



# Business

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## Business Renewable Obligation or RO Charges

Set up in 2002, the Renewable Obligation or RO places a mandatory requirement on licensed electricity suppliers to source a specified and annually increasing proportion of electricity they supply to customers from eligible renewable sources or pay a financial penalty.

The RO is currently the main financial mechanism by which the Government incentivises the deployment of large scale renewable electricity generation and the energy industry regulator Ofgem administers the scheme.

By the 1st October each year the annual obligation on electricity suppliers is published and comes into effect for the next financial year starting on the 1st April.

Generators of renewable energy have to report the volume of renewable energy that they generate on a monthly basis to the energy regulator Ofgem. In turn Ofgem then issues ROC's (Renewables Obligation Certificates) to these electricity generators relating to the amount of eligible renewable electricity they generate.

In turn the generators then sell their ROC's to suppliers or traders. This allows them to receive a premium in addition to the wholesale electricity price.

These suppliers then present these ROC's back to Ofgem to demonstrate their compliance with the Renewable Obligation. Suppliers that cannot present enough ROC's back to meet their obligation must pay a financial penalty, which is known as the buyout price.

The money that Ofgem collects in this buyout fund is then redistributed on a pro-rata basis to suppliers who have presented ROC's.

However following a recent change to the RO, electricity suppliers must now ensure that they purchase a higher volume of ROC'S for the year ending 31st March 2014.

As a direct result of this, suppliers are set to pass the increased costs on to their customers.

Suppliers will now pass the cost of this compliance with the Renewable Obligation on to consumers through their energy bills.

The current cost of the Renewables Obligation (RO) accounts for approximately 2% of the total bill value, and is currently charged at 0.643p/kWh.

Predictions indicate that this is likely to increase probably by around a third from its current to near 0.85p/kWh.

### Proceed With Caution

When comparing offers from suppliers, precaution must be followed when comparing offers as different suppliers have varying terms and conditions to how this cost is received.

But unlike the recent introduction of FiT charges, the cost of RO is set out in advance.

