The Renewables Obligation explained...

What is the Renewables Obligation?
The Renewables Obligation (RO) is a mechanism designed to support large-scale renewable electricity generation. Through the RO, the Government places an obligation on all licenced electricity suppliers, like us, to source a proportion of the electricity we supply to customers from renewable energy sources. All suppliers in England, Wales and Scotland are affected by the charge.

We meet our obligation by purchasing Renewables Obligation Certificates (ROCs), either from renewable generators or from the ROCs market.

The Department of Energy and Climate Change (DECC) sets the RO obligation level each year; this dictates the number of ROCs that suppliers - like us - are required to produce for each MWh we supply.

Why are we seeing an increase in the cost of the RO?
To help build a sustainable energy future we need to invest in and support power plants that can generate renewable energy, so we can hit ambitious Government climate reduction targets. Due to this, the UK is generating much more renewable energy than ever before, so the level of supplier obligation and consequently the cost to you - as our customer - has also increased. In the early years of the RO, the charge was relatively stable and predictable. However, future renewable energy sources, such as generation plant conversions (eg fossil fuel to biomass) and large offshore windfarm developments, have less predictable capacities and delivery timescales, making forecasting for future years difficult. The graphs below show how quickly the RO charge has increased over the last ten years and our predicted view for the next three years*:

*These are predictions only and were last made in December 2012.

Helping our customers. We’re on it.
What has changed and how will it affect you as our customer?

To make it more flexible for our customers, we’re giving you a choice of two ways to pay for the RO charge. When you ask for an electricity quote from us, you can either:

• Pay the most up-to-date RO charge each month based on what we know (the Government published rate). This charge may vary from one April to the next, depending on what the Government agrees to set the charge at. Until recently, if you chose this option, we were only able to reconcile this charge at agreed intervals (normally every six months) and you were subject to a variation clause in your terms and conditions. We’ve now changed our systems so you’ll only pay the exact charge that the Government sets. By choosing this option, you’ll also start to see the RO charge broken down separately on your bill so you’ll know how this contributes to your total invoice amount. This is part of our drive to make things clear and simple about how we charge our customers for third party costs.

or

• Pay a fixed RO charge that won’t change for the length of your contract. This fixed charge will include a premium to cover the extra risk we’re taking on as a supplier, and this charge will be included in your unit rate. By paying this way you benefit from not receiving any unexpected increases in RO charges and can manage your costs more easily.

How is the Renewables Obligation charge calculated?

The RO charge is calculated annually, from 1 April to 31 March (known as the compliance period) from two elements:

• Obligation level – the amount of expected renewable generation as a proportion of overall electricity generation within the compliance period, eg 0.158 ROCs per MWh for 1 April 2012 to 30 March 2013.

• Buy-out price - the buy-out price is set by Ofgem and is index linked to the Retail Price Index. The buy-out price for 1 April 2012 to 30 March 2013 is £40.69 per ROC.

The charge is calculated as obligation level x buy-out price – eg in the above example, 0.158 x £40.69, so the Renewables Obligation charge for 1 April 2012 to 30 March 2013 is 0.643 pence per kWh or £6.43 per MWh.

Where can I go for further information?

More information is available on the following websites, or alternatively, you can call your E.ON Account Manager.

DECC: Click here
Ofgem: Click here
Renewables Obligation Order 2009: Click here
The Renewables Obligation (Scotland) Order 2009: Click here

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