

EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION CLOSURE (NO.2) ORDER (NORTHERN IRELAND) 2016

2016 NO 252

1. Introduction

- 1.1 This Explanatory Memorandum has been prepared by the Department for the Economy 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 small scale (i.e. up to 5 megawatts (MW) installed capacity) onshore wind generation and existing small scale generating stations adding additional capacity from 1 July 2016 and introduce exceptions to closure in the form of limited defined grace periods.

3. Background

- 3.1 The NIRO is the main policy measure for supporting the development of renewable electricity in Northern Ireland. It works alongside the Renewables Obligation (RO) for England & Wales and the Renewables Obligation Scotland (ROS). As part of UK-wide Electricity Market Reform, all three Renewables Obligations were due to close to new generation from 1 April 2017.
- 3.2 However, on 18 June 2015, the Secretary of State for Energy and Climate Change (DECC SoS) announced her intention to close the Renewables Obligations to onshore wind from 1 April 2016 i.e. one year earlier than planned. This was in line with the Conservative Party manifesto commitment of no new support for onshore wind projects.
- 3.3 Further revisions to the DECC policy introduced closure eligibility criteria and exceptions to closure (known as the approved development condition) that would allow projects to commission and accredit up to 31 March 2017 if they were able to demonstrate they had planning permission, land rights and an accepted grid connection offer in place by 30 September 2015.
- 3.4 DECC advised that should NI not close the NIRO to new onshore wind in line with the revised GB policy approach, the additional costs would not be socialised across all UK consumers and that they would legislate to protect GB consumers from the cost of additional onshore wind in NI. This has been done by including a backstop power in the Energy Act, restricting GB suppliers from

meeting their Renewables Obligation by presenting NIROCs from projects that do not meet the closure eligibility criteria. The Energy Act received Royal Assent on 12 May 2016.

- 3.5 Following confirmation from DECC in December 2015, that costs for NI projects that meet the equivalent approved development grace period criteria would continue to be socialised, the previous DETI Minister closed the NIRO to new large scale onshore from 1 April 2016. He also decided to consult further on closure arrangements for new small scale wind to enable stakeholders to take into account the possible consequences of DECC's backstop power, if exercised.
- 3.6 On 24 March 2016, DETI published a 6 week consultation on proposed closure arrangements for new small scale onshore wind. The consultation closed on 9 May 2016 and 126 responses were received.
- 3.7 The NIRO will close to new small scale onshore wind on 30 June 2016 in line with the Department's minded to position in the consultation. Projects seeking to accredit after 30 June 2016 will be required to meet the eligibility requirements set out in the consultation and detailed below.
- 3.8 Small scale onshore wind projects which seek to accredit under the NIRO after 30 June 2016 and meet the 'approved development' condition eligibility criteria outlined below fall within the policy approach agreed with DECC. Such projects would be able to accredit up to 31 March 2017 and, where applicable, could also access the radar or 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 March 2019). The early closure grace period would apply to projects which are able to provide Ofgem with:
 - (i) relevant planning permission dated no later than 30 September 2015;
 - (ii) a grid connection offer and acceptance of that offer, both dated no later than 30 September 2015 or confirmation that no grid connection is required; and,
 - (iii) a declaration confirming that, as at 30 September 2015 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.
- 3.9 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 24 March 2016 and 9 May 2016. In total, 126 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).

- 4.2 In Approximately 93% of those who indicated a preference selected Option 1 i.e. close the NIRO to new small scale onshore wind on 30 June 2016 with defined grace periods.

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 small scale onshore wind in 2016, whilst retaining the UK-wide socialisation of costs.

6. Regulatory Impact

- 6.1 The proposed policies on NIRO closure to small scale onshore wind and associated grace periods have been the subject of a Regulatory Impact Assessment (RIA). The continuation of the socialisation of costs means the policy will have no direct impact on NI consumer bills.

7. Financial Implications

- 7.1 Costs for all projects that meet the early closure condition eligibility criteria will be socialised and there will be no increase to Northern Ireland's obligation level at this time. 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 consumers bear a lesser cost than GB consumers.

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 small scale onshore wind from 1 July 2016 is in conjunction with the two Renewables Obligations in Great Britain. The policy does differ to GB in that all onshore wind closed in GB on 12 May 2016. It is proposed that the rule will be laid before the NI Assembly in June 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 RENEWABLES DIVISION
Department for the Economy
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