

# **Business and Regulatory Impact Assessment for the Renewables Obligation (Scotland) Amendment Order 2015**

## **Title of proposed regulation**

Renewables Obligation (Scotland) Amendment Order 2015

## **Purpose and Intended Effect of Measure**

### Objectives

1. The prime objective of the Renewables Obligation Scotland (ROS) is to drive forward investment in renewable electricity in Scotland.
2. Scottish Government policy supports the deployment of biomass, particularly off gas-grid and at a scale which maximises heat use and local supply. Biomass has an important part to play in meeting renewable energy targets, and especially in the delivery of our 11% renewables heat target.
3. We recognise the importance of ensuring that biomass used for electricity generation is sustainable and delivers genuine carbon savings. ROS legislation includes reporting and sustainability criteria provisions for generators using biomass for electricity generation.
4. The main changes introduced by the Renewables Obligation (Scotland) Amendment Order 2015 are:
  - (1) Making compliance with the sustainability criteria mandatory for generating stations of 1MW or above which use solid biomass and biogas.*
  - (2) Tightening the greenhouse gas emissions (GHG) targets for 2020 and 2025 and averaging GHG emissions across the year.*
  - (3) Technical adjustments to the reporting requirements and sustainability criteria for solid biomass and biogas.*

### Rationale for Government Intervention

5. There is currently a requirement on power generators using solid and/or gaseous biomass under the ROS to provide sustainability reports on the biomass used. This includes reporting on land use and greenhouse gas emissions. The requirement is to provide a report to the best of the generator's knowledge, but as yet there is no formal sanction for reporting that the criteria has not been met.
6. As announced at the time of the introduction of the reporting requirement, the Scottish Government intends to formally link meeting the criteria with eligibility for Renewables Obligation Certificate (ROC) support.

7. To address the need for GHG target to tighten over time reflecting UK ambitions on carbon reductions post 2020, the Scottish Government intends to set a reducing GHG trajectory with steps in 2020 and 2025.

8. Subject to Parliamentary procedure the Scottish Government plans to implement in December 2015 the changes set out in this note to maintain the effectiveness of the ROS.

## Consultation

### Within Government

9. The ROS and the related consultations have been subject to discussions within the Scottish Government's Energy and Climate Change Directorate, and circulated to colleagues in other Departments with an interest, notably the Forestry Commission Scotland. The UK wide nature of the RO mechanism has been reflected in regular discussions with colleagues in the Department of Energy and Climate Change, the Department of Enterprise, Trade and Investment in Northern Ireland and Ofgem (who administer the renewables obligation scheme).

### Public Consultation

10. This order is implementing policy decisions made following a number of consultations relating to biomass sustainability criteria including:

- i. a consultation which took place between 5 October 2012 and 11 January 2013 which sought views on proposals to enhance biomass sustainability criteria.
- ii. a consultation which took place between 13 August 2014 and 5 November 2014 which sought views on five technical adjustments to the reporting requirements and sustainability criteria for biomass.

## Policy decision

11. The new sustainability controls for use of solid biomass and biogas include a tighter GHG emissions target reflecting pan-UK ambitions on carbon reductions post-2020.

Table 1: GHG emissions thresholds for RO generators using solid biomass and / or biogas

|  | <b>From 1 April 2014</b>      | <b>From April 2020</b>        | <b>From April 2025</b>        |
|--|-------------------------------|-------------------------------|-------------------------------|
| New dedicated biomass accredited on or after 1 April 2013  | 240 kg CO <sub>2</sub> eq/MWh | 200 kg CO <sub>2</sub> eq/MWh | 180 kg CO <sub>2</sub> eq/MWh |
| All other biomass (including existing co-firing, conversions and dedicated biomass accredited no later than 31 March 2013) | 285 kg CO <sub>2</sub> eq/MWh | 200 kg CO <sub>2</sub> eq/MWh | 180 kg CO <sub>2</sub> eq/MWh |

12. The GHG emissions thresholds are based on the average of all consignments to provide some flexibility, with the addition of a ceiling to ensure each individual consignment deliver a good level of savings

Table 2: GHG emissions ceilings for RO generators using solid biomass and / or biogas

| <b>From 1 April 2014</b>      | <b>From 1 April 2020</b>      | <b>From 1 April 2025</b>      |
|-------------------------------|-------------------------------|-------------------------------|
| 285 kg CO <sub>2</sub> eq/MWh | 270 kg CO <sub>2</sub> eq/MWh | 260 kg CO <sub>2</sub> eq/MWh |

13. The intention of the policy is to ensure sustainability criteria changes are implemented in a way that minimises disruption to industry whilst ensuring the use of biomass is put on a sufficiently ambitious GHG trajectory.

### **Costs and Benefits**

14. The impacts in this paper associated with introducing changes to biomass sustainability criteria are drawn from DECC's impact assessment<sup>1</sup> and apply at a pan-UK level. This reflects both the combined and near identical nature of the obligation as well as consistent approach taken across the UK as regards these issues.

15. Tighter sustainability standards could reduce the amount of biomass in electricity generation, which would have to be replaced by other technologies to meet renewable and GHG targets. The resource cost / benefit is uncertain and depends on the cost of alternative generation. For example if bioenergy is displaced by onshore wind there is assumed to be a resource benefit, however if it is replaced by offshore wind there is an overall resource cost.

### **Small / Micro Firms Impact**

16. Small businesses involved in licensed electricity supply should not experience any additional burdens from this set of proposed amendments.

### **Legal Aid Impact Test**

17. This test is not considered relevant to the changes to the ROS.

### **'Test Run' of Business Forms**

18. The changes to the ROS do not involve business forms.

### **Competition Assessment**

19. The ROS is a market-based instrument that operates in a competitive market for electricity. The rules of the ROS apply in a non-discriminatory way to all participants in the renewables industry and electricity sector. It is intended that this will remain the case.

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<sup>1</sup> <http://www.legislation.gov.uk/ukdsi/2015/9780111138359/impacts>

## **Enforcement, Sanctions and Monitoring**

20. The ROS, like all UK Renewable Obligations, is administered and enforced by Ofgem. Non-compliance is considered a breach of a 'relevant requirement' of the Electricity Act and Ofgem may impose appropriate sanctions. Ofgem reports annually on its administration of the Obligations and conducts regular audits in relation to compliance.

21. From 1 December 2015, ROCs will be issued on a monthly basis only for those individual consignments that meet the GHG emissions threshold (Table 1). For any consignment above the GHG threshold but below the relevant ceiling (Table 2), ROCs will be withheld until the end of the obligation period. At the end of the obligation period, the annual average GHG emissions from all consignments of solid and gaseous biomass would be calculated, and only if it is below the GHG threshold, would the withheld ROCs be issued.

## **Implementation and Delivery Plan**

22. The Renewables Obligation (Scotland) Amendment Order 2015 is being laid before the Parliament during September 2015, and is due to come into force with effect from 1 December 2015.

## **Summary and Recommendation**

23. The recommendation is that the proposed changes be made to the ROS. This will maintain its effectiveness as part of a UK renewable electricity market, while supporting progress towards and the achievement of the Scottish Government's renewable electricity targets.

## **Declaration and Publication**

24. I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.