

# Department of Trade & Industry

## Renewables Obligation Order 2006 – Final Decisions

January 2006

### Introduction

This note sets out the Government's decisions on options presented in the Review of the Renewables Obligation (RO) statutory consultation document, which will be implemented in the 2006 England & Wales RO Order. The draft Order accompanies this note and includes the proposed changes - which will also be introduced in Scotland and Northern Ireland - to come into force from 1 April 2006.

### 1. Energy from Mixed Wastes

#### 1.1. Making the RO neutral to waste

While there was substantial support amongst respondents to the consultation for the policy objectives of this proposal, a number of detailed concerns over the implementation and practical consequences of this option were raised during the consultation. There was particular concern over: the interaction of this new rule with the existing caps on co-firing; the interaction with a lowered purity requirement for biomass; and the creation of a potentially perverse incentive to segregate wastes before burning them.

This latter point can be illustrated by considering a waste stream that is 80% biomass and 20% plastics. Under the RO neutral to waste option, there could be an incentive to segregate this waste stream to produce a high purity biomass stream and a waste residue, which could then be burned together in the same plant, with ROCs being awarded for the biomass fraction. Had the un-separated waste been burned in the same plant, no ROCs would have been awarded.

As a result of these concerns, we do not propose to implement this change for the 2006 Order. In the future, we may consider the case for provisions that deliver more limited flexibility as regards the co-firing of wastes with biomass.

#### 1.2. Reducing the 98% purity rule

There was broad support amongst respondents for a reduction in the 98% purity definition of biomass. Consultation responses presented evidence that a substantial amount of waste wood and some other contaminated biomass streams are typically in the range 93-97% biomass, and as the accuracy of

measurement is limited to some degree, we will lower the purity limit to 90% with the aim that more of these materials can be brought into the scope of the RO.

Guidance on measurement issues relating to contaminated biomass fuel streams will be developed through the DTI/Ofgem Biomass Fuels Working Group.

### 1.3. Making Energy from Waste (EfW) CHP eligible

Respondents to the consultation were split on whether they supported extending RO eligibility to include EfW CHP, with a slight majority in favour. As EfW CHP plants have higher capital costs than electricity-only generation, but represent a more energy-efficient use of waste fuels, we will adopt this amendment to the RO.

This will be implemented using a similar approach to the Climate Change Levy, which uses the CHP Quality Assurance scheme. For CHP plants that are fully compliant with the Good Quality benchmark (i.e. they have a high efficiency of electricity generation and heat use), they would receive ROCs on all of their biomass-generated electricity. For those plants that are partially compliant (typically with a lower or intermittent heat use), they would receive ROCs on a lower fraction of their electricity generation. This will be determined by the relationship between their qualifying power output (QPO) and total power output (TPO) in the same manner as for the CCL exemption.

For example, an EfW CHP plant that is fully exempt from the CCL and uses a waste stream that is 50% biomass will receive ROCs on 50% of their electricity generation, whereas a plant using the same waste stream but which is only 70% CCL compliant (that is, QPO is 70% of TPO) will receive ROCs on 35% (70% of 50%) of their electricity generation. The basis for this approach is that it will ensure that eligible projects always receive some ROCs on their electrical output, while maintaining a clear incentive to maximise the efficiency of the project.

ROC eligibility for EfW CHP projects will be available for both existing and new projects. This will provide an incentive for existing projects to improve their use of heat and may provide an incentive for some projects to convert from electricity-only to CHP if they can identify a potential customer for heat. The QPO and TPO will be based on the most recent certificate held by the generator, but unlike the CCL, we do not intend to introduce an end-of-year reconciliation process.

## **2. Lower Cost Technologies**

Although most respondents to the consultation expressed their preference that support for landfill gas should not be tapered, no convincing evidence was presented to show that future landfill gas projects would be uneconomic without the full support of the RO. We therefore remain committed to reducing support for new landfill gas projects from 1 April 2009 onwards – and to the kind of levels proposed in the statutory consultation document.

Respondents were almost evenly split as to whether they favoured tapering support by output or time, with a number of practical issues raised in relation to both approaches. Given the difference of views, we plan to hold further discussions on the precise mechanism for tapering over the coming year, with final decisions and implementation into legislation in 2007.

We note that the majority of respondents felt that an output-based approach would be more appropriate for onshore wind, should support for this technology be tapered in the future. We confirm that we do not believe there is a strong case at the present time for tapering support for onshore wind, though we will continue to monitor the situation.

We remain committed to the principles of protecting ROC eligibility rights for existing operational projects and to providing a sufficient notice period for any future tapering of support.

## **3. Administrative and Technical Issues**

### **3.1. Pre-accreditation**

This proposal received almost unanimous support, with most agreeing that the appropriate time for pre-accreditation was after planning consent was obtained. We are introducing a pre-accreditation system into the 2006 Order, along the lines set out in the statutory consultation, to come into force from 1 April of this year.

### **3.2. ROC issuing**

The principle of allowing greater flexibility in the claiming of ROCs was strongly supported but concerns were raised about the potential for a general delay in ROC issuing. We will therefore maintain the two month deadline for submitting data to Ofgem, but allow Ofgem, in exceptional circumstances, to issue ROCs based on data submitted after this deadline (the circumstances will be detailed in guidance). We will also give Ofgem greater flexibility to correct a ROC issue after the two month deadline where it comes to light that there have been errors in the data submitted.

### 3.3. Simplifications

Two proposals were made in the statutory consultation: to require the declaration, which confirms that electricity on which ROCs have been claimed has been supplied to customers in the UK, to be submitted on an annual basis; and that Ofgem should only be notified where input electricity exceeds 0.5% of gross output or exported electricity.

These proposals received strong support. We will make the change relating to the declaration in the 2006 Order. However we have decided not to make further changes in relation to input electricity. This is because Ofgem already operate an approach in which, where generators have a year's worth of evidence to show that their input electricity is less than 0.5% of gross output, they are not required to provide input electricity figures on a continuing basis. For generating stations which meter exported electricity, input electricity figures are automatically deducted, so there would be no reduction in administrative burdens for either generators or Ofgem from moving to an alternative approach.

### 3.4. Reduced sampling for established fuels

A large majority of respondents were in favour of the proposal to allow Ofgem to reduce the sampling requirement for established fuels, with the details to be established through guidance. We will make the proposed changes to the 2006 Order and guidance will be developed through the DTI/Ofgem Biomass Fuels Working Group.

### 3.5. Declarations for biomass measurement

This proposal was generally considered to be of limited value by respondents. The reason for this was that the data would have to be collected for audit purposes, and most generators would rather have the certainty that comes with submitting it to Ofgem, and were concerned that the proposal would increase the risk of ROC revocation.

Given clear industry concerns, we do not propose to move to the declaration approach set out in the statutory consultation document at this stage. However it could be introduced in the future if further discussion with the DTI/Ofgem Biomass Fuels Working Group identified a case for it in certain circumstances.

### 3.6. Measurement of mixed wastes

Guidance on measurement of the biomass fraction of mixed wastes will be developed through the DTI/Ofgem Biomass Fuels Working Group. We remain of the view that the CCL approach of mandating that mixed waste is

a fixed percentage of biomass is not appropriate for the Obligation, given the much higher value of ROCs compared to LECs.

### 3.7. Offsite blending/measurement

A large majority of respondents were in favour of the proposal to allow offsite measurement of biomass fuels. We will make the proposed clarifications to the 2006 Order and again plan to develop guidance through the DTI/Ofgem Biomass Fuels Working Group.

### 3.8. Timetable for supplier compliance

There was strong support for revising the compliance timetable, bringing forward buyout payments and buyout recycling. We will alter the timetable as follows:

- Suppliers notify DTI and Ofgem of their electricity sales by no later than 1 June.
- Suppliers notify Ofgem of their Renewables Obligation by no later than 1 July (this figure will include Article 13 -sale and buy back – figures which may not be available by 1 June).
- Suppliers demonstrate compliance with the Obligation by 1 September – through presentation of ROCs or payment of buy out.
- Late payment period runs from 1 September to 31 October.
- Ofgem recycle buy out fund by 1 November.
- Ofgem recycle late payment fund by 1 January.

This timetable is a minor modification to that proposed in the statutory consultation to reflect the fact that Article 13 volumes will not be available by 1 June. This new timetable will be introduced for the 2006/07 Obligation period.

### 3.9. Storage

Almost all of the respondents who commented on this issue were in favour of removing the potential for double counting of ROCs from hydrogen storage technologies. We will be amending the RO Order to achieve this.

## **4. ROCs Claimed But Not Issued**

This additional proposal was added to the statutory consultation after its publication – that Ofgem would publish the figure for ROCs that have been claimed but not yet issued (in aggregate across all generators) for each

Obligation period, to increase market transparency. This received the near-unanimous support of the industry.

We will implement this from 1 April 2006. Ofgem will be required to publish from time to time an up-dated aggregate ROCs claimed but not issued figure for each Obligation period. In practice we expect this figure to be up-dated on a monthly basis.

## **5. Smaller Generators**

Two main amendments for smaller generators were proposed – removing the sale and buyback requirement, and allowing agents to act on their behalf and amalgamate output from a number of different generating stations.

Almost all respondents to the statutory consultation agreed that the sale and buyback requirement should be removed for small generators, though there was a split in opinion as to whether this should be extended to all generators, with a number expressing concern as to how the electricity used onsite would be incorporated into the calculations for the RO base.

All respondents who commented on the proposals in relation to agents supported the proposed changes.

These changes require primary legislation and we aim to take this forward through amendments to the Climate Change and Sustainable Energy Private Member's Bill, which has been introduced by Mark Lazarowicz. We plan to take broad primary legislative powers to make such changes in these areas in the future, through further more detailed amendments to the RO Order. Subject to successful passage of this Private Member's Bill through Parliament, we intend to remove the sale and buyback requirement for small generators from 1 April 2007, as well as making changes to the RO Order to implement the proposals in relation to agents. We will consult on the detail of these changes later in 2006.

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