarios).

The government is also considering the ongoing treatment of the reserve, including whether to carry forward any unused amounts and using them to offset levy requirements in a subsequent period.

Questions

14. Are there any market implications as a result of needing to provide advance quarterly credit cover? Please provide reasoning to support your view.

15. **If credit cover were to be required, which mechanism(s) do you think would be appropriate? Please explain why you prefer your chosen option(s) and explain any alternative options. Options include**

    a. **Cash payments to the FPC administrator's bank account**

    b. **A standby letter of credit**

    c. **A first demand guarantee- covering both third party and parent company guarantees**

    d. **A trust account**

    e. **A mix of the above, either in fulfilling one quarter's requirement, or to use a different mechanism in a subsequent quarter**

    f. **Another option**

16. **To what extent do you agree or disagree with the proposal to introduce a reserve charge to the supplier levy to mitigate cashflow risks under an FPC system? Please provide evidence or reasoning to support your view.**

Mutualisation

This section presents options for how mutualisation could work in an FPC scheme and what the trigger to execute mutualisation could look like. Further details on design options will be presented in a second consultation.

Proposed approach

Under the FPC system, the proposed advanced supplier payment schedule (see the section above on **Supplier Settlement Schedule**) reduces exposure to supplier default compared to the RO. Nevertheless, a risk remains that a supplier could miss a quarterly levy payment and subsequently exit the market, leaving the FPC administrator temporarily short of funds until customers are transferred under the Supplier of Last Resort process. As the receiving supplier would only begin levy payments from the point of transfer, unpaid amounts from the failed supplier may be unrecoverable.

The government is, therefore, minded to introduce an FPC system that includes a mutualisation backstop. The intention is to ensure payment continuity to generators and to protect FPC administrator solvency in rare, high-impact default scenarios. This would be available only after other features of the proposed design, including advanced supplier levy collection, reconciliation, reserve, and credit cover (to recover funds from individual suppliers who have defaulted) had been unable to deal with the funding shortfall.

However, we recognise that uncertainty as to whether and when additional costs might be imposed on suppliers can affect tariff setting and may increase risk premia passed on to

consumers. For this reason, any mutualisation mechanism will be designed as a measure of last resort, used only where other protections are insufficient, and with clear rules.

Options for a mutualisation mechanism under FPCs

In developing options for mutualisation under FPCs, the government's intention is to design a mechanism that is both credible as a last-resort backstop, and also sufficiently constrained as to avoid undermining the wider predictability of the scheme. However, while key in ensuring the viability of the scheme in extreme cases, the government recognises that, as with the RO, a mutualisation mechanism could create sudden, unplanned cashflow requirements for suppliers. This may be particularly problematic for smaller suppliers and may increase the risk of knock-on stress in the market.

In practice, a post-default ad-hoc mutualisation request would typically involve a short notification period (around one month) before suppliers are required to begin making additional payments, followed by a recovery period of up to three months during which costs are collected in instalments. Depending on the point in the levy cycle at which a supplier default occurs, this could leave the FPC administrator exposed to a funding shortfall for up to around five months before losses are fully recovered. During this period, the FPC administrator would need to rely on funds collected over the preceding quarter to cover upcoming certificate purchases.

The CfD scheme provides relevant precedent for this approach, and mutualisation has not yet occurred. Under CfDs, supplier defaults on the levy are managed through a sequence of protections: (i) a reserve fund to stabilise cashflows, (ii) collateral provided by suppliers, and (iii) recovery of any remaining shortfall from all suppliers through revisions to the Electricity Supplier Obligation levy.

This constitutes a de facto mutualisation mechanism, ensuring uninterrupted payments to generators and protecting counterparty solvency. Adopting a similar multi-layered structure for FPCs would align the scheme with existing market architecture, support investor confidence, and provide a more resilient response to supplier failure than a purely ad-hoc or reserve-only model.

However, as a result of the impact on both suppliers and the FPC administrator, mutualisation should be viewed as a measure of last resort, to be used only in extreme circumstances.

The mutualisation trigger under FPCs

Mutualisation under the RO was designed to only partly recover a shortfall in the buy-out fund and, therefore, it does not map cleanly onto the risk profile of an FPC system. In particular, the RO's process only recovers funds between a lower threshold and a maximum ceiling, whereas under an FPC system, the entire shortfall in funds will need to be recovered. In addition, as noted above, there is no existing mutualisation process for the NIRO.

Rather than dealing with routine shortfalls, the mutualisation trigger under the FPC system will serve to govern escalation between layers of protection, ensuring that mutualisation is activated only where funding risks cannot be managed through advance levy collection, reconciliation, use of the reserve, or credit cover. This raises questions as to whether the trigger should be defined by reference to:

- Liquidity exposure (for example; the scale or length of delay in the purchase of certificates from generators);
- Reaching a percentage depletion of the reserve; or
- A fixed proportion of scheme costs.

The appropriate calibration of any trigger will need to balance payment continuity for generators with cost predictability and cashflow impacts for suppliers, recognising that advance settlement materially reduces both the likelihood and scale of mutualisation events.

We propose that in the case of supplier default resulting in unpaid levy amounts exceeding the chosen mutualisation trigger, the FPC administrator would issue an ad-hoc request to suppliers to recover the funds if other avenues, such as reclaiming costs via the defaulted supplier's credit cover, are insufficient. As with the RO, this cost would be split across the remaining suppliers on a pro rata basis. In order to accurately establish the additional cost to be borne by each supplier, a recalculation of quarterly supplier specific levies would be required. This process will need to carefully balance the need for the FPC administrator to recoup additional mutualisation funds ahead of upcoming certificate purchases and avoid untenable cost pressures on suppliers as they submit them.

Questions

17. Do you agree that an FPC scheme should include a last-resort mutualisation backstop to manage rare supplier default scenarios? If 'no', please explain why you disagree.

18. Do you agree or disagree that a mutualisation process should be introduced to Northern Ireland for FPCs? What are the market implications of your answer?

19. If mutualisation is retained under FPCs, which of the following options do you prefer as the trigger? Please explain why you prefer your chosen option, and explain any other options.

a. Liquidity exposure (such as a defined number of weeks where there is a risk of not purchasing certificates from generators, or a certain £ value of certificates at risk)

b. Reaching a percentage depletion of the reserve

c. A fixed proportion of scheme costs

d. Other (please specify)

e. Don’t know

Fixed Price Certificate pricing, issuance and payments

This section sets out the process and timing for the issue of Fixed Price Certificates to generators, the proposed monetary value of each certificate, and the inclusion of headroom.

Issuance of Fixed Price Certificates

Proposed approach

The government has considered the frequency for generators to submit their generation data, and to receive the subsequent certificates, under an FPC system. The options are daily, weekly, monthly, quarterly, six-monthly, or annually.

Daily or weekly meter readings would only be feasible if all RO generators were able to provide automated meter readings. However, current evidence suggests that many small generators could only provide manual readings, and providing that on a daily or weekly basis would impose too great a burden. At the opposite end of the range, quarterly, six-monthly or annual submissions could cause serious cashflow difficulties for generators above 50kW.

The RO currently requires monthly submission of data for generators above 50kW. We consider that continuing with this frequency for FPCs would not impose any additional burdens on those generators.

However, monthly submission of generation data may not be feasible for many microgenerators due to their low generation. They currently have the option under the RO to receive ROCs monthly or annually. Imposing a monthly submission of manual meter readings would increase the administrative burden for them and their agents. That supports retaining the option to allow micro-generators to choose annual submission of claims for certificates if they prefer that to a monthly schedule.

For consistency, and to ease the transition from the current RO, the government is proposing that the FPC system will use a similar system for issuing certificates as is used under the current RO for issuing ROCs. So, generators will provide the same level of detail regarding their generation that they currently provide, and to the same timetable. Once the FPC administrator has determined the number of certificates to be issued for that generation, the certificates will be issued to the generator, and their monetary value will be shown. It is expected that the certificates will be issued to a similar timetable as for the current RO. The generator will then present the certificates to the FPC administrator for purchase at their face value.

Under the FPC system, the FPC administrator will need to hold sufficient funds to promptly purchase all certificates. If the FPC administrator has queries on a generator's claim for certificates but the generator or their agent does not respond quickly to those queries, the FPC administrator will be left holding unused funds.

To deter delays, we propose to require generators or agents, to respond within a fixed deadline to requests for further information. That deadline will be determined by the FPC administrator. If the deadline is missed, the issue of all certificates to the generator (and not just the batch with the query) will be suspended until the query is answered to the FPC administrator's satisfaction. If the generator or agent continues to fail to respond satisfactorily, the suspension will continue for a maximum of 28 months from the month of generation that the queried certificate claim relates to. If still unresolved at that point, the certificates in the unresolved claim will be automatically rejected by the FPC administrator and no certificates will be issued for that claim. But the suspension on the issue of all other certificates will be lifted. The 28 months deadline matches the maximum possible time period from April generation to the last opportunity for a supplier to redeem the related ROCs under the current RO. Certificates for generation later in the scheme year have a shorter lifespan under the RO, but for the sake of simplicity, the same 28 months deadline will apply to all FPC claims, regardless of the month of generation.

In addition, measures will be needed to avoid the FPC administrator having to keep hold of funds for years to pay for certificates that have been issued to the generator or agent but have not yet been presented for purchase. We propose that once a certificate has been issued, it must be presented to the FPC administrator for payment no later than 25 months after the month of issue. It is expected that most generators will wish to present them much sooner than that. But any certificates not presented by the 25 months deadline will be automatically revoked by the FPC administrator and will not be purchased. That 25-month period matches the maximum possible time period under the current RO from the issue of ROCs for April generation (which are typically issued in July) to the last opportunity for a supplier to redeem the ROCs. It is three months shorter than the deadline for unresolved certificates to reflect the 2½ months typically taken to issue the certificates. Again, for simplicity, the deadline will apply to all certificates regardless of their month of issue.

We therefore propose the following detailed steps to issue fixed price certificates:

- Generators, or their agents, will submit their input and output electricity data to the FPC administrator via an online portal. Fuelled stations will also submit any additional data required for their type and size of station, in line with the current requirements under the RO.
- Generators above 50kW declared net capacity will submit their data to the FPC administrator monthly, within two months after the month of generation. Microgenerators (up to and including 50kW declared net capacity), or their agents, will be able to choose to submit their data annually if they prefer, with submission within two months of the end of the scheme year;

- Data submitted after the two-month deadline may be automatically rejected. But the FPC administrator will have the discretion to accept late data if it considers it is appropriate to do so;
- The FPC administrator will scrutinise the data for eligibility and accuracy under the same eligibility criteria as for the current RO;
- For approved generation, the same support bands as under the current RO will be applied to that generation (there is no intention to change the current support bands). That will give the number of certificates to be issued for that generation;
- The FPC administrator will aim to determine claims for certificates typically within 2½ months after the month of generation, or 2½ months after the end of the scheme year for microgenerators claiming annually. However, it may take longer than that; for example, when the FPC administrator has queries on the generator's claim. The exact target dates for approving certificates will be published by the FPC administrator in advance of each scheme year;
- If the FPC administrator has queries on a generator's claim for certificates, the generator, or their agent, will be given a fixed response deadline from receipt of the FPC administrator's query. If that deadline is missed, both the issue of all certificates to the generator and the purchase of all certificates from the generator (and not just the batch with the query) will be suspended until the query is answered to the FPC administrator's satisfaction;
- If the generator or agent continues to fail to respond satisfactorily to a query, the suspension will continue for a maximum of 28 months from the month of generation that the queried certificate claim relates to. If still unresolved at that point, the certificates in the unresolved claim will be automatically rejected by the FPC administrator and no certificates will be issued for that claim. But the suspension on the issue of all other certificates will be lifted. All suspended claims for certificates will then be processed. They may be issued in one or more batches, depending on how many months of data were suspended;
- Once the certificates have been approved, the FPC administrator will multiply the number of certificates by the fixed price per certificate. That will give the cash value of the support (the price to be paid for a certificate is discussed in the section below on **Establishing a Fixed Price Certificate value**);
- Information including the amount of approved generation, the support band used, the number of approved certificates, their monetary value etc, will be shown in the generator's online portal account;
- The generator, or their agent, should then present the certificates to the FPC administrator, via the on-line portal, for purchase at their face value;
- Certificates should be presented promptly for payment. Any certificates not presented by 25 months after the month of issue will be automatically revoked by the FPC

administrator and will not be purchased. The 25-month deadline also applies from the date of issue of any previously suspended certificates;

- If presented within their permitted lifespan, the FPC administrator will purchase the certificates by paying their monetary value straight to the generator or agent. (The timing of the purchases by the FPC administrator is discussed in the section below on **Generator Payment Schedule**);
- Once the generator has been paid, the FPC administrator will publish on a public database the amount of approved generation for the specified month, the support band used, the number of approved certificates, and their monetary value, alongside information that includes the name, location and technology of the generating station etc. Further information on the public database is in the section below on **Retained RO Elements**.

Questions

20. Do you agree with the proposed approach above for issuing fixed price certificates? If 'no', please explain which aspects you disagree with and why.

Establishing a Fixed Price Certificate value

Proposed approach

Under an FPC system, RO generators/agents will be paid directly by the FPC administrator rather than by suppliers or traders, and there will be no trading of certificates. They will be paid a fixed price per certificate issued, so there will be a uniform price for all generators, rather than the current variation in price depending on individual contractual arrangements. Generators will also be guaranteed to be paid for all certificates that have been issued (and are not time expired), reducing the risk of being left with unsold and worthless certificates as can occur under the current RO.

We recognise generators and investors expect consistency in certificate value between the RO and the FPC system. To support that consistency and to ease the transition from the current RO to the FPC system, we propose that the fixed price for a certificate in the first scheme year of FPCs will take the buy-out price under the last scheme year of the RO at the starting baseline price. That price will then be adjusted for inflation annually using the CPI. The adjustment for inflation would need to use inflation figures from the previous scheme year (April to March) rather than the calendar year ending three months before the scheme year in question, as is the case under the current RO. That is because the price for an FPC certificate must be set in the summer before the RO scheme year in question. Taking the previous calendar year's inflation figure will use an out-of-date figure.

The current value of a ROC often includes a proportion of recycled buy-out and/or late payment funds. These mechanisms will not feature in an FPC system, and the government is therefore seeking views on whether this value should be replicated through an uplift in the fixed price value of a ROC, and if so, to what extent. This is explored further in the section below on **Headroom and Fixed Price Certificates.**

In summary, the following steps would therefore determine the price for a certificate under an FPC system:

- The fixed price for the first scheme year of the FPC system will take the ROC buy-out price in the last scheme year of the existing RO as the starting baseline price;
- That price will then be adjusted in line with the CPI, using the Office for National Statistics (ONS)'s outcome CPI figure from the previous April to March RO scheme year;
- A percentage generator uplift may then be applied to that price (subject to proposals explored in the section below);
- The price of a certificate will be published by the FPC administrator before the start of each RO scheme year, alongside the publication of the total supplier levy;
- The price for a certificate in year 2 of the FPC system will take the year 1 FPC price, adjust it in line the ONS's outturn CPI figure for year 1, and apply the percentage

generator uplift. That process will continue in each subsequent scheme year, taking the previous scheme year's price and adjusting it;

- The fixed price will apply uniformly across the April to March RO scheme year in question. That means that a certificate for generation in April of year 1 of FPCs will receive the same price as a certificate for generation in March of year 1;
- Where certificates are issued after the RO scheme year that they relate to, the price paid for them will be the price applicable for the year of generation. For example, certificates for generation in, say, March of year 1 of FPCs will not be issued by the FPC administrator until June (in line with the current timeframe for issuing ROCs under the RO). Those certificates for March generation will be purchased by the FPC administrator at the fixed price for year 1, not the price for year 2.

Questions

21. To what extent do you agree or disagree with the proposed approach above to pricing a certificate? If you disagree, please explain which aspects you disagree with and why.

Headroom and Fixed Price Certificates

Headroom under the RO

Since 2010/11, the total obligation has been set using forecast ROC issuance uplifted by 10% headroom. This headroom achieves three objectives:

- To ensure demand for ROCs exceeds supply: By setting the obligation above expected ROC issuance, the scheme ensures that suppliers, in aggregate, need more certificates than generators are expected to produce. This avoids the risk of oversupply, which would otherwise depress ROC prices;
- To maintain ROC prices: Because ROCs are traded, suppliers compete to acquire them. The uplift creates an intentional shortage of ROCs, supporting a stable market value for certificates rather than allowing prices to collapse; for example, in periods where generation is higher than forecast;
- To provide certainty and support the functioning of the scheme: If some suppliers are unable to acquire sufficient ROCs, they must make a buy-out payment to cover the shortfall of certificates. The buy-out fund is recycled to suppliers at the end of the obligation period, in proportion to the number of ROCs they presented. This recycling mechanism provides an incentive for suppliers to purchase and present ROCs, supporting a degree of revenue certainty for generators.

Independent research carried out for DESNZ in 2020 and 2024 indicates that suppliers typically pass through some or all of the recycled value to generators, often as part of commercial arrangements under which generators accept ROC prices below the buy-out price. This research suggests that at least three quarters of the ROC market is under PPAs, with suppliers typically paying generators 90-98% of the buy-out price, plus 90-100% of the redistributed buy-out and late payment funds. Where generators are affiliated with a supplier, the supplier is likely to pay a higher proportion of the buy-out price than under a PPA. Where suppliers buy ROCs via auctions, they are likely to pay close to, or even slightly above, the buy-out price, on the assumption of receiving, and keeping for themselves, the redistributed amounts.

These market dynamics mean that generators receive both the ROC sale price and an additional uplift associated with recycled buy-out payments. However, this uplift does not correspond directly to the 10% headroom applied to the obligation. Instead, actual revenues vary depending on market conditions and commercial arrangements.

Headroom under an FPC system

Under an FPC system, the market dynamics underpinning the headroom will change. Generators will no longer rely on the purchase of ROCs in a traded market, and suppliers would no longer need to be incentivised to acquire certificates to meet their obligation. Instead, suppliers will fund the support for renewable electricity generation through a levy linked to their

electricity supply, set on the basis of expected renewable generation, while generators would be offered a fixed, centrally set price, with revenues dependent on the electricity they generate.

Currently, headroom is applied to the supplier obligation (a volume lever), and its impact on generator revenues depends on market dynamics and commercial arrangements. By contrast, under an FPC system any replication of the value that headroom adds to the price of a ROC would need to be applied directly to the certificate price (a price lever), and would therefore translate more directly and uniformly into generator revenues across the scheme.

While headroom is no longer required to support market functionality under an FPC system, the scheme must still manage volume and cashflow risk, which will largely be mitigated through other design elements of the scheme. For example, the proposal to implement advanced supplier levy settlement, discussed in the section above on **Supplier Settlement Schedule**, aims to ensure the FPC administrator can collect sufficient funds to purchase certificates. The reconciliation mechanism, discussed in the section above on **Supplier Reconciliation**, will play a crucial role in correcting discrepancies and bring generator and supplier payments gradually in line as data availability/accuracy improves. In certain circumstances, the reserve discussed in the section above on **Maintaining FPC Administrator Solvency** could also play a role to manage the level of volume risk if sufficiently minor.

Notwithstanding the changes described above, the government recognises that, under the RO, generator revenues are determined through private commercial arrangements. As a result, generators currently receive different combinations of ROC price and recycle value, leading to a wide range of revenue outcomes across the scheme. This means that no replacement mechanism can precisely replicate existing arrangements, and that references to maintaining support should be understood to be at an aggregate level across the scheme.

Responses to the 2023 Call for Evidence, alongside internal modelling of current arrangements have improved the government's understanding of the role headroom plays in supporting generator revenues under existing arrangements. In particular, evidence suggested that removing headroom without any replacement could impact investor confidence where revenue forecasts has previously included the additional revenue, noting that these funds are reliant on the specific commercial arrangements in place and are inherently challenging to predict given the fluctuating nature of the buyout fund.

Proposed approach

Consistent with the position set out in the government response to the RO inflation indexation consultation[7], the government does not intend to fully remove the effect of headroom under a future FPC system. The government proposes replacing the revenue effect currently associated with headroom via the application of an uplift to the fixed price of certificates under

[7] Renewables Obligation scheme: changes to inflation indexation - UK and devolved governments response

an FPC system, recognising that this would operate differently and result in more uniform outcomes across generators.

This means that all generators would receive a uniform fixed price and uplift. While this simplifies the scheme and provides greater predictability, it also means that the uplift cannot replicate the diversity of existing arrangements and its impacts will vary across generators depending on their current arrangements. The level of any price uplift applied to Fixed Price Certificates will be a key determinant of total costs of the scheme in future; costs that are ultimately paid for by consumers. The traded nature of the RO and variable value of a ROC compared to a uniform FPC in future also means that it is difficult to precisely quantify the impact of different price uplift scenarios, as this will depend on the variation in pricing across the current ROC market. However, we wish to strike an appropriate balance between reducing the cost burden on consumers while maintaining strong investor confidence in the UK's renewable energy sector - sending a clear signal that the UK remains committed to ensuring a stable and transparent regulatory environment.

Considerations

The government is therefore considering a range of potential uplift levels, with effects illustrated by the modelling of aggregate scheme costs and revenues (see Analytical Annex). These scenarios are not intended to represent preferred or exhaustive options. Rather, they are designed to support engagement with stakeholders by demonstrating how different uplift levels could translate into indicative price and cost outcomes.

In developing these scenarios, the government has considered their effects on aggregate levels of support under the RO and overall scheme costs relative to current arrangements. However, in practice the impacts on individual market participants will vary depending on factors such as generation profile and existing commercial arrangements.

The estimates presented are subject to significant uncertainty, reflecting both the complexity of the RO and declining generation as the scheme winds down. The modelling therefore relies on a set of simplifying assumptions, which are set out in the Analytical Annex.

We are seeking evidence from stakeholders to improve our understanding of these impacts and refine the assumptions underpinning our modelling. In particular, we welcome views and evidence on how different uplift levels may affect revenues, costs, and risk exposure across different types of generators and commercial arrangements.

The analysis suggests that different uplift levels could have materially different effects on both scheme costs and levels of support. For example, modelling indicates that an uplift of 10% could increase total scheme costs by around £1.9bn (2024 prices, undiscounted) in total between 2028/29 and 2036/37 relative to current arrangements, with a corresponding increase in aggregate generator revenues. In contrast, a lower uplift, for example 2%, could reduce total scheme costs by around £0.9bn relative to current arrangements, although this would be associated with lower support in aggregate and may have uneven impacts across generators.

Modelling suggests that an uplift of around 4% could reduce scheme costs while maintaining aggregate generators revenues at a broadly similar level to current arrangements. However, these results are indicative and subject to uncertainties described above.

The government recognises that lenders and private investors play an important role in supporting renewable generation under the RO, and that confidence in the stability and predictability of support arrangements is an important consideration for investment decisions. The government remains committed to supporting RO generators for the remainder of their eligibility period, and to ensuring that the transition to an FPC system is implemented in a way that provides clarity, manages risk, and supports a smooth wind-down of the scheme. This approach reflects our wider commitment to ensuring a stable and transparent regulatory environment so that the UK retains its reputation as a safe and predictable investment environment for renewables.

Questions

22. Do you agree with the Government's proposal to implement an uplift to the price of an FPC to replicate the effects of headroom?

23. How significant would the level of uplift be in determining your revenues under an FPC system? Please explain your answer and provide evidence, including any quantitative analysis of the impact of different levels and the assumptions underlying that analysis.

24. How likely is the level of uplift to influence future commercial and investment decisions? Please explain your answer and provide evidence, including any quantitative analysis and the assumptions underlying that analysis.

25. To what extent do the government's analytical approach and modelling assumptions (set out in the Analytical Annex) reflect your understanding of current commercial arrangements and likely outcomes under an FPC system? Please explain your answer, including where your own analysis or modelling uses similar or different assumptions, and how this affects the resulting impacts.

Generator Payment Schedule

Current approach

Research suggests that more than three quarters of the ROC market is under a PPA and those typically pay generators in arrears on a monthly or quarterly basis. Generators affiliated to suppliers are likely to be paid at a similar frequency. ROCs are also bought at auctions throughout the year, or in one go during the summer (i.e., before the 1 September deadline for suppliers to comply with their obligation by submitting ROCs to Ofgem). Most ROCs for microgenerators are issued annually, typically in June following the RO scheme year. In all cases, it is likely that the generator is paid within a month of transferring the ROCs to the buyer, whether that transfer occurs monthly, quarterly, annually, or at ad-hoc intervals.

Proposed approach

Generators have an expectation of when they will be paid under the current RO. To avoid adversely affecting their cashflows, the intention is that no generator will wait any longer to receive payment under the FPC system than they currently do for ROCs under the RO.

We propose in the earlier section on **Issuance of Fixed Price Certificates** that certificates would be issued monthly in arrears, with the option of annual issues for microgenerators. The bulk of certificates are expected to be issued by the middle of each month, although where there are queries with the claim, the issue will be delayed. As with the current RO, all purchases of certificates from generators will be made in arrears, once the relevant generation has occurred, it has been checked for eligibility by the FPC administrator, and the certificates have been issued. Payment in advance of the certificate being issued is not acceptable to the government. That is due to the risks of paying for ineligible or non-existent generation and the subsequent difficulties in reclaiming the funds. So, the options for the FPC administrator to purchase certificates from generators are annually, six-monthly, quarterly, monthly, weekly, or daily in arrears.

The majority of generators above 50kW are currently typically paid monthly or quarterly under the RO. Moving all generators to a quarterly, six-monthly or annual purchase schedule could cause serious cashflow difficulties for those used to more frequent purchase of their ROCs. We therefore propose that the FPC administrator will purchase certificates from generators (or their agents) on a monthly basis. The precise details of exactly when the payments will be made will be decided by the FPC administrator. But there will be a statutory duty to pay no later than 20 working days from the date the generator presents the certificates to the FPC administrator for purchase. Micro-generators will receive payment for their annually issued certificates in line with the same 20 working days deadline. We recognise that will result in some generators receiving more frequent purchases than they currently do. But it would be too administratively complex to individually tailor each generator’s payment frequency to match their current frequency.

In addition, this will mean that all generators will receive full payment for their certificates sooner than they currently do. That is because there will be no redistributed buy-out and late payments funds under the FPC system, and generators will receive the full fixed price shortly after their certificates are issued. Currently, generators can wait between 21 months (from April generation at the start of the RO scheme year) and 10 months (from March generation at the end of the RO year) to receive their full payment.

"Pay When Paid" Principle

Various measures are set out in the other sections of this document which aim to ensure the FPC administrator always has sufficient funds available to purchase certificates by the 20-working day deadline, even in the event of supplier default. However, there may be occasions when there is a temporary shortage of funds. In those exceptional circumstances, the purchase of certificates will be made as soon as possible after additional funds have been received. This mirrors the "pay when paid" provisions in the Contracts for Difference scheme, which protects against legal challenge in the event of delayed payments to generators due to a temporary shortage of funds.

So, we propose the following detailed steps for paying generators for their certificates:

- Once the certificates have been issued to the generator, the generator or their agent will present them for purchase to the FPC administrator via an on-line portal and by the 25-month deadline outlined in the section above on **Issuance of Fixed Price Certificates**;
- If within their permitted lifespan, the FPC administrator will then pay the cash value of the certificates straight to the generator or their agent, by bank transfer;
- That payment will be made no later than 20 working days from the date the generator presented the certificates to the FPC administrator for purchase;
- If the FPC administrator has insufficient funds to purchase the certificates, the purchase will be made as soon as possible after additional funds have been received.

Questions

26. Do you agree with the proposed approach for payments to generators? If 'no', which aspects do you disagree with and why

Transition to FPCs

This section sets out our proposals for protecting ROC value during the transition to FPCs. It focuses on two key challenges: how to support supplier liquidity during Q1 of FPC year 1; and how to protect the value of ROCs that are not traded to suppliers before the final buy-out process. The transition to FPCs would happen no sooner than scheme year 2028/2029.

Timing of the transition from RO to FPCs

FPCs will not be implemented any sooner than April 2028. For illustrative purposes, this section uses the date of April 2028 as the implementation date for FPCs so readers can visualise proposals. Dates used are illustrative, and a final decision for FPC implementation timing has not been made, beyond agreeing it will be no sooner than April 2028.

In an illustrative April 2028 implementation scenario, the final scheme year for the RO would run from 1 April 2027 to 31 March 2028. Suppliers' deadlines for compliance with the 2027-28 scheme year would remain as 31 August 2028 for submitting buy-out fund payments, 1 September 2028 for submitting ROCs, and 31 October 2028 for late payments. The buy-out and late payment funds would be redistributed in November and December 2028, respectively.

The first scheme year of the FPC system would run from 1 April 2028 to 31 March 2029. So, the RO and the FPC system would run concurrently for much of 2028. Leaving the RO and the FPC system to operate separately will avoid interweaving two complex systems. We, therefore, intend to maintain a clear separation between the RO and FPCs.

The two sections below go into further detail about proposals for FPC year 1 Q1 payments and the process of guaranteeing the value of ROCs during the transition.

Q1 Payments in Year 1

As set out in the earlier section on **Impact on suppliers,** we propose that suppliers pay their FPC levy quarterly in advance. The intention is that the total supplier levy will be set in advance of each scheme year, to allow suppliers to factor the cost into their electricity tariffs for the coming year. That will allow them to collect the money from their consumers in advance of each quarterly levy settlement date. However, it may not be possible to give sufficient notice to allow suppliers to collect in advance the money needed to pay the first quarter of the first year of FPCs (Y1-Q1). We, therefore, propose to introduce special arrangements for year 1 only.

The FPC administrator will not purchase any FPCs from generators in Y1-Q1 as certificates for April to June generation will not have been issued yet (certificates for April, May, and June generation will be issued in July, August, and September, respectively). During that April to June period, generators will still be selling to suppliers their ROCs relating to January to March

generation under the last scheme year of the RO. So, in the early part of Y1-Q1 of FPCs, the FPC administrator only needs funding to meet their admin costs and any transitional costs that may be needed. However, they will need to build up certificate funds during the latter part of Q1, so they are ready to purchase the first certificates from generators in July.

To give suppliers time to collect the Q1 levy funds from their consumers, we propose that:

- The Y1-Q1 levy is split into 2 levy payments, covering April & May, and June;
- The April levy is only for the FPC administrator's Q1 admin costs and any transitional costs. The May levy covers the FPC administrator's admin costs for Q2 and the funds needed to purchase certificates in July and August (including any reserve and any transitional costs). Both the April and May levies are paid together in the second week of June. That allows suppliers time to collect two months of funds from consumers (in April and May), and GB and NI suppliers to receive three months of support from the UK and Northern Ireland governments respectively under the schemes to reduce RO costs for domestic consumers (which is paid within 5 working days of the start of each month under the GB scheme) before having to make their first levy payment;
- The June levy covers the FPC administrator's admin costs for Q3, and the funds needed to purchase certificates in September and October (including any reserve and any transitional costs). It is paid in the second week of July, after suppliers have collected a further month of funds from consumers (in June), and suppliers have received a further month of support (in July) under the schemes to reduce RO costs for domestic consumers;
- The levy for Q2 covers the FPC administrator's admin costs for Q4, and the funds needed to purchase certificates in November to January (including any reserve and any transitional costs). It is paid in the second week of October, after suppliers have collected a further three months of funds from consumers (in July to September), and suppliers have received a further three months of support (in August to October) under the schemes to reduce RO costs for domestic consumers;
- The levy for Q3 will cover the FPC administrator's admin costs for Y2-Q1, and the funds needed to purchase certificates in February to June (including any reserve and any transitional costs). It is paid in the second week of January;
- The levy for Q4 will cover the FPC administrator's admin cost for Y2-Q2, and the funds needed to purchase certificates in July to September (including any reserve and any transitional costs). It is paid in the second week of April.

That schedule spreads out the levy bills for year 1 so the Q1 payments are light compared to Q2 to Q4, giving suppliers time to collect the required funds from consumers. For year 2 onwards, levy payments will follow the quarterly in advance schedule (as set out in the section above on **Supplier Settlement Schedule**) as suppliers will have already paid the FPC administrator the funds needed for Q1 and Q2.

The above process is summarised in the table below. The first column shows the four quarters of the first year of FPCs. The second column shows the 12 months of the April to March year. The third column shows when suppliers receive funds from consumers paying their electricity bills. The fourth column shows when support is paid under the schemes to reduce RO costs for domestic consumers. The fifth column shows when suppliers must pay the FPC levy to the FPC administrator. The sixth column explains what each levy payment is used for.

Table of levy payments for the first year of the FPC system and the source of funds

Quarter	Month	Consumer funds	Government support	FPC levy payment	What is covered by levy payment
Q1	Apr	By end of Apr	Within 5WD of 1 Apr	2nd week of Jun	FPC admin and any transitional costs for Q1 (Apr – Jun)
	May	By end of May	Within 5WD of 1 May		FPC admin and any transitional costs for Q2 (Jul - Sep), and certificate & reserve for FPCs purchased in Jul & Aug
	Jun	By end of Jun	Within 5WD of 1 Jun	2nd week of Jul	FPC admin and any transitional costs for Q3 (Oct - Dec), and certificate & reserve for FPCs purchased in Sep & Oct
Q2	Jul	By end of Jul	Within 5WD of 1 Jul	2nd week of Oct	FPC admin and any transitional costs for Q4 (Jan – Mar), and certificate & reserve for FPCs purchased in Nov – Jan
	Aug	By end of Aug	Within 5WD of 1 Aug		
	Sep	By end of Sep	Within 5WD of 1 Sep		
Q3	Oct	By end of Oct	Within 5WD of 1 Oct	2nd week of Jan	FPC admin and any transitional costs for Y2-Q1 (Apr – Jun), and certificate &
	Nov	By end of Nov	Within 5WD of 1 Nov		

	Dec	By end of Dec	Within 5WD of 1 Dec	2nd week of Jan	reserve for FPCs purchased in Feb – Jun
Q4	Jan	By end of Jan	Within 5WD of 1 Jan	2nd week of Y2 Apr	FPC admin and any transitional costs for Y2-Q2 (Jul - Sep), and certificate & reserve for FPCs purchased in Jul – Sep
	Feb	By end of Feb	Within 5WD of 1 Feb		
	Mar	By end of Mar	Within 5WD of 1 Mar		

Delayed, issued or untraded ROCs during transition

We are aware that, on occasions, it can take some time for Ofgem to obtain the necessary information from generators to validate their claims for ROCs under the RO. ROCs may also be delayed if they are suspended whilst Ofgem carry out a compliance investigation into the generator. That means that ROCs may be issued many months after the month of generation. Normally, late issued ROCs would be banked, either by the generator or supplier, and used towards the following scheme year's obligation, but that will not be possible in the last scheme year of the RO. As certificates are not traded under the FPC system, banking is not an option from the final April of the RO scheme year onwards so these ROCs may remain untraded. This also applies to ROCs that have been issued to generators but not traded to suppliers prior to 1 April of the first FPC scheme year which otherwise could have been banked under the RO. The number of affected ROCs is dependent on the approach industry takes to managing PPAs in response to FPC implementation and so will be kept under review.

So, our aim is to ensure these unpurchased, or transitional, ROCs retain their value. Using 1 April 2028 as an illustrative implementation date, these transitional ROCs are those that remain either unissued, or unredeemed by suppliers, by 1 September 2028 (what would be the ROC compliance deadline for the last scheme year of the RO in this scenario). Those ROCs may be:

- As yet unissued as they were still being processed by Ofgem. The generator will have received no money at all for the ROCs;
- Issued to generators but which were unable to be traded to suppliers due to oversupply or the absence of banking. The generator will have received no money at all for the ROCs;
- Held by generators as they were issued too late to sell to suppliers. The generator will have received no money at all for the ROCs;

ROCs held by suppliers who paid the full price to generators with no agreement to pass on all or part of the redistributed buy-out and late payment funds are not considered to be transitional ROCs. That is because the supplier has already received the cost of the ROCs from consumers through their electricity tariffs, and the generator has already been paid in full.

To protect transitional ROCs, we have considered implementing a further scheme year for the RO, coinciding with FPC year 1. That scheme year would be solely to capture any untraded or delayed issued ROCs relating to generation that occurred no later than 31 March (generation from 1 April onwards would fall under the FPC system). However, we are not proposing to do this, as it would be impractical to set that obligation before Ofgem had established how many transitional ROCs there could be to inform the calculation. An additional scheme year would only be functional if implemented for year 2 of FPCs which would delay payment to generators for these transitional ROCs.

As a result, we propose an alternative: to increase the FPC levy to pay for transitional ROCs. Transitional ROCs would be tracked using generation timestamps and valued at the buy-out price set for their scheme year of generation (for example, 2026-2027 or 2027-2028), so eligible generators are not financially disadvantaged due to any process delays with issuing or redeeming ROCs. No ROCs issued for generation up to 31 March of FPC year 1 will, therefore, lose any value. However, transitional ROCs will be subject to the same 25 months deadline for presentation to the FPC administrator for purchase, as set out for certificates in the section above on **Issuance of Fixed Price Certificates**. Any transitional ROCs not presented by 25 months after the month of issue will be automatically revoked by the FPC administrator and will not be purchased.

The number of transitional ROCs forecasted would be uplifted by a percentage to allow for projection variation to increase confidence that all transitional ROCs will be covered by the levy uplift. If the forecast proves to be too high, this would be deducted from the following levy payment for suppliers in a reconciliation process. More details on this process and its interaction with levy setting will be published in a later consultation.

Questions

27. Do you agree with the proposed special arrangements for Year 1 levy payments? If 'no', please explain which aspects you disagree with and why.

28. As a supplier, if you receive a share of the redistributed buy-out and late payment funds, what do you usually do?

- **a. Pay a share to generators only on ROCs you have already redeemed**
- **b. Pay a share to generators on all ROCs purchased, regardless of whether or not you have already redeemed them**
- **c. Do not pay a share to generators on any ROCs**
- **d. Not applicable – do not receive a share of the redistributed payments**

29. As a supplier, will the introduction of FPCs change your usual approach to meeting your obligation in the last year of the current RO?

30. Do you agree with the proposal for transitional ROCs? If 'no', please explain which aspects you disagree with and why.

31. Do you believe that there are alternative options for transitional ROCs that should be considered? If 'yes', please explain what they are.

32. As a supplier, how concerned are you for your cashflows during the transition period? If concerned or unsure, please explain what your concerns are.

33. As a generator, how concerned are you for your cashflows due to unpurchased ROCs during the transition period? If concerned or unsure, please explain what your concerns are.

Retained RO Elements

The transition to FPCs will require a change to some of the fundamental aspects of the existing RO scheme. However, in order to retain as much consistency as possible for stakeholders, the government will retain several core elements of the RO as we transition into the new system. Some of these are retained elements are mandated by section 32Y of the Electricity Act 1989. Others are policy driven to provide certainty for industry

Compliance and Enforcement

For suppliers, compliance with their obligation under the RO is an annual process. Suppliers must submit ROCs and/or make buy-out payments by the relevant statutory deadlines. Late payments are subject to an interest charge. Ofgem monitors submissions via the Renewable Electricity Register (RER) and verifies whether each supplier has met its obligation in full. This structured process provides a clear and transparent mechanism for assessing compliance across all obligated suppliers.

If suppliers fail to comply and the default reaches a specified threshold under the RO or the ROS, a mutualisation process is triggered, under which the outstanding amount is recovered from the other obligated suppliers. Although the defaulting supplier is not part of the mutualisation process, they may be subject to enforcement action by Ofgem. Where a supplier has ceased trading, Ofgem will generally seek to recover the missing payments from the supplier’s administrator. This mechanism ensures the financial integrity of the scheme.

Only generating stations that are accredited under the RO are eligible to receive ROCs. Ofgem has an explicit responsibility for accrediting stations, issuing ROCs, and revoking or withholding certificates where necessary to ensure compliance with scheme rules.

Suspension of generators’ support is typically used as an interim regulatory tool where Ofgem has identified potential non-compliance but has not yet reached a final determination. In practice, this usually involves suspending the issue of ROCs while Ofgem investigates. During this period, the generator is given the opportunity to provide further evidence or rectify identified issues. Suspension, therefore, operates as a protective mechanism, preventing further subsidy payments while allowing due process to take place.

In cases of serious or persistent non-compliance, Ofgem has access to a broader set of statutory enforcement powers. These include, amongst others, the ability to open formal enforcement investigations, issue enforcement orders, and impose financial penalties, where appropriate. Together, these measures ensure that the RO is underpinned by a robust and credible enforcement framework, supporting consistent compliance, and long-term confidence in the scheme.

Under an FPC system, the government intends to retain a robust compliance and enforcement framework, reflecting that certificates will continue to be issued and that suppliers will have a statutory obligation to pay a levy to fund the purchase of certificates.

For generators, we expect the existing approach of linking compliance to certificate issuance to remain relevant. Where a generator fails to meet scheme requirements (for example, where information is not provided, eligibility conditions are not met, or there are unresolved queries on a claim), the FPC administrator may suspend, withhold, or revoke certificates, consistent with the RO's approach and due process.

For suppliers, enforcement would focus on ensuring that levy payments are made in full and on time, to protect the FPC administrator's ability to purchase certificates and pay generators. Where levy payments are not made by the required deadlines, the FPC administrator will apply late payment charges and/or interest on overdue amounts. Further protections (including credit cover and mutualisation to deal with supplier default are set out in the section above on **Maintaining FPC Administrator Solvency**.

The government is considering which body is best placed to carry out compliance monitoring and enforcement functions under the FPC framework, as part of wider work to establish the scheme's governance and delivery arrangements.

Public Registers

The current RO relies on a statutory system of registers to give legal effect to the scheme, support compliance, and ensure transparency. Currently the public register for the RO is maintained by the scheme administrator, Ofgem, through the RER. The RER keeps records of whether electricity generation is eligible under the RO, how many ROCs exist, who holds them, and whether they have been used to meet an obligation. In practice this means the RER:

- Underpins market integrity by enabling ROCs to function as credible, tradable compliance instruments;
- Supports compliance and enforcement by providing the basis on which suppliers' obligations are calculated and discharged;
- Supports transparency and accountability by allowing information about the operation of the scheme to be made publicly available, enabling scrutiny by Parliament, industry participants, and the public.

The information contained within the Register is a mixture of publicly accessible and controlled data. Information includes high-level details of accredited generating stations, aggregated data on ROC issuance by period and technology, and supplier compliance outcomes, which are published through reports and datasets derived from the register.

More granular data—such as detailed metered output and station-level operational records—is retained within the Register and is accessible only to the relevant account holders and the scheme administrator.

In order to ensure a smooth transition to FPCs, the government intends to replicate the basic functions of the existing register system within the scheme's IT function. This will provide industry with continuity over data submission and access, noting that in some areas amendments may be required to reflect the direct payment model of the FPC scheme.

Retaining this register system is made possible through preserving certificate issuance and purchase as the method for determining generator income, which will itself help to maintain consistency throughout the transition.

We also wish to retain high levels of transparency and accountability under the new system. This will be reflected through the ongoing publication of reports and datasets of publicly available information equivalent to what is provided under the current RO. Again, some amendments will be required to ensure documentation reflects the structure of the new scheme; i.e., there will be no new data on redistributed buy-out funds, and supplier obligations will be expressed in pounds sterling as opposed to the volume of ROCs submitted.

Consultation questions

1. **To what extent do you agree or disagree that implementing FPCs using a Model 1 approach is the best option or balance? If you disagree, please briefly explain why.**
2. **What are the implications for your organisation of implementing this transition no earlier than scheme year 2028/2029? Please indicate the main types of impacts (e.g. cost, systems, processes), whether these would be primarily one-off or ongoing, and the lead-in required to implement them.**
3. **Which of the following areas do you expect to be materially affected by the introduction of FPCs? Select all that apply.**
    a. **Power Purchase Agreements (PPAs)**
    b. **Tariff-setting and forecasting (suppliers)**
    c. **Revenue certainty and financing (generators)**
    d. **Cashflow or working capital management**
    e. **Operational or settlement processes**
    f. **Other (please specify)**
4. **Would you prefer a later implementation of FPCs? If 'yes', please explain your rationale and how this may affect the transition's impact on your organisation, including relevant evidence.**
5. **Are these impacts consistent across different timelines for delivery? If 'no', please explain how they differ.**
6. **To what extent do you agree or disagree that calculating and publishing the supplier levy ahead of each FPC period will provide sufficient clarity and predictability to suppliers?**
7. **To what extent do you agree or disagree that removing the need to calculate and publish an RO obligation level by 1 October 2027 preceding the first FPC period will be helpful in providing clarity and predictability to suppliers? Please provide evidence or reasoning to support your view.**
8. **To what extent do you agree or disagree that suppliers should continue to fund the administrative costs of the scheme? Please provide evidence or reasoning to support your view.**
9. **To what extent do you agree or disagree that differences in the treatment of suppliers in Great Britain and Northern Ireland should be reflected in the supplier levy calculation?**

10. What evidence can you provide on the reliability of forecasts and historic data used to set estimates for supplier processes (for example, estimates of electricity supply used to set tariffs or manage risk)?

11. Which of the proposed approaches would be most appropriate for calculating the supplier levy, based on the information provided? Please explain your reasoning, including any uncertainties or assumptions.

12. Do you agree with the proposed approach for the supplier payment schedule above? If 'no', please explain which aspects you disagree with and why.

13. Do you agree with the proposed approaches for reconciliation above? If 'no', please explain which aspects you disagree with and explain your reasoning.

14. Are there any market implications as a result of needing to provide advance quarterly credit cover? Please provide reasoning to support your view.

15. If credit cover were to be required, which mechanism(s) do you think would be appropriate? Please explain why you prefer your chosen option(s) and explain any alternative options. Options include

- **a. Cash payments to the FPC administrator's bank account**
- **b. A standby letter of credit**
- **c. A first demand guarantee- covering both third party and parent company guarantees**
- **d. A trust account**
- **e. A mix of the above, either in fulfilling one quarter's requirement, or to use a different mechanism in a subsequent quarter**
- **f. Another option**

16. To what extent do you agree or disagree with the proposal to introduce a reserve charge to the supplier levy to mitigate cashflow risks under an FPC system? Please provide evidence or reasoning to support your view.

17. Do you agree that an FPC scheme should include a last-resort mutualisation backstop to manage rare supplier default scenarios? If 'no', please explain why you disagree.

18. Do you agree or disagree that a mutualisation process should be introduced to Northern Ireland for FPCs? What are the market implications of your answer?

19. If mutualisation is retained under FPCs, which of the following options do you prefer as the trigger? Please explain why you prefer your chosen option, and explain any other options.

a. **Liquidity exposure (such as a defined number of weeks where there is a risk of not purchasing certificates from generators, or a certain £ value of certificates at risk)**

b. **Reaching a percentage depletion of the reserve**

c. **Exposed as a fixed proportion of scheme costs**

d. **Other (please specify)**

e. **Don't know**

20. **Do you agree with the proposed approach above for issuing fixed price certificates? If 'no', please explain which aspects you disagree with and why.**

21. **To what extent do you agree or disagree with the proposed approach above to pricing a certificate? If you disagree,** please explain **which aspects you disagree with and why**.

22. **Do you agree with the Government's proposal to implement an uplift to the price of an FPC to replicate the effects of headroom?**

23. **How significant would the level of uplift be in determining your revenues under an FPC system? Please explain your answer and provide evidence, including any quantitative analysis of the impact of different levels and the assumptions underlying that analysis.**

24. **How likely is the level of uplift to influence future commercial and investment decisions? Please explain your answer and provide evidence, including any quantitative analysis and the assumptions underlying that analysis.**

25. **To what extent do the government's analytical approach and modelling assumptions (set out in the Analytical Annex) reflect your understanding of current commercial arrangements and likely outcomes under an FPC system? Please explain your answer, including where your own analysis or modelling uses similar or different assumptions, and how this affects the resulting impacts.**

26. **Do you agree with the proposed approach for payments to generators? If 'no', which aspects do you disagree with and why.**

27. **Do you agree with the proposed special arrangements for Year 1 levy payments? If 'no', please explain which aspects you disagree with and why.**

28. **As a supplier, if you receive a share of the redistributed buy-out and late payment funds, what do you usually do?**

a. **Pay a share to generators only on ROCs you have already redeemed**

b. **Pay a share to generators on all ROCs purchased, regardless of whether or not you have already redeemed them**

c. **Do not pay a share to generators on any ROCs**

d. Not applicable – do not receive a share of the redistributed payments

29. As a supplier, will the introduction of FPCs change your usual approach to meeting your obligation in the last year of the current RO?

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31. Do you believe that there are alternative options for transitional ROCs that should be considered? If 'yes', please explain what they are.

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Analytical Annex

Background and purpose

This annex assesses the potential costs and benefits of transitioning the RO scheme to a Fixed Price Certificate (FPC) system. This would fix the price of a certificate at a pre-determined level, with the aim of mitigating the risk of potential future price volatility caused by uncertainty in total generation levels and electricity sales as the scheme comes to a close in the late 2030s.

Figures presented in this annex show estimates of the potential impacts of moving from the RO to an FPC system. The RO is a complex market-based scheme where outcomes are shaped by private commercial agreements, trading, and supplier behaviour, which have diverse impacts. The analysis uses simplifying assumptions which are not intended to replicate the full complexity of the scheme. Results should be interpreted as indicative scenario analysis to support evidence-gathering rather than as predictions of actual market outcomes and should be considered alongside the information presented in the consultation. Results should not be used by market participants to predict future costs or revenues under an FPC system. Evidence received through this consultation and further policy development will be used to inform the final impact estimates and policy decision-making.

ROC price volatility

As the RO scheme progresses through the early 2030s, the combination of declining certificate supply and increasing reliance on a smaller number of large generators (three offshore wind farms will make up c.40% of ROC supply in the final years of the scheme) is expected to raise the market's sensitivity to forecast risk and exogenous shocks. The obligation is set several months ahead based on expected generation and supply, but several factors can influence the accuracy of the forecast. Average load factors across technologies can shift due to weather patterns or operational performance impacted by early decommissioning or sudden outages, which could significantly impact ROC supply. Electricity demand may also deviate from exogenous shocks (e.g. there was significantly lower demand during COVID-19 peaks).

Less predictable ROC prices in the latter years of the scheme may introduce additional uncertainty into the negotiation of long-term Power Purchase Agreements (PPAs). There is also a risk that suppliers choose to rely on the buy-out fund rather than trading ROCs in low-volume years near the end of the scheme.

Table 1 provides a high-level risk assessment of the potential drivers of ROC price volatility over the remainder of the scheme. All potential factors are expected to have a low risk of driving ROC price volatility in the late 2020s, though the risk will increase as capacity drops off

the RO. Several compounding drivers of potential ROC price volatility are expected to pick up in the early and mid-2030s.

Table 1 – Drivers of ROC price volatility and their expected impact over time

Potential drivers of ROC price volatility	2027/28 & 2028/29	2029/30 & 2030/31	2031/32 & 2032/33	2033/34 & 2034/35	2035/36 & 2036/37
Production from RO assets	Low	Low	Low	Low	Medium
Demand volatility	Low	Low	Medium	Medium	Medium
Assets exiting the scheme	Low	Low	Low	Medium	High
'Calculation A' used to set the RO level	Low	Low	Medium	High	High
Suppliers pay into buy-out fund	Low	Low	Low	Medium	High
Overall RAG rating	**Low**	**Low**	**Medium**	**Medium**	**High**

As the scheme progresses and the volume of tradeable certificates falls, market liquidity is expected to decline, though headroom and banking will continue to provide mitigation in the short-term. With less market liquidity, particularly through the 2030s, smaller deviations from forecasts may have material impacts on ROC supply and therefore the market price of ROCs. This may lead to less predictable revenue under the RO, even where PPAs provide some short-term stability. FPCs remove exposure to market-driven price volatility by fixing the value of support, even if the scheme remains subject to some forecast risk depending on levy design. This gives generators greater revenue predictability and provides more certainty to suppliers, and ultimately consumers.

Price uplift for fixed price certificates

Headroom under the RO and the proposed uplift under FPCs are fundamentally different mechanisms, as detailed in the consultation.

Headroom is applied to the supplier obligation, as a volume lever, to create scarcity in the event of higher-than-expected generation. Therefore, consumers take on the full cost of the

10% headroom, but generators may not receive a corresponding 10% increase in revenue; indeed, each generator will be impacted differently depending on commercial arrangements. The 10% headroom, therefore, can be viewed as an insurance to reduce the risk of a ROC price crash.

The uplift is a price lever which directly and uniformly increases generator revenue relative to the baseline fixed price per certificate[8]. This is a structural change in how support is delivered, so comparisons between proposed uplift levels and the current 10% headroom should not be interpreted as like-for-like. This uplift cannot replicate the diversity of existing arrangements, meaning impacts will vary across generators, though they will all ultimately benefit from revenue predictability. The uplift would seek to balance overall continuity in generator support under the scheme in a transition to a more cost-reflective and predictable system. In this annex aggregate generator revenue in present value terms is considered the best indicator of overall impact alongside scheme costs.

Indicative scenario analysis on the impacts of replacing headroom with a price uplift has been considered at aggregate and generator levels.

- The aggregate economic analysis considers the overall impacts on scheme costs and generator support of different uplifts, underpinned by assumptions which we are seeking to clarify through this consultation (for example, revenue pass-through), and subject to further policy development (for example, on mutualisation).
- The generator analysis shows how different uplift scenarios impact different generator archetypes with different private commercial agreements. This is illustrative analysis to show that a uniform uplift will create both increases and decreases in individual generator revenue even in a scenario that, in aggregate, maintains support in line with the current scheme.

Aggregate uplift scenario analysis

Estimates of the impacts of an FPC system on market participants are subject to significant uncertainty due to the complexity of the RO and declining generation as the scheme winds down. A stylised example with £100m worth of certificates is used for each uplift option to derive the percentage impact on stakeholders, which is then applied to a forecast of generation to the end of the scheme (Table 2) to estimate the annual scheme-wide impact. This analysis is intended to support evidence-gathering in the consultation and will be subject to revision following further policy development and evidence. Results should not be interpreted as the final impacts of moving to a fixed-price system.

[8] The current proposal is for the FPC price baseline to be the ROC buy-out price of the last year of the existing RO inflated by CPI, as detailed in the consultation.

Table 2 estimates the consumer costs in 2024/25 prices of the RO scheme from 2028/29 onwards based on central projections of the number of ROCs[9] and the 2024/25 buy-out price of £64.73[10]. For simplicity in carrying out the analysis, projected costs are assumed to occur in September following the scheme year, and impacts across the counterfactual and FPC scenarios are considered in September prices to ease comparisons. In practice, other than late payments, costs and transfers will occur ahead of the 1st of September deadline for presenting ROCs to Ofgem.

Table 2 – Estimated ROC and consumer cost profile[11]

	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37
ROCs (m)	83.8	80.7	77.3	70.6	59.5	48.7	37.1	28.3	22.3
Buy-out price	£5.4bn	£5.2bn	£5.0bn	£4.6bn	£3.9bn	£3.1bn	£2.4bn	£1.8bn	£1.4bn
Headroom	£0.5bn	£0.5bn	£0.5bn	£0.5bn	£0.4bn	£0.3bn	£0.2bn	£0.2bn	£0.1bn
RO baseline cost	£6.0bn	£5.7bn	£5.5bn	£5.0bn	£4.2bn	£3.5bn	£2.6bn	£2.0bn	£1.6bn

The table above gives us a baseline to which we can apply the breakdown of impacts in the counterfactual and FPC uplift scenarios. These illustrative scenarios are underpinned by the following working assumptions to support the economic modelling:

Counterfactual – ROCs	Fixed Price Certificates
Generation and certificate issuance are distributed uniformly across the year[12].	
Generators meet their illustrative expected generation of £100m worth of certificates. This simplified assumption is not intended to represent the value of the scheme.	
Generators receive certificates three months after generation.	
Suppliers pay generators in September following the scheme year, or receive an equivalent discounted value if paid during the year	The administrator pays generators once they receive their certificates, and suppliers pay the administrator quarterly in advance

[9] DESNZ estimate using generation capacity, load factors published here Calculating the level of the Renewables Obligation for 2026 to 2027 - GOV.UK, and consideration of when generators are due to leave the RO scheme.
[10] Renewables Obligation (RO) buy-out price, mutualisation threshold and mutualisation ceilings for 2024 to 2025 | Ofgem
[11] Annual costs may differ from inflation indexation annex due to updated ROC projections and underlying assumptions
[12] Seasonality and ROC banding will affect this in practice. Quarterly FPC payments may be particularly affected by seasonality.

<table>
<tr><td colspan="2">Suppliers collect money from consumers uniformly and monthly in advance.</td></tr>
<tr><td>Suppliers are assumed to be cost neutral in facilitating payments from consumers to generators and/or Ofgem. Some suppliers may absorb some of the RO costs or add costs to the consumers, however levies for renewable subsidy schemes are not intended to increase supplier profits.</td><td>Suppliers are assumed to be cost neutral in recovering levy costs from consumers, though they may nominally collect more from consumers than they pay the administrator, discounted by cost of capital, due to quarterly advanced payments.</td></tr>
<tr><td>Suppliers profit from the trading or purchase of ROCs at a discount. It is difficult to assess the profits and beneficiary (e.g. suppliers, brokers etc.). For simplicity, these activities are classified under ‘traders’.</td><td>Suppliers or traders can no longer profit from trading certificates as these are centrally administrated and suppliers are levied by the administrator.</td></tr>
<tr><td colspan="2">Supplier cost of capital is 12.82%[13]. Generator cost of capital is assumed to be the same for simplicity, though a broader range was also examined.[14]</td></tr>
<tr><td colspan="2">Suppliers do not make late payments.</td></tr>
</table>

Ringfencing is an additional cost to suppliers associated with liabilities built up throughout the year in case a supplier becomes insolvent. Under FPCs, due to quarterly payments to the administrator, the exposure period is expected to be shorter. In practice, the cost borne by consumers will be the cost of tied up capital rather than the capital cost itself. As part of a review of their price cap methodology, Ofgem estimated this to be c.£9 per customer, being the ringfencing capital multiplied by the cost of capital, or c.£250m in total13[4]. This comes to c.3.5% of supplier scheme costs, which is included when calculating consumer cost estimates.

Option A: Do Nothing (the counterfactual)

This scenario is used as the baseline against which FPC scenarios are compared. For simplicity, suppliers are assumed to either buy ROCs at the buy-out price from generators on 1st of September or pay Ofgem the buy-out price to meet their obligation. ROCs bought before

[13] Initial Ofgem methodology Price Cap - Decision on amending the methodology for setting the Earnings Before Interest and Tax (EBIT) allowance and the latest update (page 7) Notice of Intention to Impose a Financial Penalty - Tomato Energy.
[14] Nominal prices are converted to the prices of September following the scheme year using cost of capital. This is to easily compare costs between the counterfactual and uplift scenarios.

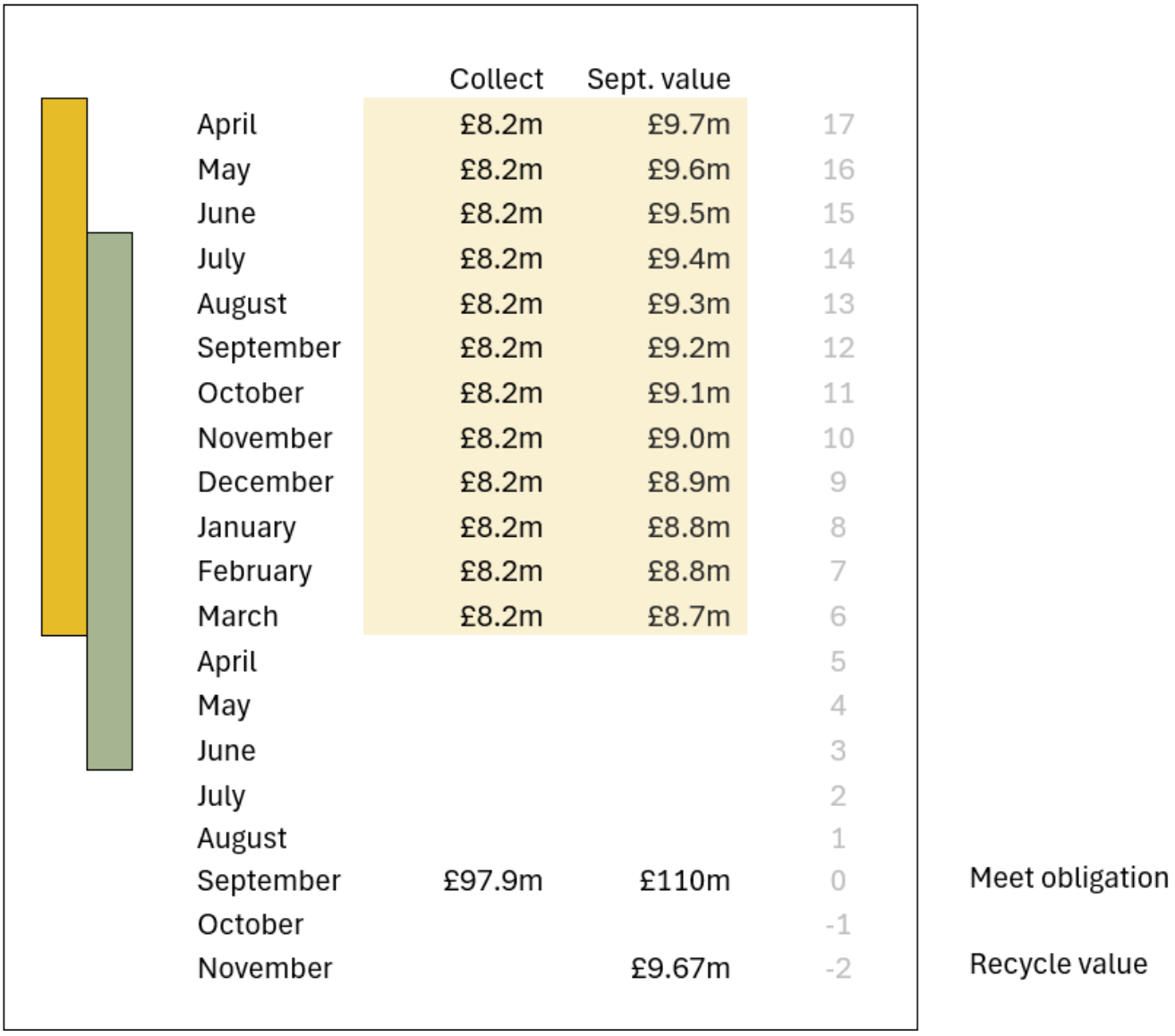
1st of September are assumed to be discounted, meaning they are worth the same amount in September prices, resulting in net neutral costs. This may differ in practice if suppliers pay a flat price throughout the year with a flat discount to reflect any cost of capital adjustments.

In November, Ofgem redistributes the money from the buy-out fund (minus any admin costs, currently c.0.12% of the total value[15]) to suppliers who recycle this money to generators[16].

Figure 1 illustrates a simplified process under the current scheme, explained in detail below. The September present value of payments, calculated using cost of capital, is used to compare across scenarios.

Figure 1 – Illustrative example of RO payments and schedule

[15] Ofgem costs for administering the Renewables Obligation (RO) 2025 to 26 | Ofgem
[16] In practice, only suppliers who met at least part of their obligation through ROCs will receive recycled money



Suppliers collect money from consumers each month from April to March. Consumers pay a constant amount through direct debit. Consumers pay £97.9m in nominal terms over the obligation period in this example.

Suppliers meet their obligation in September following the scheme year, so the collected money is converted to September present value using cost of capital. In total, suppliers are assumed to collect £110m in September prices[17]. Suppliers pay £100m to generators on 1st September and the remaining £10m is paid to Ofgem to create the buy-out fund. Ofgem subtracts 0.12% for admin costs (£0.13m, though the percentage may increase as the scheme reduces in size) leaving £9.87m in the buy-out fund. This is passed to suppliers on 1st

[17] In practice, they may collect £110m in nominal terms, being the amount they need to pay out, which would increase scheme costs.

November, and assumed to be passed to generators, which is worth £9.67m in September prices.

Generators receive £109.67m in September present value under a frictionless system. However, they need to sell their ROCs to suppliers or traders; likely at a discount to cover trader costs and profit margins. Independent research commissioned by DESNZ in 2020 and 2024 indicates that suppliers typically pay generators 90-98% of the buy-out price of a ROC and 90-100% of the redistributed buy-out and late payment funds. A 5% discount is assumed as a central scenario on this basis. This gives total generator income of £104.2m.

Excluding generators and suppliers' own administrative costs, the costs and incomes in equivalent September prices are shown below, compared to the baseline £110m paid into the scheme by consumers.

Table 3 – Illustrative percentage breakdown of stakeholders

Cost		
Consumer (value)	£110.0m	100.0%
Income		
Generator	£104.2m	94.7%
Trader / Supplier	£5.5m	5.0%
Admin	£0.1m	0.1%
CoC for recycle payment[18]	£0.2m	0.2%
Total	£110.0m	100.0%

Option B: Introduce FPCs

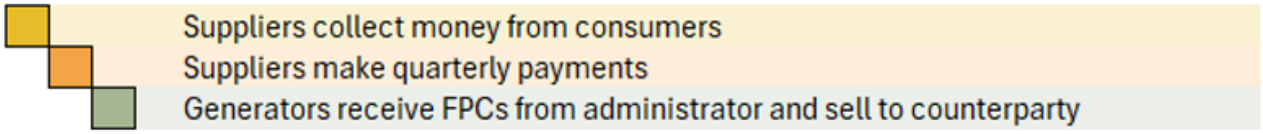
As with the current system, generators receive their certificates three months after generation takes place, however suppliers pay the administrator quarterly in advance. The price per certificate is set in advance, inflated by CPI.

Figure 2 illustrates the proposed payments and schedule using an example that maintains generator revenue compared to the current scheme. This covers the cost of the certificates but excludes additional costs such as additional administrative costs and reserve costs, which are

[18] This is referred to as friction, accounting for the timing differences in payment to generators whilst the recycle money is held by the administrator.

covered separately. Prices are nominal other than the column labelled ‘Sept’ showing that generator income, relative to the current scheme, is the same in September present value (£104.2m).

Figure 2 – Illustrative example of FPC settlement schedules[19]



	Suppliers collect (nominal)	Suppliers pay (nominal)	Generators receive (nominal)	Generators receive (sept.)	Admin account (nominal)	
January	£7.9m				£0.0m	20
February	£7.9m				£0.0m	19
March	£7.9m				£0.0m	18
April	£7.9m	£23.9m			£23.9m	17
May	£7.9m				£23.9m	16
June	£7.9m				£23.9m	15
July	£7.9m	£23.9m	£8.0m	£9.2m	£39.8m	14
August	£7.9m		£8.0m	£9.1m	£31.9m	13
September	£7.9m		£8.0m	£9.0m	£23.9m	12
October	£7.9m	£23.9m	£8.0m	£8.9m	£39.8m	11
November	£7.9m		£8.0m	£8.8m	£31.9m	10
December	£7.9m		£8.0m	£8.7m	£23.9m	9
January		£23.9m	£8.0m	£8.6m	£39.8m	8
February			£8.0m	£8.5m	£31.9m	7
March			£8.0m	£8.5m	£23.9m	6
April			£8.0m	£8.4m	£15.9m	5
May			£8.0m	£8.3m	£8.0m	4
June			£8.0m	£8.2m	£0.0m	3
July						2
August						1
September						0
	£94.6m	£95.6m	£95.6m	£104.2m		

For modelling purposes, FPC payments are assumed to be made monthly to all generators. These sum to £104.2m in September prices, as with Figure 1. Generators receive fixed monthly payments and seasonality is not considered.

Suppliers pay the administrator £23.9m at the beginning of each quarter (totalling £95.6m in nominal terms or £109.6m in September value) in line with the amount generators receive in

[19] Note that individual months may not sum to totals due to rounding

nominal terms. Suppliers collect money from consumers each month, totalling £94.6m in nominal terms but £109.6m in September prices, in line with how much suppliers pay the administrator. In nominal terms, the closed-system economic analysis assumes that suppliers collect less than they pay out to the administrator to account for the time they hold the money. In practice, suppliers may collect the same amount in nominal terms as they need to pay out, increasing scheme costs. This implies a lost opportunity cost to consumers which suppliers may benefit from.

With suppliers collecting money from consumers in advance, this means the first quarterly payment under an FPC scheme (i.e. April in Figure 2) would rely on collections taking place before the scheme begins. Sufficient notice will need to be provided to suppliers to enable smoother collection for the first quarter and reduce the burden on consumers. The first quarterly FPC payment is expected to only cover admin and any transition costs, as explained in the consultation.

The admin account represents the cumulative money held for the purchase of certificates by the administrator, being the amount paid by suppliers minus the amount paid to generators. After the final payment to generators in June, the administrator has a balance of zero. Advance payments to the administrator imply a lost opportunity cost where the money is being held by the administrator. In practice, the supplier levy will be based on forecast generation meaning there may be a discrepancy compared to the outturn generation for which generators are paid. This is detailed in the consultation.

Excluding additional administrative costs to generators and suppliers, Table 4 shows the breakdown of costs and income in equivalent September prices in a scenario where generators, in aggregate, are revenue neutral compared to the current scheme. Percentages are compared to the baseline £110m from the counterfactual. The difference between consumer costs and generator income in September present value is a friction cost representing the time that money is held by suppliers and the administrator. These timing differences may manifest differently in practice under a steady-state system.

Table 4 – Illustrative percentage breakdown of revenue-neutral FPC system

Cost		%
Consumer	£109.6m	99.6%
Income		
Generators	£104.2m	94.7%
Traders	£0.0m	0.0%

Total	£104.2m	94.7%

Policy design is still underway for mutualisation, which alongside credit cover, will replace the effect of ringfencing from the current scheme. The government takes a conservative approach whilst policy is under development by assuming that these costs will remain the same under FPCs. In practice, credit cover and mutualisation costs are expected to be lower, leading to higher consumer savings. Costs to suppliers such as ringfencing that currently cover the whole year's obligation may reduce to quarterly requirements following a shift in the payment schedule, thereby reducing costs.

Summary of aggregate consumer and generator impacts

The approach used in the aggregate analysis has been applied to a range of uplifts. These vary from a scenario with no uplift[20] (FPC = Buy-out price) to Buy-out price + 10%. The uplift which is estimated to maintain generator support compared to the counterfactual falls between 2% and 5%. A selection of scenarios is presented below to illustrate the potential diversity of outcomes. Impacts on generator revenue are estimated in Table 5 and consumer costs are estimated in Table 6. These take the percentage breakdowns per scenario, such as those shown in Tables 3 and 4, and apply them to the profile in Table 2, with the inclusion of ringfencing.

Table 5 – Estimated generator revenue impacts across FPC scenarios (2024/25 prices, undiscounted)

	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	Total
Generator revenue										
Current scheme	£5.7bn	£5.4bn	£5.2bn	£4.8bn	£4.0bn	£3.3bn	£2.5bn	£1.9bn	£1.5bn	£34.3bn
FPC = Buy-out price	£5.4bn	£5.2bn	£5.0bn	£4.6bn	£3.9bn	£3.1bn	£2.4bn	£1.8bn	£1.4bn	£32.9bn
Buy-out price + 2%	£5.5bn	£5.3bn	£5.1bn	£4.7bn	£3.9bn	£3.2bn	£2.5bn	£1.9bn	£1.5bn	£33.6bn
Buy-out price + 5%	£5.7bn	£5.5bn	£5.3bn	£4.8bn	£4.0bn	£3.3bn	£2.5bn	£1.9bn	£1.5bn	£34.5bn

[20] This was ruled out in the government response to indexation changes but is presented here for transparency

Buy-out price + 8%	£5.9bn	£5.6bn	£5.4bn	£4.9bn	£4.2bn	£3.4bn	£2.6bn	£2.0bn	£1.6bn	£35.5bn
Buy-out price + 10%	£6.0bn	£5.7bn	£5.5bn	£5.0bn	£4.2bn	£3.5bn	£2.6bn	£2.0bn	£1.6bn	£36.2bn
Revenue compared to current scheme										
FPC = Buy-out price	-£0.2bn	-£0.2bn	-£0.2bn	-£0.2bn	-£0.2bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£1.4bn
Buy-out price + 2%	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	£0.0bn	£0.0bn	-£0.7bn
Buy-out price + 5%	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.3bn
Buy-out price + 8%	£0.2bn	£0.2bn	£0.2bn	£0.2bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£1.3bn
Buy-out price + 10%	£0.3bn	£0.3bn	£0.3bn	£0.3bn	£0.2bn	£0.2bn	£0.1bn	£0.1bn	£0.1bn	£1.9bn

Table 6 – Estimated cost impacts across FPC scenarios (2024/25 prices, undiscounted)

	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	Total
Consumer costs										
Current scheme	£6.2bn	£5.9bn	£5.7bn	£5.2bn	£4.4bn	£3.6bn	£2.7bn	£2.1bn	£1.6bn	£37.4bn
FPC = Buy-out price	£5.9bn	£5.7bn	£5.5bn	£5.0bn	£4.2bn	£3.4bn	£2.6bn	£2.0bn	£1.6bn	£35.9bn
Buy-out price + 2%	£6.0bn	£5.8bn	£5.6bn	£5.1bn	£4.3bn	£3.5bn	£2.7bn	£2.0bn	£1.6bn	£36.6bn
Buy-out price + 5%	£6.2bn	£6.0bn	£5.7bn	£5.2bn	£4.4bn	£3.6bn	£2.7bn	£2.1bn	£1.6bn	£37.6bn

Buy-out price + 8%	£6.4bn	£6.1bn	£5.9bn	£5.4bn	£4.5bn	£3.7bn	£2.8bn	£2.2bn	£1.7bn	£38.7bn
Buy-out price + 10%	£6.5bn	£6.2bn	£6.0bn	£5.5bn	£4.6bn	£3.8bn	£2.9bn	£2.2bn	£1.7bn	£39.3bn
Cost compared to current scheme										
FPC = Buy-out price	-£0.3bn	-£0.2bn	-£0.2bn	-£0.2bn	-£0.2bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£1.6bn
Buy-out price + 2%	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	-£0.1bn	£0.0bn	£0.0bn	-£0.9bn
Buy-out price + 5%	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.2bn
Buy-out price + 8%	£0.2bn	£0.2bn	£0.2bn	£0.2bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£1.2bn
Buy-out price + 10%	£0.3bn	£0.3bn	£0.3bn	£0.3bn	£0.2bn	£0.2bn	£0.1bn	£0.1bn	£0.1bn	£1.9bn

Higher uplift scenarios are estimated to result in an increase in scheme costs, driven by higher generator revenue compared to the current scheme and a reduction in freely available capital due to changes in the levy payment schedule. Additional administrative costs such as those incurred from PPA renegotiation are not considered. Lower uplift scenarios are more likely to result in consumer cost savings but may result in a reduction in aggregate generator revenue compared to the current scheme.

Results are indicative, using simplifying assumptions, and are subject to change as policy is developed further. Scenarios will be refined following any additional evidence received in the consultation responses as well as ongoing policy development.

Sensitivity testing

The revenue passed through to generators by suppliers or ‘traders’, for both the ROC and recycle values, is a significant determinant of counterfactual costs, and therefore, the uplift amount that would maintain generator support under FPCs. The central assumption for this analysis is that generators accept a 5% discount on the total notional value of a ROC, however this is indicative analysis which is subject to uncertainty. Sensitivity testing shows that if, on

average, generators accept only a 3% discount, the uplift required to maintain aggregate support is around 6%, all else being equal. On the other hand, if the average discount is closer to 8%, most of the revenue impact of headroom is erased and a small 1% uplift would be enough to maintain aggregate support.

This analysis also incorporates private cost of capital assumptions to compare payment streams which vary between the RO and FPC systems. Supplier and generator cost of capital are used to convert cashflows into a common present value and enable comparisons of levels of support, meaning there is no loss or benefit from changing payment timings. Supplier cost of capital reflects how levies are financed and recovered through consumer bills, and generator cost of capital reflects how cashflow timings affect the perceived value of revenues. Therefore, differences in cost of capital assumptions affect the nominal payments required for a given value of support. This means that cost of capital influences scheme costs even where generator support remains stable. Further simplified analysis of RO and FPC scenarios using only nominal values, for example with suppliers nominally collecting the same amount that they pay the administrator, and thus the same amount that the administrator pays the generators, shows additional savings in FPC scenarios. However, this does not consider how the time value of money affects the scheme.

The analysis presented in this annex uses a simplifying assumption that generator cost of capital is equal to supplier cost of capital as it is difficult to establish a generation-weighted average cost of capital for operational generators across all RO technologies with a range of economic lives. Halving generator cost of capital, and rebasing generator revenue to ensure support is maintained compared to the counterfactual, results in an increase in nominal returns and an associated increase in scheme costs of c.4%. Any changes to generator or supplier cost of capital in a shift to FPCs would also impact scheme costs and revenue.

Generator uplift scenario analysis

Moving to an FPC system will impact generators differently due to the diversity of private commercial agreements in the current scheme. Therefore, whilst the aggregate analysis shows how different uplift scenarios may increase or decrease generator revenue, each generator will see a unique impact on revenue.

The aggregate analysis assumes that generators take a 5% discount on ROC and recycle revenue under the current scheme, for example, due to the cost of trading certificates. The government has limited information on private commercial arrangements, making it difficult to establish a representative generation-weighted average discount. However, simplified illustrative analysis using generator archetypes demonstrates the potential variety of impacts when moving to an FPC system.

This analysis is an illustrative snapshot demonstrating potential impacts in a single scheme year using the latest available values for 2024/25. Similar analysis on previous year’s results in

different absolute impacts but still demonstrates the potential diversity across generators. These figures do not inform the aggregate analysis presented previously.

The buy-out price and recycle value for the 2024/25 scheme year are £64.73 and £8.04, giving a maximum notional value per ROC of £72.77. This is equivalent to a 12.4% uplift in the buy-out price (or equivalent baseline FPC price if FPCs had been introduced for 2024/25). This implies that generators who receive 100% of ROC buy-out and recycle value will see a reduction in revenue in even the highest modelled price uplift scenario (FPC + 10%).

On the other hand, a generator who receives only 85% of ROC buy-out and 75% of recycle value would be better off in even the lowest price uplift scenario (FPC+0%, ruled out) because the fixed baseline buy-out revenue would be higher than their current revenue.

In practice, we expect most generators to fall somewhere between these two bounds. Table 7 shows illustrative impacts across four archetypes, showing the equivalent uplift that would be needed to maintain revenue under FPCs. This is highly simplified analysis intended only to show the potential diversity of impacts at a generator level.

Table 7 – Illustrative required uplift based on generator archetypes

Buy-out terms	Recycle terms	Revenue per ROC	Uplift to break even
100%	100%	£72.77	12.40%
95%	95%	£69.13	6.80%
90%	90%	£65.49	1.20%
85%	75%	£61.05	-5.70%

This publication is available from: https://www.gov.uk/government/consultations/proposed-implementation-of-fixed-price-certificates-into-the-uk-wide-ro-schemes

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