

The RO: To Band, or Not To Band?

by Dr Gordon Edge, Head of Offshore

The key element of the Energy Review for most BWEA members is the package of reforms to the Renewables Obligation (RO) that the Government is proposing. The RO is the economic policy instrument that will ensure delivery of Government's aspiration for 20% of our power supplies to be provided by renewable energy.

There are a number of elements to this package:

- extension of the Obligation beyond the 15.4% level it will reach in 2015/16 through a 'guaranteed headroom' mechanism
- a new upper limit on Obligation levels of 20%
- a new mechanism to ensure that when the 20% level is reached, Renewable Obligation Certificate (ROC) prices do not crash
- breaking of the linkage of the buy-out price with the Retail Price Index (RPI) in 2015
- a proposal to 'band' the RO through giving different technologies different numbers of ROCs per MWh of banding, breaking the current one MWh = one ROC principle
- abolition of the current rules on co-firing.

In the RO as currently constituted, the Obligation levels set act as a limit on development, since if they were to be breached, there is the risk of a ROC price crash. The commitment to raise Obligation levels is thus to be welcomed, giving assurance that there will be a growing market for renewable electricity beyond 2015. Guaranteed headroom will have the additional benefit of reducing ROC price volatility through limiting variability in the recycle payments. If inflation runs at 2.5% through to 2015, then the current buy-out price of £33.24/MWh will rise to £40.50/

MWh; if the headroom is set at 1%, then while the Obligation increases up to the 20% limit, ROC prices will be in the range £42.60-43.40/MWh, starting at the higher end of the range and dropping to the lower end. With the breakage of the RPI link, the value will also drop in real terms. The equivalent figures for 2% headroom are £45.00-46.75/MWh. With lower price risk for suppliers, they should be able to pass a higher proportion of the value through to generators, thus reducing the 'leakage' of RO revenues out of the system.

The major effect of breaking the link between the buy-out price and RPI is to limit the impact on consumers of increasing the Obligation levels beyond 15.4%. With the breakage, a rise in the Obligation to 20% will mean little change in the amount of money that consumers will pay over the life of the RO. The corollary is that each ROC will be worth less in real terms after 2015. It is too early to say what effect this erosion of value in the later years will have.

There will be an additional reduction in ROC values once renewable generation reaches 20%. The Government will consult on a possible mechanism to avoid the possibility of a ROC price crash once this new upper limit on the RO is reached. This appears to be a version of the 'ski slope' idea that has been floated by some market participants, whereby once the Obligation level is reached, all ROC holders will pay a 'negative recycle', which forms a fund to pay those who have 'unused' ROCs, up to the value of 'used' ROCs; the more 'extra' ROCs there are, the higher this payment is and the less the value of each ROC. This will result in a steady decline in ROC values past the 20% mark, and thus should allow continued growth once this Obligation level is reached.

The most radical change proposed to the RO is the introduction of

banding. This would be a break with the philosophy of 1MWh=1ROC which has been seen as a key feature of the system, resulting in the cheapest renewables being incentivised over more expensive alternatives. More expensive technologies, such as offshore wind and marine renewables, would receive more than one ROC per MWh, while cheaper technologies, particularly landfill gas and co-firing, would get less than one ROC per MWh. Onshore wind may be 'ROced down', but this is open for consultation.

There are important commitments on grandfathering:

- projects that are currently operational will continue to get one ROC per MWh for their lifetimes
- new projects built before banding is introduced will get one ROC per MWh for their lifetimes if they are technologies that are to be ROCed down – though the exact criteria for this cutoff will be consulted on, since there is a question of fairness for projects which, for instance, have consent but cannot get a grid connection in time
- new projects built before banding is introduced, if they are technologies which are to be ROCed up, will get one ROC per MWh until banding is implemented, at which point they will get the higher multiple; the exception to this will be projects that have received other support, such as capital grants, e.g. Round One offshore wind projects
- Projects that are built after banding is introduced will get the same multiple of ROCs per MWh for their lifetimes, even if the multiple for new projects of the same technology is changed at a later date.

The changes to the arrangements for co-firing will see the lifting of the current limits on the use of co-fired ROCs by suppliers to satisfy their Obligation when banding is introduced. The quid pro quo is that all co-fired MWh will receive less than one ROC per MWh, i.e. there will be no grandfathering for co-firing. Co-

fired ROCs produced using dedicated energy crops will receive a higher multiple than those derived from biomass wastes; in the period before banding is implemented, Government is also proposing to exempt energy crop ROCs from the co-firing limits.

BWEA is pleased that the need for extra revenue for offshore wind and marine renewables has been recognised, though we will be taking a strong interest in the development of the detail of the new arrangements to ensure that the current strong growth of onshore wind is not significantly impacted. We also hope to work with Government to find ways to pump-prime offshore wind before the introduction of the new higher bands. There are many key questions to be answered, such as how ROC multiples are to be set and how guaranteed headroom will be practically implemented.

These questions and others will be addressed in a consultation that will be undertaken from September on the principle of banding, and another in early 2007 that will settle much of the detail should banding be agreed in the first consultation. BWEA is concerned about the uncertainty that will be caused by a protracted period of consultation and will be pressing for early decisions so that its members can continue with their business with confidence.

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Planning for large scale energy infrastructure

A summary of key issues and BWEA analysis

By Chris Tomlinson, Director of Operations

At the risk of being repetitive, if the Government is serious about trying to meet its own 10% renewable energy target by 2010 then it will require increased momentum in the delivery of onshore wind projects. The financial incentive is there for now, but in order for projects to be operational by 2010, planning decisions must be made by December 2007, just 17 months from now.

As ever, time is of the essence. A fundamental reform of the planning system for major projects is welcome, but it will not arrive in time to deliver the 2010 targets. As contained in the BWEA's Energy Review submission, Government should introduce the following initiatives with immediate effect:

- Issue advice to local planning authorities stressing that the risk of appeal costs being awarded to a developer due to non-determination will increase over time
- Introduce evolving targets for local planning authorities to incentivise decision making once the 16 week deadline has passed
- Publish statistical performances of local planning authorities
- Most importantly, introduce enforceable targets for decisions under Section 36 of the Electricity Act which if not met, can trigger an inquiry as is the case with local planning decisions.

The Energy Review correctly identifies the problems. The Energy Review correctly identifies where solutions are to be found. However, the Energy Review falls short of producing firm proposals to a timetable which

can be effective in delivering the Government's 2010 renewable energy target. It is not too late – yet, but Government must set decision making targets accompanied by incentives and enforcement by the Autumn of 2006 and not let further reviews jeopardise the delivery of onshore wind in meeting its targets.

Chapter 7 of the Energy Review Report provides clear evidence that the Government recognises the complexity, inconsistency and delay in the planning system and decision making processes for major energy infrastructure projects. In addition, Government accepts the associated negative impact that the planning process continues to have on investor confidence in the energy sector. The report also recognises the importance of Scotland and Wales in delivering major energy projects and highlights their intention to build closer relations with devolved administrations.

Of particular note is the Government's identification of the lack of time limits for the statutory decision making process, but the report is not clear on how to address this issue which is critical to successful onshore delivery and therefore key to meeting the Government's 10% renewable energy target by 2010.

Reform of the Planning System

The report suggests Government is committed to fundamental change in the planning system and proposes a programme of work to begin immediately to tackle the planning barriers for energy developments with a focus on strategic context, efficient consenting regimes and mechanisms to ensure timely action by decision makers.

BWEA warmly welcomes the recognition of the need to remove planning barriers and speed up decision making to allow for successful delivery of the Government's renewable energy