

Energy perspectives

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cornwallenergyassociates

Sustainable and non sustainable views about the role of renewables

The issue of sustainable energy policies and the role of renewables and the renewables obligation (RO) in achieving them has moved firmly back under the spot light over the past fortnight. This comes at a time when we appear set to be well short of the 20% carbon reduction goal for 2010, and that the forthcoming climate change programme review (CCPR) will need to signal policy changes.

More immediately, DTI has indicated that it intends to make modest enhancements to the RO, almost simultaneously with a report from the parliamentary Public Accounts Committee (PAC) that highlights the growing costs of renewables support and the inability of parliament and government to keep tabs on the level of the de facto subsidy already met by the public.

Generally speaking neither report should come as a surprise, but their coincidence raises some important issues in advance of the CCPR, not least because of the divergence of view and necessary next steps the different reports reveal.

DTI plots steady course

The most important of these documents—simply because it

¹ 2005/6 Review of the Renewables Obligation Preliminary Consultation.

² Indicators of Sustainable Development for Scotland: Progress Report 2005.

is likely to result in tangible measures—is the DTI statutory consultation on the RO. Despite all the surrounding noise DTI is to be complimented on a measured report that plots a steady course of sensible change. It has done so despite assiduous lobbying by conflicting interests, which is commendable.

The new consultation appeared on 16 September and takes the form of a statutory consultation on proposed changes to the RO Order. It follows on from a preliminary consultation that closed in June.¹ At a first read it contains nothing too shocking – in fact DTI is at pains to emphasise that minimum necessary change is the order of the day - though a decision to do nothing about post-2015 Obligation levels may come as a surprise to bankers and developers.

The substantive portion of the document addressing possible changes is preceded by a short section on the effectiveness of the Obligation, which is mostly unremarkable. The exception is a comment reaffirming the government's position that support for 'longer-term' renewables should be provided outside the Obligation. The recent Scottish Executive announcement² in support of multiple ROCs for wave and tidal

technologies is referenced cryptically, suggesting government is not at one on this issue.

Mixed news for energy from mixed wastes

The preliminary consultation set out a number of options for expanding the eligibility rules of the RO to certain waste-to-energy technologies. Currently only 'advanced' technologies get ROCs, for the biomass portion of the waste stream only. The government is proposing to change the rules, but not to introduce the more extreme measures they had floated in the initial consultation.

They are also proposing to implement the 'waste neutral'





idea. Under this scheme, generators could get full ROCs for biomass fuel when it is co-fired with waste. At the moment if a generator uses waste and biomass in the same month, then none of that plant's output is eligible for ROCs. This measure should serve to increase the supply of biomass ROCs, as developers use the flexibility that the rule change brings to build plant that can mix fuel streams and switch to take advantage of market conditions, though planning difficulties—especially strong for waste-derived energy—will remain.

The second recommendation here is to lower the threshold whereby a fuel is counted as biomass eligible for ROCs from the current 98%, perhaps to a figure in the range 90-95%. Again, this relaxation should result in a modest number of additional biomass ROCs being supplied to the market.

Both measures are eminently sensible. But potentially the most significant change that is proposed in this area is the extension of ROC eligibility to CHP plant that burns waste, though still for the biomass portion only. According to supporting analysis by Ilex, such plants could contribute 2-4% of total ROCs in 2011-2015 and 3-5% by 2021.

More generally the govern-

ment is to await the outcome of the CCPR before making a decision on the proposal to exempt CHP power from the Obligation. It notes that were a positive decision made, it would require further consultation and primary legislation, but it is impossible to deduce from the little that has been said how government is minded.

In all, the proposed changes to waste-based technologies will have second order effects on the economics of biomass in the RO, bringing forward some marginal projects but not massively increasing the viability of waste or biomass generators.

Targeting higher cost technologies

The issue of a possible 'exit strategy' for lower cost renewables is tackled officially for the first time. As a general principle, DTI proposes that technologies being phased out of the Obligation get ROCs for a time- or output-limited period. The government has resolved that on-shore wind should **not** have its eligibility changed at present, but it should be reviewed at some point in the future in the light of trends in power and carbon prices and of the costs of new wind projects. While some critics of current levels of renewables support will be concerned at this, proceeding otherwise at this stage would have been suicidal to market confidence in the RO at this time. But, the document does suggest immediately applying the principle to landfill gas (LFG). It envisages new LFG projects getting support for, or equivalent to, 8-10 years' output, this rule coming into effect in April 2009.

The proposed notice date for

withdrawal of LFG is 3½ years from now. DTI is also consulting on whether projects of <IMV should continue to get full support from the RO while larger ones could have a limit on output that gets ROCs. In this context, there is also a para noting the earlier resolution of the NFFO-3,4,5 issue, which despite its initial indications to the contrary will remain ROC-able.

Obligation Levels beyond 2015

The government has taken the position that it will not be announcing any change to the Obligation levels beyond 2015 at this time. However, it hints that the 'fixed headroom' option – whereby the RO target in any one year would always remain a specified margin above output levels already achieved – is still open: "The timing and nature of those decisions, including the case for alternative approaches to decision making on Obligation levels, will be considered further over the coming year in the context of the CCPR and alongside other relevant policy considerations." This approach is logical given the sensitivity of targets to decisions on CHP.

ROC market stable

Government has come out against changing the rules on ROC revocation and allowing non-suppliers to present ROCs, two options for increasing liquidity in the market. It is also not persuaded by the arguments for an independent ROC market operator, replacing Ofgem's role, and the need for an appeals mechanism. Shorter obligation periods are also rejected. The weight of evidence against these change proposals, the increased

complexity they would bring and the questionable benefits that might arise thoroughly justify DTI's position, in our view, on these matters.

But a number of detailed enhancements relating to ROC issue and management are proposed. Pre-accreditation, where projects can be deemed ROC-eligible before construction, is accepted with the caveat that it will only be done for projects with planning permission. The timescale for ROC issue will not be shortened, but there will be more flexibility on penalties for late applications for ROCs. Article 4(10)(c) declarations should be made on an annual basis. The supplier compliance timetable will be tightened, which would bring forward payment of the recycle fund by one month to 1 November. DTI says it also sees the case for a more transparent complaints procedure.

Smaller generators (sub-50kW) will also see simpler administrative arrangements. Agents will be allowed to act on behalf of such generators, amalgamating output and thence allowing Ofgem to issue ROCs to agents, requiring primary legislation. All these changes reflect common sense and represent enhancements to the detailed workings of the RO.

Pacifying the PAC?

Against this background the report from the PAC strikes a somewhat discordant note. Its timing is, though, curious, the day before the DTI release. The timing is though understandable as it is highly probable that

PAC's findings would have been a great deal less newsworthy had they been issued after the report. The relative cost of renewable support – which the report highlights – is no secret, but taken in the round the DTI report demonstrates that government is convinced of the need to evolve towards a more targeted approach. And it does so in a way that provides a clear signal that it recognises the dangers of tinkering and the effect this can have in fuelling perceptions of regulatory risk.

DTI has responded to the criticisms succinctly. A spokesman for the DTI reported in the *Times* said: "The costs of the RO have to be seen in the context of the overall cost of electricity to consumers. The NAO estimates that the RO will result in a price increase of 5.7% by 2010. We believe this is a price worth paying for a key step towards reducing emissions."

But bigger ticket issues loom

More damaging is a recent report from Cambridge Econometrics (CE), which widens the debate on the role of renewables within the low carbon programme and raises some important issues about the balance of policy and the credibility of some of the government's underlying assumptions and targets.

Ministers have been preparing the way for a shift of emphasis – and probably a down-grading of national targets – since last Autumn. The extent of the likely shift is now being brought into much sharper relief, with the CE



report suggesting a wide margin without reworked policies. The choice highlighted is either to reduce considerably the allocation of permits in phase 2 of the EU emissions trading scheme (in the absence of a further surge in carbon permit prices well above the 25EUR level seen of recent in the market) or the introduction of bold policy measures to reduce emissions in other sectors. At the same time all the stops need to be pulled out within existing programmes to ensure as much progress towards targets as possible.

To this agenda the government must add structural issues within the renewables markets that have not been addressed within the RO review. They include problems caused by dominance of the incumbent suppliers in cherry picking schemes, and issues about routes to market for independent developers. Transmission issues—access to the system and pricing issues—are also lurking in background and so far have proved intractable. Planning and amenity issues continue to be problematic at the local level. The real debate has only just begun.

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