

EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION CLOSURE ORDER (NORTHERN IRELAND) 2016

2016 NO [XXXX]

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 to be laid before the Assembly.
- 1.2 The Rule is made using powers conferred by Articles 55D and 55EA of the Energy (Northern Ireland) Order 2003 and is subject to the draft affirmative resolution procedure.

2. Purpose

- 2.1 This Statutory Rule will close the Northern Ireland Renewables Obligation (NIRO) to new large scale (i.e. above 5 megawatts (MW) installed capacity) onshore wind generation and existing large scale generating stations adding additional capacity from 1 April 2016 and introduce exceptions to closure in the form of limited defined grace periods. The Rule does not have effect in relation to electricity generated from small scale onshore wind (i.e. up to and including 5MW installed capacity).

3. Background

- 3.1 The NIRO is the main support mechanism for encouraging increased renewable electricity generation in Northern Ireland. It works alongside the Renewables Obligation for England & Wales and the Renewables Obligation Scotland. As part of UK-wide Electricity Market Reform, all three Renewables Obligations are due to close to new generation from 1 April 2017.
- 3.2 On 30 September 2015, the DETI Minister issued a consultation on closure of the NIRO to onshore wind. The consultation proposed to align with the DECC policy of closure to new onshore wind from 1 April 2016, but with a later eligibility date of 30 September 2015 or 30 October 2015 for projects in NI and exceptions to closure in the form of grace periods. Following consultation the DETI Minister sought further flexibility for small scale projects but the situation remains that where NI deviates from GB policy on NIRO closure then that cost will not be met by GB consumers.
- 3.3 The overall policy objective is to close the NIRO to ensure the maximum number of MW for least cost whilst providing certainty for renewable investors and ensuring the tradability and value of eligible NIROCs. Refinements to the DECC policy position which include confirmation that costs of eligible projects will continue to be socialised across all UK consumers now offers a 2-stage closure process. This legislation is the first stage of that process – close to new large scale onshore wind.

- 3.4 The NIRO will close to new large scale onshore wind generating stations and existing large scale generating stations adding additional capacity from 1 April 2016 in line with the consultation proposals. Projects seeking to accredit after 1 April 2016 will be required to meet the eligibility requirements set out in the consultation and detailed below.
- 3.5 Large scale onshore wind projects which seek to accredit under the NIRO after 31 March 2016 and meet the 'approved development' grace period eligibility criteria outlined below would be able to accredit up to 31 March 2017 and, where applicable, could also access the radar and grid delay grace period up to 31 March 2018 (projects eligible for the investment freezing grace period and grid/radar delay grace period will be able to accredit up until 31 December 2018). The early closure grace period would apply to projects which are able to provide Ofgem with:
- (i) relevant planning permission dated no later than the relevant grace period eligibility date;
 - (ii) a grid connection offer and acceptance of that offer, both dated no later than the relevant grace period eligibility date or confirmation that no grid connection is required; and,
 - (iii) confirmation that, as at the relevant grace period eligibility date, the developer or proposed operator of the station owns the land on which the station is to be situated or has an option or agreement to lease the land or is party to an exclusivity agreement in relation to the land.

The 'relevant grace period eligibility date' is 30 September 2015 for non-cluster connecting generating stations and 30 October 2015 for cluster connecting stations.

- 3.6 Full details of the eligibility criteria and conditions are set out in the Consultation Response. It should be noted that the NIRO will not be extended beyond 2037 for those operators benefitting from any grace period.

4. Consultation

- 4.1 Consultation took place between 30 September and 14 October 2015. The consultation period was shorter than that which would normally be undertaken but was a follow-on to consultation undertaken earlier in the year and also reflected an attempt to give certainty on closure to developers as soon as possible.
- 4.2 In total, 477 responses were received from a range of stakeholders including members of the public, independent generators, developers, trade associations, energy suppliers and Non Government Organisations (NGOs).
- 4.3 Approximately 80% of responses objected to the proposed closure of the NIRO to new onshore wind in 2016. Most of the objections were from small scale

developers, with many submitted on template letters. Approximately 20% of responses supported the proposed early closure.

5. Equality Impact

- 5.1 The NIRO provides non competitive support to renewable generators in a non-discriminatory way. The proposed closure order does not alter this. The revised policy will close the NIRO to new large scale onshore wind in 2016, whilst retaining the UK-wide socialisation of costs.

6. Regulatory Impact

- 6.1 The proposed policies on NIRO closure and associated grace periods have been the subject of a Regulatory Impact Assessment (RIA). Costs for all projects that meet the early closure grace period eligibility criteria will be socialised. There will be no additional cost to NI consumers, therefore, other than a minimal cost in the future of subsidising additional renewable generation, which is borne by electricity consumers across the United Kingdom. The Renewables Obligation which applies to NI electricity suppliers is less than half of that of those in GB meaning that NI customers bear a lesser cost than GB customers.
- 6.2 Closing the NIRO to large scale wind onshore wind with appropriate grace periods will provide further certainty for developers and potentially protect an estimated £900m of investment.

7. Financial Implications

- 7.1 Costs for all projects that meet the early closure grace period eligibility criteria will be socialised and there will be no increase in Northern Ireland's obligation level at this time. There will, therefore, be no additional cost to NI consumers other than a minimal cost of subsidising future additional renewable generation, which is borne by electricity consumers across the United Kingdom. The Renewables Obligation which applies to NI electricity suppliers is less than half of that of those in GB meaning that NI customers bear a lesser cost than GB customers.
- 7.2 The legislation governing the NIRO and ROs in GB allows for the trade of NIROCs and GBROCs across the UK. Therefore, a GB electricity supplier can purchase NIROCs to meet or contribute to its annual obligation (similarly, a NI supplier can do likewise with GBROCs). If NI adopts a different policy approach to GB, DECC will move (via a clause in the Energy Bill) to prevent a GB supplier from meeting all or part of its obligation by presenting NIROCs from an onshore wind generator that does not meet the early closure eligibility criteria.
- 7.3 On the basis of these proposals, any projects which accredited from 1 April 2016 and which did not satisfy the eligibility criteria will not be able to sell their ROCs outside of Northern Ireland. The number of generators likely to be affected is difficult to predict, as is the impact on other NI generators and suppliers in terms of ROC values and the subsequent effect on the viability of new and existing projects.

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.

10. Parity or Replicatory Measure

10.1 The closure of the NIRO to large scale onshore wind from 1 April 2016 is in conjunction with the two Renewables Obligations in Great Britain. The policy does differ to GB in that the NIRO will remain open for the time being for small scale onshore wind. 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 the day after the day which it is made.

11. Additional information

11.1 Not applicable.

ENERGY DIVISION
Department of Enterprise, Trade and Investment
March 2016