

# BWEA



Delivering the UK's wind, wave and tidal energy

## **Statutory Consultation on the Renewables Obligation Order 2009 Response by BWEA**

BWEA was established in 1978 and is the representative body for companies active in the UK wind energy market. Its membership has grown rapidly over recent years and now stands at 435 companies, representing the vast majority of connected wind generation capacity. BWEA also represents the interests of the emerging wave and tidal stream energy sector, building on its experience in the development of offshore wind.

The UK has the largest wind resource in Europe, and wind energy currently supplies approximately 1.5 million homes in the UK. It is important to support and encourage the growth of the sector and associated benefits. Wind energy is the fastest-growing renewable technology in the UK, and it will make an increasingly significant contribution to our electricity supplies over the next decade and beyond. The UK also has large wave and tidal resources that can make very significant contributions to our energy mix in the longer term.

Consequently, we welcome the opportunity to submit our comments on the statutory consultation on the Renewables Obligation Order 2009. We hope that Government pays close attention to this response.

We have set out our responses to the detailed questions in the consultation below. There is no direct question on the multiples being put forward for the bands, this having been consulted on previously. We note, however, that the evidence on which the levels of banding were based is now over a year old, and that since it was gathered, costs have risen. This issue particularly affects offshore wind, which has seen greater capital cost inflation not only due to the prices of commodities such as steel, but also due to limited competition in turbine supply for the sector, strong competition for turbines

from the onshore wind market, and strong activity in the offshore oil and gas sector, which competes for capacity and resources with offshore wind. This raises the possibility that the multiple of 1.5ROC/MWh will not result in sufficient revenue to enable projects to be built.

It is not yet clear that the increases in capital cost are deterring investment. The additional costs could be compensated by higher wholesale power prices, especially if they rise from current levels, but this is difficult to rely on over the period required to finance offshore projects. If Government extends the RO as proposed in the Renewable Energy Strategy consultation, with eligibility periods of 20 years for projects, then this counters some of the impact, and we urge Government to implement this change without delay. It is also not clear how much further capital costs may rise, and when they might peak and start to fall.

For these reasons, we are not currently calling for an increase in the ROC multiple for offshore wind, though this may be needed if the cost increases are large and sustained. However, we do believe that Government needs to be ready with a contingency plan to ensure that the development of offshore wind lifts off as we need it to do if the UK is to meet its commitments under the EU renewable energy target for 2020. This may take the form of a short-term additional incentive on top of 1.5ROC/MWh, so long as future costs can be seen to be peaking soon. An emergency review of the offshore wind multiple cannot be ruled out, however. Whatever route is taken to ensure the appropriate extra support, if any, is in place, having a clear plan will encourage early entrance of the new turbine suppliers required to increase competition in the market, and thus speed the point when costs start to decrease. We call on Government to work with the industry to establish the cost profile of offshore wind going forward, in order to ensure that the right incentives are in place to encourage market growth.

We note the recent announcement by the Scottish Government that the Renewable Obligation (Scotland) will include bands of 3ROC/MWh and 5ROC/MWh for tidal stream and wave power respectively. We regret the inconsistency this will cause in the Renewable Obligations, and call upon Government to bring forward a suitable UK-wide mechanism to support these emerging technologies that would remove the justification for different multiples in the RO(S). We direct BERR to the discussion of this subject in our response to the Renewable Energy Strategy consultation.

## **Section 1 – Principles of Banding**

### **Chapter 2 – Banding the Renewables Obligation**

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*Q. Are any of the definitions in Table 1 unclear, difficult to interpret or do they open the RO to gaming?*

The definitions set out for wind, wave and tidal stream appear unambiguous. BWEA leaves to others whether the definitions of other technologies are potentially open to gaming.

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*Q If so, what changes need to be made to them and why?*

See above.

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*Q What are the costs for micro landfill gas and micro sewage gas, and how should we ensure that there are no perverse incentives to deploy sub-scale plant?*

BWEA is not qualified to comment on the cost of micro landfill gas and micro sewage gas.

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*Q: Should the threshold for micro-hydro stations be raised above 50 kW?*

BWEA is not qualified to comment on whether the threshold for micro-hydro stations be raised above 50kW.

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*Q: If the threshold is raised do you agree with the approach that these stations would receive 2 ROCs for the first 50 kW of capacity and 1 ROC for the remainder?*

If the threshold for micro-hydro stations is raised above 50kW then the approach set out by Government appears reasonable.

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*Q: Should the Government allow offshore wind or marine generating stations located outside the UK and its waters with (i) an exclusive and direct connection to a UK transmission and distribution system and (ii) where they sell their electricity into the UK for supply to customers in the UK to benefit from the RO? Are there any risks or disbenefits?*

BWEA believes that where an offshore renewable generator is outside the UK and its waters, but is directly and exclusively connected to the UK network and sells its electricity to UK customers, then such generators should benefit from the RO.

BWEA notes that this may be a fairly rare occurrence, however, and the much more likely scenario is that projects on either side of territorial boundaries, or even straddling boundaries, are interconnected with each other and both the UK and other European countries. In this case, care must be taken to ensure that projects that should be eligible for the RO are not unjustly excluded through inaccurate drafting of the Order. Clearly this issue will be affected by the outcome of the current discussions in the European Council and Parliament on the flexibility mechanisms to be included in the directive implementing the EU 20% by 2020 renewable energy target.

### **Chapter 3 – Grandfathering**

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*Q: Do you agree with these transitional arrangements for existing stations using biomass or mixed waste?*

BWEA is not qualified to comment on the economic case for special transitional arrangements for existing stations using biomass or mixed waste. We would have some concerns if the additional ROC production that resulted were to significantly alter the demand/supply balance, though if the amounts detailed in the consultation document are correct these would be minor. We would, however, wish it to be very clear that this is a one-off adjustment and that the rules going forward will not allow similar arrangements in future.

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*Q: Do you agree with these transitional arrangements for stations affected by changes to definition?*

We are not qualified to comment on these technologies, but we would again emphasise that such arrangements should be one-off and should not be repeated in future.

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*Q: Have we caught the relevant grant schemes?*

BWEA does not know of any relevant grants not listed in Annex C of the consultation document.

### **Chapter 4 – Co-firing Cap**

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*Q Do you agree that, in the current absence of support for renewable heat production, co-firing with CHP should in some circumstances receive more support than co-firing which only generates electricity?*

BWEA strongly believes that renewable heat production should be recognised through a separate support mechanism outside of the RO, and urges Government to introduce such a mechanism without delay through the Renewable Energy Strategy process. Any additional support through the RO should therefore be only a temporary measure. While BWEA is concerned

about the additional ROC production involved, alongside the transitional measures for existing biomass plants mentioned above, we could accept these changes if the impact on the wider ROC market was limited. However, there is no analysis of how many additional ROCs would enter the market as a result, and therefore our concerns remain.

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*Q. If so do you agree with the proposals set out above?*

BWEA is not qualified to comment on whether the proposals are appropriate to the objectives.

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*Q. Are there specific changes that you would like to see to these proposed arrangements and if so why?*

No comment.

## **Chapter 5 – CHP QA Standard**

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*Q. Do you agree that these proposals will allow the majority of renewable CHP schemes to benefit fully from the RO?*

BWEA is not qualified to comment on this subject in detail. However, we would note that having the heat export from a CHP plant receiving a reward, such as the Renewable Heat Incentive that may result from the Renewable Energy Strategy, would obviate the need for a QA standard. If the power and heat from a CHP plant are both rewarded appropriately, then developers can make decisions about the relative outputs of the two that are not distorted by the fact that the power is the more valuable product, as happens now.

## **Section 2 – Operating the Banding Regime**

### **Chapter 6 – Calculating the Obligation**

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*Q. Do you agree that the mechanism set out above is the best way of delivering a headroom mechanism at an individual supplier level? If not are there preferable alternatives?*

The process set out appears to be a suitable way of delivering the headroom mechanism. The route of setting the Obligation through a number of ROCs per 100MWh gives suppliers certainty to plan their ROC purchases against, which will increase market confidence.

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*Q Are there other sources of information that the Government should use to predict the future size of the ROC supply market*

BWEA holds information from wind, wave and tidal developers on projects in operation, under construction, with consent and in planning. This data will be a useful cross-check for the other available sources mentioned in the consultation document. Developers/generators should have a route to provide input if they believe their projects/installations are significantly incorrectly represented.

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*Q. Do you agree with this approach or do you see a clear benefit in the immediate future of having a ski slope mechanism of the type described in the Government Response to consultation (paragraphs 4.7ff)?*

BWEA believes that the headroom mechanism plus the ability of suppliers to bank ROCs for future periods should provide adequate protection against the risk of the 'cliff edge'. Should Government, as a result of the Renewable Energy Strategy consultation, set a new 'hard' limit on the RO in excess of the 20% currently envisaged, then careful thought will have to be given to what happens when this limit is approached. This can be addressed in future scheduled reviews of the RO. It is likely that the issue will have to be resolved through the review due for implementation in April 2018 at the latest. Action at this time is not required.

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*Q. If you disagree, what value would you place on this benefit?*

No comment.

## **Chapter 7 – Advice on setting future Banding levels**

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*Q. Do you agree that consultants should be appointed to provide independent advice to the Secretary of State in order for them to make decisions on band setting for scheduled and emergency reviews?*

BWEA agrees with the proposal that consultants should be appointed to carry out analysis and give independent advice on setting of bands in future reviews. It is important that the terms of reference for these consultants are clear and public: we would welcome an opportunity to review and influence those terms of reference at an appropriate time.

The most important point about this process, regardless of who undertakes the analysis, is that industry should be given the opportunity to engage on a confidential, open-book basis so as to show true costs of technologies and ensure banding levels are appropriate. This process of open-book engagement was performed for the original band-setting last year, and resulted in widespread buy-in to the results.

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*Q. Do you agree that RAB should be given a formal role to peer review any work carried out by the appointed consultants prior to advice being given to the Secretary of State?*

We agree that peer review of the work carried out by consultants is required, and that RAB is an appropriate body to carry out such review. We would welcome opportunities for industry participants not represented on RAB to be able to channel their views through the Board in an appropriate manner if this form of review is to be the only route for comment on the analysis, however.

## **Section 3 – Biomass and Waste Issues**

### **Chapter 9 – Sustainability Reporting**

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*Q. Are there any other environmental quality assurance schemes you think should be considered?*

BWEA is not qualified to comment on this question.

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*Q. Will reporting on the above criteria allow generators to provide an 'accurate' representation of the sustainability of any given biomass fuel? If not what other criteria should be specified?*

BWEA is not qualified to comment on this question in detail. We note, however, the need to have strong sustainability criteria in place if the UK is to ensure its biomass plants are operating in a sustainable way regardless of where the fuel is sourced from. The criteria should be consistent across the electricity, heat & transport sectors.

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*Q. Do you agree that Ofgem should be able to postpone ROCs equivalent to the number of ROCs the Annual report refers to where:*

*(i) the report is not provided by a set date?*

*(ii) information on biomass type etc is not provided*

*(iii) an Ofgem audit reveals the information was available and a response of "no information available" has been returned?*

In our view it appears reasonable for Ofgem to implement an incentive scheme such that failure to comply leads to postponement and at the extreme lose its entitlement to ROCs for that project within a particular compliance period. Since the value of ROCs depends on the total number of them in circulation in any given period, then BWEA would welcome clear rules on this matter and well-publicised indications of when these rules are being invoked. Having a well defined and clear set of sustainability criteria will help avoid these kind of reporting difficulties, and thus limit postponement of ROCs to a few rare cases.

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*Q. Do you agree that reports should be provided by two months after the end of the compliance period?*

BWEA believes that a two-month period for providing reports is an appropriate limit for this process.

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*Q. Do you agree that the cut-off point for providing the information required should be three months after the date for submitting the report?*

This date for the cut-off point appears to be an appropriate time limit.

## **Chapter 10 – Determining the biomass content of waste and fuels produced through anaerobic digestion, gasification and pyrolysis**

*Q. Will this approach address the concerns of industry regarding access to ROCs for eligible EfW technologies whilst ensuring ROCs are not issued for non-renewable generation?*

BWEA is not qualified to comment on this question.

*Q. Do you think waste composition contracts should be the primary form of evidence used to determine the renewable content of mixed waste? If not what would you suggest is used?*

BWEA is not qualified to comment on this question.

*Q. Do you think the proposed approaches to determining the renewable content of fuels produced through anaerobic digestion, gasification or pyrolysis strike the right balance between accuracy and ensuring that ROCs are not issued for electricity generated from fossil fuel? If not, why not, and how should this balance be struck?*

BWEA is not qualified to comment on this question.

## **Chapter 11 – Mixed Fuel Scenarios**

*Q Are there any mixed fuel scenarios missing from the above analysis?*

BWEA is not qualified to comment on this question.

*Q Do you agree with the treatment of co-firing fuels produced through anaerobic digestion, gasification or pyrolysis? Do you have any evidence of such projects coming forward?*

BWEA is not qualified to comment on this question.

## **Chapter 12 – Neutrality to Solid Recovered Fuel (SRF)**

*Q. Do you agree with the definition of SRF for the purposes of distinguishing it from other waste under the RO?*

BWEA is not qualified to comment on this question.

## **Section 4 – Technical and Administrative Changes**

### **Chapter 13 – Funding Ofgem’s Administration of the RO**

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*Q. Do the new funding arrangements have any unintended consequences?*

Although this proposal will result in reduced recycle payments and returns for participants it seems fair for the participants to bear the cost of the RO. We would like to see continued vigilance on the costs of administration to ensure the recycle values are not impacted to a significant level.

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*Q. Are there any alternative arrangements which would be more appropriate?*

BWEA is not aware of any alternatives.

### **Chapter 14 – Reduction of transaction costs associated with Late Payments Fund**

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*Q. Do you agree with the proposal to set a threshold for repayment of the late payment fund?*

Yes.

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*Q. Is £50,000 the right level?*

Yes.

### **Chapter 15 – Private Wire Networks**

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*Q. Are there any examples that our common themes would not capture? What are they?*

Island communities, though these would often also be relatively isolated rural communities too.

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*Q. Do you agree that it should be limited to 200 kW? If not what size would be appropriate?*

BWEA welcomed the amendments to the ROO in 2007 to remove the need for sell-and-buy-back agreements. However, this need was not removed for third party companies (i.e. not the host company or a supplier) aiming to

develop and own onsite generation, selling the output to the host: they are still required to organise these agreements and have them signed off by Ofgem. This is a significant bureaucratic barrier to maximising the delivery of onsite renewables.

Unless this administrative anomaly is removed, then imposing a limit of 200kW on simplifications for private wire networks will have no effect in promoting onsite wind generation, since the large majority of projects of this type are bigger than that maximum. Government should either readdress the issue of sell-and-buy-back agreements for third party onsite developers, or lift the proposed cap. The former would appear to have the least potential for generating anomalies in the market, but including private wire networks with larger generators, up to a handful of MW in size, within permitted ways provisions should be considered.

The important point is to ensure that this type of generation brought forward by third parties is not subject to administrative barriers that other owners do not face. Without these third party developers, it is unlikely that the full potential of this resource will be exploited.

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*Q. Are we right that a private wire network should not include one operated over the national grid?*

Yes. We also believe that there should be a stipulation that the electricity produced must be consumed within the UK.

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*Q. Should we limit the number of customers supplied?*

BWEA does not see a need to do this if the maximum amount that can be supplied is limited.

## **Chapter 16 – Microgeneration**

### **Metering Arrangements**

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*Q Is a two month window sufficient?*

Yes, this is a welcome change that should give enough flexibility for small generators to take their meter reading.

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*Q Are there any unintended consequences arising from this change?*

There may be a slight financial impact if the resource (sunlight, wind, hydro) in the two months in the pro-rata period is significantly different on average to the rest of the year. However, this effect is small, and is preferable to retaining the existing five day leeway.

## **Clarifying the position on small generators notifying Ofgem that they wish to use an agent**

*Q. Do you agree that there should be the option for notification of the appointment of an agent to be sent either by the generator or via their agent?*

Yes.

## **Allow small generators (50 kW and under) to switch agents during an obligation period**

*Q. Should there be a limit on the number of times a generator can switch agents?*

No, unless the administrative burden on Ofgem results in higher costs and thus a higher deduction from the buyout fund.

*Q. Are there any unintended consequences of allowing generators to switch agents during an obligation period?*

Not as described.

## **Introduction of a Voluntary Code of Practice for Agents and Allowing Agents to Accredite Small Generators**

*Q: Do you agree with the principle of introducing a code of practice?*

Given the desired increase in microgeneration in the UK and thus higher numbers of installations in the future, this would seem to be a sensible concept.

*Q: Should the code of practice be voluntary or compulsory?*

Voluntary, as long as the public is aware of the scheme.

*Q: What could a voluntary code of practice include?*

We would leave this to the subsequent engagement, were the concept approved. However, the initial list seems to be a good starting point.

*Q: Who should operate the code of practice?*

We believe a third party should be responsible, in order to free Ofgem to concentrate on the 'core' RO only.

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*Q: How should a code of practice be funded?*

BWEA believes the cost should be borne by the agents, particularly so if the code is voluntary.

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*Q: Should we consider further, the proposal for agents to accredit small generators?*

This proposal should be pursued further, as long as the checks and balances are in place to ensure agents are not acting in an unscrupulous manner. BWEA's proposal for support of small generators, as set out in our response to the Renewable Energy Strategy consultation, adapts the existing structure of the RO: small generators would continue to be accredited. It would therefore be highly important that the accreditation procedures be simplified under this scheme, if Ofgem are not to be intolerably burdened. Allowing agents to accredit small generators would help significantly in this regard.

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*Q: Are there any alternative options which would reduce the administration associated with the participation of small generators in the RO?*

With the introduction of agency arrangements under the ROO 2007, it appears appropriate to extend agents' role so as to reduce the administrative burden. With our proposal for supporting small generators, this becomes even more vital. BWEA is not currently aware of other options which could do so effectively, but is willing to take an active role in developing new tools to increase the usability of the RO for smaller generators.