The cost of renewable energy incentives and your business' electricity prices.

At around 12% of your electricity price, the cost of renewable energy incentives accounts for a smaller but growing slice of your price. This guide outlines the incentives currently in force and why these costs are more difficult to manage.

The target is a massive challenge: 30% of our electricity needs to come from renewable sources by 2020. Answering the challenge will help reduce the UK's carbon emissions, cushion the impact of swings in volatile fossil fuel prices, and reduce our reliance on energy imported from other countries. That's good for Britain's businesses.

For over a decade, incentives have encouraged more investment in new renewable energy generation. The first, the Renewables Obligation (RO), was joined by the Feed in Tariff scheme (FITs) in 2010. They are paid for by everyone who uses electricity from the grid – homes and businesses – as energy suppliers factor the costs into their prices.

Over 11% of the UK's electricity now comes from renewable sources. To keep the UK on track to meet the target, the government adjusts the levels of these incentives considering factors such as its view of their recent effectiveness and the changing cost of renewable technologies. This happens for each compliance year which runs from April to March.

And that's a problem for fixed priced contracts. The changeable nature of the RO and FITs and the risk of government intervention make it difficult for suppliers to accurately predict what these costs will be in future. Here's why.

The Renewables Obligation

The target for the next RO compliance year (which gives a good indication of its cost) is announced only 6 months before the next RO year. The final cost is only confirmed a few weeks before the start of each RO year. So confirming the RO cost in your fixed price contract for a future RO period carries some risk for the supplier.

The Feed in Tariff scheme

This cost is much more challenging. No announcements are made before each compliance year. Instead the actual cost of the FITs accumulates quarter-by-quarter as Ofgem reconciles and aggregates the payments suppliers have made to FITs generators. The final cost is confirmed to suppliers over 6 months after the end of each FITs compliance year. So the actual FITs cost to a supplier is not known for 6 to 18 months after customers have used their electricity.

What this means for your contract

The growing cost of renewable energy incentives is leading to even greater uncertainties in predicting their cost than for normal delivery charges. That's why some business fixed price electricity contracts include 'claw back' clauses which allow the supplier to apply additional charges later if their forecasts of these incentives turn out wrong .

So check that the next contract you consider is clear about:

- **How these costs are presented.** Are they fixed within your standing charge or unit rate or adjusted as DECC and Ofgem confirm their costs (often called a 'pass through' method).
- **What happens if these costs turn out differently to the supplier's forecast.** Will the supplier cover the difference or ask you for an extra payment through a 'claw back' charge.

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