Renewables Obligation

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

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.

The scheme 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".

Suppliers buy the ROCs so they can demonstrate to Ofgem that they have complied with the RO.

Why is the RO relevant to me?
Suppliers that cannot, or choose not to buy enough ROCs can "buy-out" their obligation 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 the buy-out fees (minus admin costs) is redistributed by Ofgem to suppliers based on how many ROCs they did submit.

If you are a very large user, you may see RO as a specific line on your bill, but in most cases, it is bundled 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 estimated costs on what they would have to pay if they had sourced no ROCs from generation over the year and instead paid the buy out fee of 100% of the electricity sales.

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What does the future hold for the RO?
In April 2017 the scheme closed to new projects. Its closure does not mean that the cost to consumers will end, as projects receiving support under it, will continue to do so until 2037.

The RO has been replaced with a support mechanism for large scale renewables, known as Contracts for Difference (FiT CfD). This is a component of the government's Electricity Market Reform (EMR).

Costs for the RO are thought to be stabilising with some of the initial projects leaving the scheme and others, due to economics and inefficiencies, reducing their generation. The RO charge in 2023 makes up about 10% of the overall electricity cost.

The cost of the RO has been difficult for suppliers to forecast, especially when they are offering contracts that last longer than one year. Some will reserve the right to change this depending on the outcome, although Indigo Swan tend to request that this is a fixed price element within contracts.

Energy Intensive Industries (EII) have an 85% exemption from the RO to help them be more competitive.

Finally, there have been a number of energy suppliers that have closed, that did not make their payments into the scheme. This unfortunately means that Ofgem look to recover these charges through, RO Mutualisation.

A consultation ending November 2021, looked at more frequent supplier payments, rather than annual, or insurance against default, as potential solutions. This was rejected.

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When this happens and if applicable, your energy supplier should be in touch to explain the process, which may include an additional contribution.

Mutualisation in England and Wales will now be triggered if the shortfall exceeds 1% of the value of the scheme. £72.2 million for 2023/24. Above this level and the entire sum is passed onto consumers, where their contracts allow. This does mean that RO Mutualisation charges for consumers are less likely, but if they do occur, the impact on bill payers will be larger.

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