

EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION (AMENDMENT) ORDER (NORTHERN IRELAND) 2013

2013 NO.

1. Introduction

- 1.1 This Explanatory Memorandum has been prepared by the Department of Enterprise, Trade and Investment to accompany the Statutory Rule (details above) which is laid before the Assembly.
- 1.2 The powers under section 2(2) of the European Communities Act 1972 (as read with paragraph 1A of Schedule 2 to that Act) are used to make Article 27 of this Statutory Rule: The remainder of the Rule is made using powers conferred by Articles 52 to 55F and 66(3) of the Energy (Northern Ireland) Order 2003 and is subject to the draft affirmative resolution procedure.

2. Purpose

- 2.1 This Statutory Rule amends the Energy (Northern Ireland) Order 2003 and the Renewables Obligation Order (Northern Ireland) 2009 (the "2009 Order") in order to introduce changes to the Northern Ireland Renewables Obligation (NIRO).

3. Background

- 3.1 Articles 52 to 55 of the 2003 Energy Order provide the framework for the introduction of an obligation (a 'renewables obligation') on electricity suppliers requiring them demonstrate the supply of electricity from renewable energy sources to consumers. The current detail of that obligation (the 'NIRO') which was introduced in 2005 is contained in the Renewables Obligation Order (Northern Ireland) 2009.
- 3.2 The proposed Rule will amend the 2009 Order by:
 - Extending the lifetime of the Northern Ireland Renewables Obligation until 31 March 2037, allowing generators accrediting up until 31 March 2017 to receive the full 20 years support;
 - Introducing a six month extension for biomass combined heat and power (CHP) projects seeking accreditation until 30 September 2015;
 - Introducing a new band for closed landfill gas projects in 2015 at a ROC support level of 0.2 ROC/MWh;
 - Introducing a new band for Waste Heat to Power for both open and closed landfill sites in 2015 at a ROC support level of 0.1 ROC/MWh;

- Reducing ROC support levels for large-scale technologies (above 5MW) including onshore wind, offshore wind, solar PV, hydro and anaerobic digestion;
- Reducing ROC support for solar PV above 250kW and the introduction of new bands for building-mounted and ground-mounted solar installations;
- Increasing ROC support for marine projects (wave and tidal) from the current 2 ROCs/MWh to 5 ROCs/MWh;
- Introducing a 6 month 'grace period' for large scale onshore wind;
- Amalgamating Advanced Conversion Technologies bands - (gasification and pyrolysis);
- Reducing support for standard co-firing and regular co-firing of bioliquids from 1 May 2013 until 1 April 2015.

The effect of these proposed amendments is described in more detail below.

Policy Objectives of the Statutory Rule

3.3 The proposed Renewables Obligation (Amendment) Order (Northern Ireland) 2013 has a number of objectives some of which are UK-wide and others are specific to Northern Ireland. The objectives are:

a) Extending the lifetime of the NIRO to 31 March 2037

DETI intends to extend the current lifetime of the NIRO from 2033 to 2037. This will align the end dates of all three ROs across the UK and gives assurance to Northern Ireland generators accrediting up until the 31 March 2017 that they will receive the full 20 years support.

b) Six month extension for Combined Heat and Power (CHP) projects

The recent consultation on changes to the Northern Ireland Renewables Obligation (NIRO) included a proposal, in line with the other two Renewables Obligations, to introduce CHP transition arrangements which would see the ending of the 0.5 ROC uplift for CHP projects after 31 March 2015. Instead, projects accrediting after this date would be required to take the relevant ROC level for electricity only generation together with the relevant Renewable Heat Incentive (RHI) tariff in place at that time.

Work is currently underway in Northern Ireland to determine an appropriate RHI tariff for biomass over 1MW and whilst this is intended to be in place by 1 April 2015, the Department is unlikely to be in a position to consult on the proposed tariff before mid 2013. This presents a difficulty for large scale biomass CHP projects which are already in development or nearing financial close which may accredit after 1 April 2015 but do not have a clear indication of the appropriate RHI support level.

Given the longer lead in time to introduce a RHI tariff for large scale biomass in Northern Ireland, the Department is therefore proposing to introduce a six month extension of the current band until 30 September 2015 for CHP projects accrediting under the NIRO. In order to be eligible for the extension, projects must be commissioned and accredited under the NIRO by 30 September 2015.

c) New band for closed landfill gas projects in 2015

The band for open landfill gas sites will remain in place until 31 March 2015 after which it will close. There is a case for continued support to improve methane collection and electricity generation at closed landfill sites, based on the additional costs for closed sites. As such we intend to provide support at 0.2 ROCs/MWh for generating stations accrediting or additional capacity added from 1 April 2015, which use gas from closed landfill sites only.

d) New band for Waste Heat to Power for both open and closed landfill sites in 2015

Waste heat to power (WH2P) generates further electricity through an organic Rankine cycle process, giving up to 10% higher efficiency. It is particularly suited for sites such as landfill where CHP is not an option as there is no local heat customer. From a policy perspective the fitting of WH2P on new and existing landfill sites could be a cost-effective way of contributing to our renewables target, and would also make most efficient use of landfill gas resource.

Given the policy benefits of more efficient landfill gas generation and lack of deployment to date, it has been decided to introduce support at 0.1 ROCs/MWh for electricity generated by new WH2P from landfill gas. This support will be available to WH2P fitted after 31 March 2015 on both existing stations as well as new stations using gas from any landfill site.

e) Decrease in ROC support for large-scale technologies

Onshore wind

Large scale onshore wind will reduce from 1 ROC to 0.9 ROCs in line with the consultation proposal. However, this level is not guaranteed beyond 2013/14 as a UK-wide call for evidence is currently ongoing to determine if further reductions are necessary. The reduction in support is based on evidence of falling costs. It is expected that capital costs in this sector will continue to fall. Our understanding of costs is strongly evidenced and is based on extensive analysis of pricing expectations by generators, manufacturers and independent third parties.

Hydro

A reduced level of 0.5 ROC/MWh had been proposed for large scale hydro projects (from the current 1 ROC). This figure was based on the potential for further

development and capital costs based on economies of scale. However, following consultation, support will be reduced to 0.7 ROCs/MWh.

Offshore wind

Of all the renewable technologies, offshore wind offers the best scalable, mass deployable option and the costs of offshore wind are expected to fall as the technology develops and matures and as industry benefits from learning and economies of scale.

Under the current arrangements, offshore wind would receive 2 ROCs/MWh in 2013/14 and 1.5 ROCs/MWh from April 2014. It is intended to set the level of support for offshore wind at 2 ROCs/MWh for new accreditations and additional capacity added in 2014/15, reducing to 1.9 ROCs/MWh for new accreditations and additional capacity added in 2015/16 and 1.8 ROCs/MWh for new accreditations and additional capacity added in 2016/17.

Solar PV

Following the recent UK-wide, large scale solar PV consultation, it has been decided to establish two separate bands for solar PV under all three ROs, one band for building-mounted solar PV and the other band for ground-mounted solar PV.

Under current arrangements, solar PV up to 50kW receives 4 ROCs whilst solar PV above 50kW up to 250kW receives 2 ROCs. In line with the other two ROs, we are proposing that the following new ROC levels will apply to new accreditations and additional capacity added above 250kW.

For the building-mounted solar PV band, it has been decided to set the level of support at 1.7 ROCs/MWh for new accreditations and additional capacity added in 2013/14, reducing to 1.6 ROCs/MWh for new accreditations and additional capacity added in 2014/15 and then to 1.5 ROCs/MWh for new accreditations and additional capacity added in 2015/16 and 1.4 ROCs/MWh for new accreditations and additional capacity added in 2016/17.

For the ground-mounted solar PV band, it has been decided to set the level of support at 1.6 ROCs/MWh for new accreditations and additional capacity added in 2013/14, reducing to 1.4 ROCs/MWh for new accreditations and additional capacity added in 2014/15, 1.3 ROCs/MWh for new accreditations and additional capacity added in 2015/16 and 1.2 ROCs/MWh for new accreditations and additional capacity added in 2016/17.

4. Consultation

- 4.1 An initial 12 week statutory consultation on the proposals was carried out and concluded on 27 January 2012 with 48 responses received. A follow-up

consultation specifically on large scale solar PV and biomass sustainability and value for money was also undertaken in late 2012. Part A on solar PV and biomass was concluded on 4 December 2012 with 10 responses. Part B on biomass sustainability concluded on 15 January 2013 with 2 responses to DETI. The majority of the proposals in both consultations mirrored those set out in the consultation documents on the Renewables Obligation for England and Wales and the Renewables Obligation Scotland.

4.2 A full list of consultation responses can be viewed at <http://www.detini.gov.uk/deti-energy-consultations.htm>

5. Equality Impact

5.1 The Renewables Obligation is a market-based mechanism whose rules apply in a non-discriminatory way to its participants. The proposed changes will not alter this position. It was therefore found that a full EQIA was not considered necessary.

6. Regulatory Impact

6.1 The size of the whole Northern Ireland electricity market within the UK is approximately 2.5% of total consumption and the relative costs and benefits associated with the changes must be seen within this context. The special arrangement that Northern Ireland has within the UK-wide operation of the Obligation means that the Obligation level imposed on suppliers here is much lower than that in GB and indeed is much lower than the actual renewables generation in NI. This restricts the impact of any changes to NIRO support levels on consumer costs. A Final Regulatory Impact Assessment can be viewed at http://www.detini.gov.uk/deti-energy-index/deti-energy-sustainable/northern_ireland_renewables_obligation_.htm

7. Financial Implications

7.1 The NIRO is a market-led support mechanism through which the cost of providing support to renewable generators is borne by electricity consumers. There are no financial implications for DETI.

8. Section 24 of the NI Act 1998

8.1 This Rule does not contravene section 24 of the Northern Ireland Act 1998.

9. EU Implications

9.1 There are no associated EU implications. The Renewables Obligations (including the NIRO) are support measures implemented in line with recommendations of the EC Renewables Directive (EC/2001/77), but are not a mandatory requirement of the Directive.

9.2 It is also important to note that the amendments to the NIRO are subject to state aid clearance by the European Commission. This process is currently ongoing.

10. Parity or Replicatory Measure

10.1 Similar legislation is being introduced in Great Britain in respect of the Obligations in Scotland and in England & Wales. It is proposed that the rule will be laid before the NI Assembly in March with the intention that it will come into operation with effect from 1 May 2013.

10.2 The main difference between the GB and NI legislation is around the proposed extension of the NIRO lifetime to 31 March 2037 and the introduction of a six month extension for Combined Heat & Power projects.

11. Additional information

11.1 Not applicable.

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Department Of Enterprise, Trade and Investment
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