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Renewables Obligation

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What is the Renewables Obligation?

The Renewables Obligation (RO) was introduced in 2002 to provide incentives to build large-scale renewable electricity generation in the UK. Eligible generators receive **Renewables Obligation Certificates (ROCs)** for the electricity that they produce.

But the scheme actually works by obligating suppliers to source a proportion of the electricity they provide to customers every year from generators with ROCs. This proportion is known as the "obligation" and is set on an upwards path by the government each year. The upwards path is set on a trajectory to help us meet our national renewables targets.

ROCs are issued by energy regulator Ofgem to generators proportionate to the amount of electricity they generate. The exact proportions depend on the technology and the year each project started to generate electricity commercially.

Suppliers buy the ROCs so they can demonstrate to Ofgem that they have complied with the RO. But the fraction or target amount of electricity they must source each year is set above the level of ROCs expected to be produced.

This is because the ROC market is intended never to be in surplus so value will always be had from a ROC.

Why is the RO relevant to me?

All licensed electricity suppliers are required to supply to customers an increasing proportion of electricity from a renewable source in each year. This has grown from 3% in the first year to 15.4% in 2015-16 until 2037.

Suppliers that cannot, or choose not to, buy enough ROCs can "buy-out" their obligations by paying a fee to Ofgem based on any shortfall. However suppliers have an incentive to buy ROCs if they can because all the money collected in buy-out fees is redistributed by Ofgem to those suppliers who have been able to source ROCs.

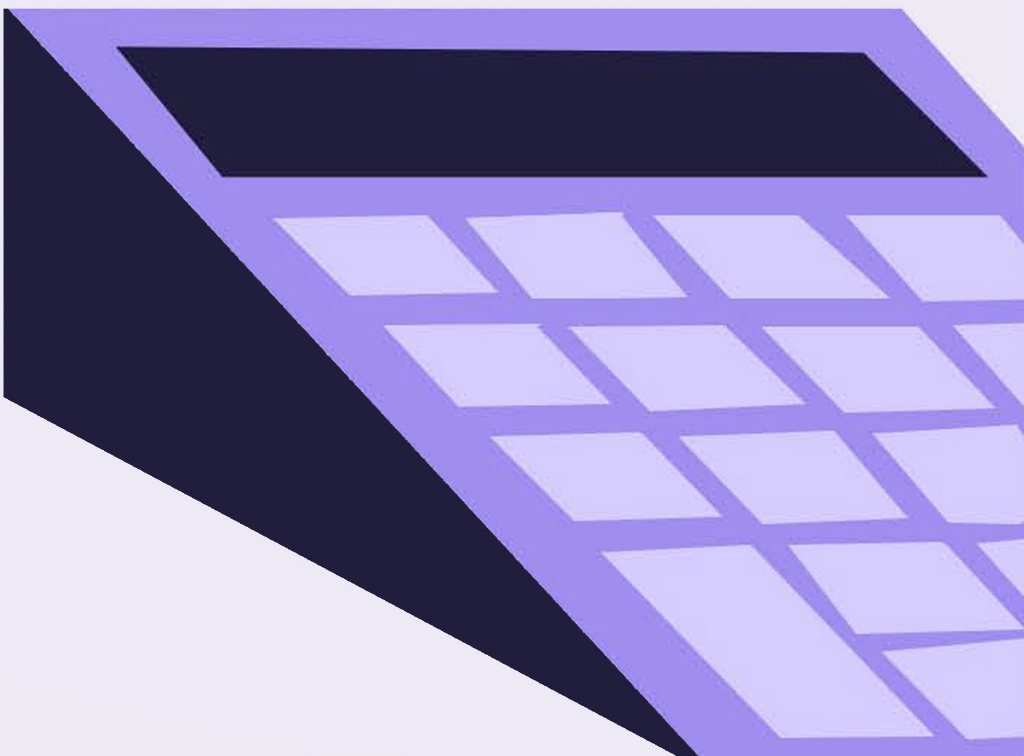
The current obligation level for suppliers for April 2017 to 31 March 2018 is 0.409 ROCs for each megawatt-hour supplied to customers in Great Britain. The targets are lower in Northern Ireland. Suppliers factor the costs of complying with the RO into their electricity tariffs.

If you are a very large user you may see it as a specific line on your bill, but most bundle it in to the unit rates. The cost of the RO is sometimes described as a "third party charge" because it is out of the direct control of the supplier. Typically suppliers base their estimates of costs on what they would have to pay if they had sourced no ROCs from generators over the year and instead paid the buy-out fee on 100% of their electricity sales.

The cost of RO

The cost of the RO has become progressively more difficult for suppliers to forecast, especially when they are offering contracts that last longer than one year. So some suppliers reserve the right to change the amount they have allocated for the RO in their prices even when contracts are live. Contract terms have to be checked to see if the supplier has given itself this provision.

The continued rise in RO costs now form around 17% of the total electricity bill.



What does the future hold for RO?

In April 2017 the scheme closed to new projects unless the process was underway. By 2017-18 a small commercial customer is expected to pay around £1,800/year as a result of a greater number of projects completing ahead of April 2017.

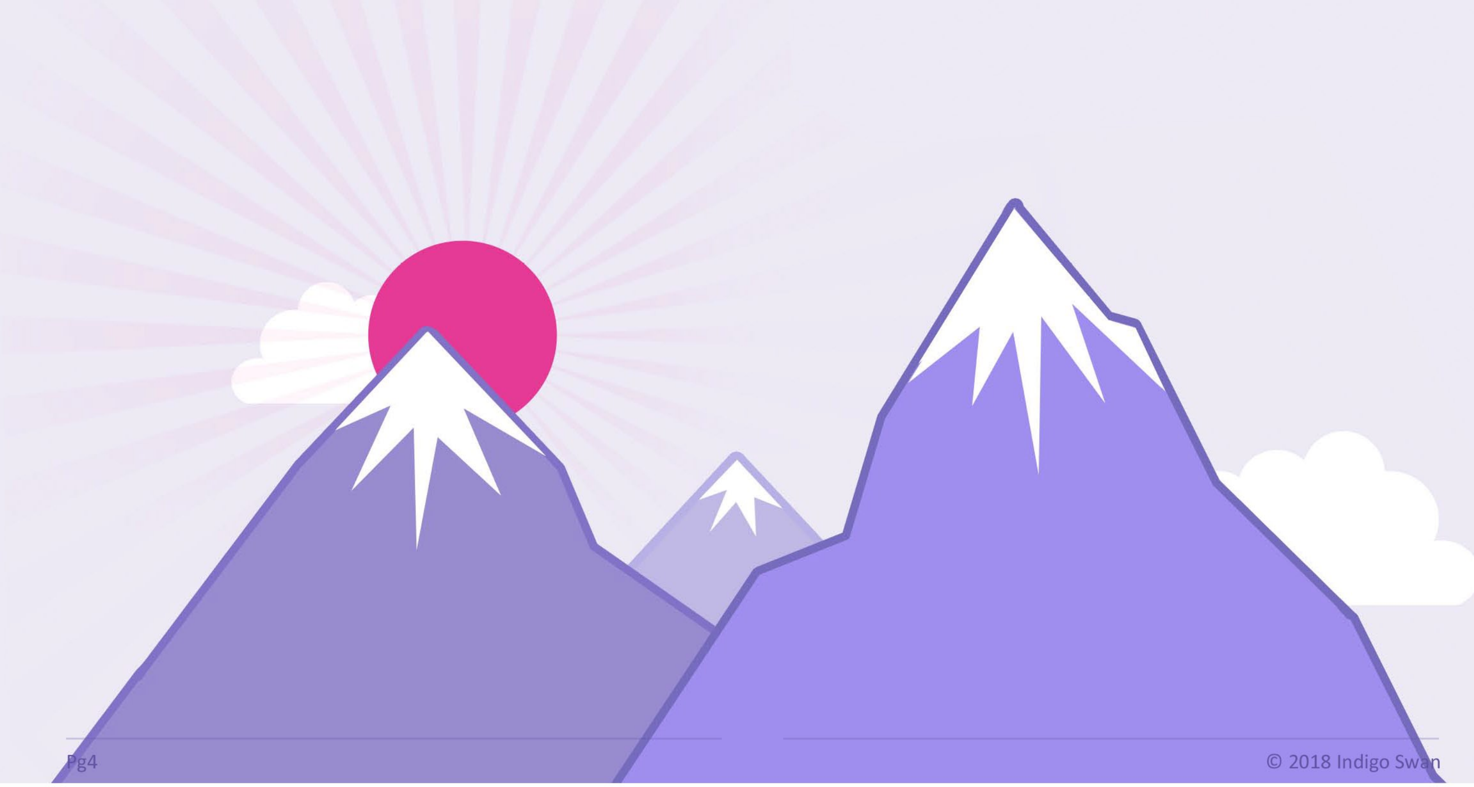
Recognising that the cost of the RO is pushing up costs for consumers, in summer 2015 the government announced plans to tighten the rules for getting support, meaning costs will be less than they otherwise would have been.

But tightening the rules close to the end of the scheme's life, meant that these measures only softened the rising cost trend.

The closure of the scheme does not mean that the cost to consumers will end, as projects receiving support under it will continue to do so until 2037.

The scheme is also being replaced with a new support mechanism for large-scale renewables, known as Contracts for Difference Feed-in Tariffs (CfD FiTs). The new scheme is one of the main components of the government's Electricity Market Reform programme.

The possible exemption of EII (Energy Intensive Industries) from RO charges, to make them more competitive, will likely pass the cost burden to non qualifiers.



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About Indigo Swan

We believe everyone is entitled to the truth about their energy and shouldn't be penalised because they don't have the knowhow.

If you have any questions please get in touch.

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