

EXPLANATORY MEMORANDUM TO
THE ELECTRICITY (GUARANTEES OF ORIGIN OF ELECTRICITY PRODUCED
FROM RENEWABLE ENERGY SOURCES) (AMENDMENT) REGULATIONS 2010

2010 No. 2715

1. This explanatory memorandum has been prepared by the Department of Energy and Climate Change and is laid before Parliament by Command of Her Majesty.

2. **Purpose of the instrument**

The Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) (Amendment) Regulations 2010 (“these Regulations”) amend the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003 (S.I. 2003/2562, “the 2003 Regulations”) to implement recent changes made to the issue and cancellation of renewable energy guarantees of origin (“REGOs”). REGOs are used as evidence of the production of electricity from renewable sources.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**
None

4. **Legislative Context**

4.1 These Regulations are made under section 2(2) of the European Communities Act 1972.

Article 5 of Directive 2001/77/EC of the European Parliament and of the Council of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market introduced REGOs into European law by requiring Member States to ensure that the origin of electricity produced from renewable energy sources could be guaranteed as such according to objective, transparent and non – discriminatory criteria. Article 5 was transposed into law by the 2003 Regulations.

Article 3(6) of Directive 2003/54/EC of the European Parliament and of the Council of 26th June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC (which corresponds to Article 3(9) of the new Electricity Directive 2009/72/EC of the European Parliament and of the Council of 13th July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC) introduced a requirement on Member States to ensure that electricity suppliers specify in bills and promotional materials to their end customers the contribution of each energy source to the overall fuel mix of the supplier in the preceding year. This obligation to specify the fuel mix from the preceding year is known as Fuel Mix Disclosure (FMD). The FMD framework is a mixture of legislation and licence conditions and an energy supplier is required to hold REGOs to a value equivalent to the quantity or share of the electricity from renewable sources which the supplier states it has supplied.

The Renewable Energy Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the use of energy from renewable sources (“the RED”), amends and subsequently repeals Directives 2001/77/EC.

Article 15 of the RED makes a number of changes to the issue, recognition and cancellation of REGOs. The transposition deadline for these provisions is 5th of December 2010.

Council document number. 5421/08 COM (08) 0015 “Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources + Commission Staff Working document - the support of electricity from renewable energy sources (accompanying document to the Proposal)”. was submitted by Business Enterprise and Regulatory Reform (BERR) in 14 February 2008. The House of Commons cleared it on 3 June 2008 (Report No. 15, Session 07/08), considered it politically important and was debated on 3 June 2008. The House of Lords –Cleared after debate in the Lords on 20 November 2008 (Sift No. 1312 and Session 07/08).

A transposition note in respect of Article 15 of the RED is published alongside this document.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain (GB)

5.2 Separate arrangements apply in Northern Ireland.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- *What is being done and why*

7.1 The main purpose of REGOs in GB is as evidence for FMD purposes. FMD requires that licensed electricity suppliers who supply electricity to customers report the percentages contributed by the different energy sources used to generate the electricity supplied to their customers. REGOs are used as evidence of renewable electricity generation for these purposes.

Suppliers must hold evidence of all the renewable electricity which they declare they have supplied during each period running from 1st April to 31st March in GB, (the disclosure period) by the 1st July following that period. Those REGOs must relate to renewable electricity generated during that disclosure period. We have ensured that the changes made by these Regulations allow REGOs to continue to be used for FMD purposes.

The RED requires a number of mandatory changes to be made to the regime governing REGOs

The main changes being made are as follows:

Amending the definition of “energy from renewable sources.”

Regulation 3 of these Regulations amends the definition of energy from renewable sources to include energy from two new sources: aerothermal and hydrothermal. The references to “tidal and wave energy” are replaced by a reference to “ocean energy” and the existing definition of biomass is amended to include matter from fisheries and aquaculture.

Changing the measurement unit of a REGO

Regulation 6 of these Regulations amends the unit of measurement of a REGO from kilowatt hour (“kWh”) to megawatt hour (“MWh”). The arrangements for rounding will be that a REGO will be issued for electricity rounded up or down to the nearest MWh. Therefore 1 REGO will be issued for electricity generation of 0.5MWh or more and generation of 0.49MWh or less will not earn a REGO.

12 month time limit on use of a REGO and cancellation after use

The FMD framework already require REGOs to be used in relation to a disclosure period (1st April – 31st March). We therefore consider that the 12 month time limit on the use of REGOs is already provided for in the FMD framework and consequently have not made any further provision in relation to this in these Regulations.

Cancellation

The RED requires REGOs to be cancelled once they have been used, it does not state when cancellation is to take place or prescribe the form that cancellation is to take. Regulation 8 of these Regulations therefore introduces new arrangements requiring a REGO to be cancelled after 16 months. A 16 month rolling cancellation policy allows REGOs to be presented as evidence for FMD up to a full 15 months after the month in which the electricity is generated. We have added in a one month grace period to guard against any error or delay that may occur. This approach allows the Gas and Electricity Markets Authority’s (Ofgem) current administrative arrangements for FMD to continue.

Ofgem will operate separate arrangements for NI suppliers that wish to present REGOs for the all Ireland FMD.

New requirements setting out information to be included in the REGO.

The RED sets out a number of new requirements for information to be included in a REGO. Regulation 10 amends Schedule 1 to the 2003 Regulations which sets out the necessary information that must be supplied in the application for a REGO. Regulation 11 amends Schedule 2 to the 2003 Regulations to provide that the following information is to be recorded on the Ofgem Renewables and CHP Register: the name and address of the person to whom the guarantee of origin has been, or was originally issued, when and from which renewable energy source the electricity was produced; the identity, location and capacity of the station; whether and to what extent the installation has benefited from investment support; whether and to what extent the unit of energy has benefited from any other national support scheme; the date the installation became operational and the date and country of issue and a unique identification number.

Information as to whether and to what extent the installation has benefitted from investment support or whether or not the unit of energy has benefited from any other United Kingdom support scheme includes but is not restricted to investment aid, tax exemptions or reductions, tax refunds, renewable energy obligation support schemes and direct price support schemes including feed in tariffs and premium payments.

Recognition of REGOs from other Member States.

Ofgem are currently required to recognise REGOs issued by other Member States. In line with requirements of the Directive, Regulation 9 strengthens the circumstances in which Ofgem will be able to refuse to recognise a REGO, those now being where there are well founded doubts as to its accuracy, reliability or veracity. Where recognition is refused or withdrawn from a REGO from another Member State Ofgem is now formally required to notify the Commission of the European Community of the fact and the justification for doing so.

The Government has concluded that it will not introduce REGOs for heating and cooling in Great Britain at the present time. The department will look at this decision again in light of the proposed introduction of the Renewable Heat Incentive next year. This will not affect the obligation on Ofgem in Regulation 9 to recognise REGOs from other Member States (for electricity and heating/cooling), where they are satisfied as to its accuracy, reliability or veracity. Where a REGO from another Member State is recognised by Ofgem its details are duly recorded. A list of all REGOs from other Member States that have been recognised by Ofgem is available on the Ofgem web site.

Consolidation

7.2 These Regulations amend the provisions of the 2003 Regulations; the nature of the amendments made do not currently warrant consolidation. The Department will review this position should further amendments become necessary.

8. Consultation outcome

Ministers approved a shortened 6 week consultation on REGOs given the limited use of REGOs in Great Britain and because of the administrative nature of the changes required. Only 11 responses to the consultation were received. Most were concerned that any changes made to REGOs should ensure that they could continue to be used for FMD purposes.

9. Guidance

Administrative guidance will be issued by the REGOs scheme administrator, Ofgem.

10. Impact

10.1 The impact on business, charities or voluntary bodies is a marginal increase in administrative burden on electricity generators in terms of the level of detail to be included on an application for a REGO. This is somewhat offset by the increase in the unit of measurement of a REGO from kWh to MWh.

10.2 The impact on the public sector is a marginal increase in IT costs to make the required changes to the Renewables and CHP Register through which REGOs are issued.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken to REGOs is already integrated into the wider accreditation process and reporting structure for Levy Exemption Certificates, the Renewables Obligation and so far as possible within the requirements of the Directive.

11.3 The basis for the final decision on what action to take to assist small business is guided by the Directive. However, the move to increase the unit of measurement of REGOs from kWh to MWh will marginally lessen administrative burdens on generators. We also continue to allow generators to claim REGOs annually rather than monthly which will minimise administration where there are relatively low levels of electricity generation.

12. Monitoring & review

12.1 Review will take place as part of ongoing policy development and stakeholder consultation.

13. Contact

Carolyn Potts at the Department for Energy and Climate Change. Tel: 0300 068 6157 or email: Carolyn.Potts@decc.gsi.gov.uk can answer any queries regarding the instrument.

TRANSPOSITION NOTE

This transposition note sets out the way in which Article 15 of Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (“the Directive”) is to be implemented through instruments made by, and other measures taken by, the Secretary of State.

Northern Ireland is taking separate implementation action.

These regulations do what is necessary to implement the Directive, including making consequential changes to domestic legislation to ensure its coherence in the area to which they apply.

Article	Objective	Implementation	Responsibility
15(1)	Requirement to ensure that the origin of electricity produced from renewable sources is to be guaranteed as such in accordance with objective, transparent and non-discriminatory criteria.	Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003, SI 2003/ 2562 (“the 2003 Regulations”). Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) (Amendment) Regulations 2010 (“the Amending Regulations”). Applies to Great Britain.	The Secretary of State
15(2)	Requirement that: <ul style="list-style-type: none"> <li data-bbox="312 1312 592 1603">• guarantees of origin are issued in response to a request from a producer of electricity from renewable energy sources. <li data-bbox="312 1648 592 1973">• guarantees of origin may be issued in response to a request from producers of heating and cooling from renewable energy sources. 	Regulation 4(1) of the 2003 Regulations as amended by regulation 5 of the Amending Regulations. This option has not been exercised.	Ofgem Secretary of State

	<ul style="list-style-type: none"> • a guarantee of origin shall be of the standard size of 1MWh. • no more than one guarantee of origin shall be issued in respect of each unit of energy produced and that each unit of energy is taken into account only once. • Member States may provide that no support is to be granted to a producer when that producer receives a guarantee of origin for the same production of energy from renewable sources. 	<p>Regulation 6(3) of the 2003 Regulations, as amended by regulation 6 of the Amending Regulations.</p> <p>Regulation 4(5) and 6(4) of the 2003 Regulations.</p> <p>This option has not been exercised. The availability of support is governed by other legislation and has no relationship to whether or not a guarantee of origin has been issued.</p>	<p>Ofgem</p> <p>Ofgem</p> <p>Secretary of State</p>
15(3)	<p>Requirement that:</p> <ul style="list-style-type: none"> • any use of a guarantee of origin shall take place within 12 months of the corresponding energy unit. • a guarantee of origin shall be cancelled once it has been used. 	<p>Regulation 2 of the Electricity (Fuel Mix Disclosure) Regulations 2005, SI 2005/391 (“the FMD Regulations”).</p> <p>Relevant requirements are placed upon holders of electricity supply licences through the provisions of standard licence condition 21 (which replaced standard condition 30A that appears in the Schedule to the FMD Regulations).</p> <p>Regulation 7A of the 2003 Regulations as inserted by regulation 8 of the Amending Regulations.</p>	<p>Ofgem</p>
15(4)	<p>Requirement that Member States or designated competent</p>	<p>Regulation 3 of the 2003 Regulations as amended by regulation 4 of the Amending Regulations.</p>	<p>Ofgem</p>

	bodies shall supervise the issuance, transfer and cancellation of guarantees of origin.		
15(5)	Requirement that Member States or the designated competent bodies shall put in place appropriate mechanisms to ensure that guarantees of origin are issued, transferred and cancelled electronically and are accurate, reliable and fraud resistant.	Regulation 4 and Schedule 1 and Regulation 7 and Schedule 2 of the 2003 Regulations, as amended by regulations 5, 7, 10 and 11 of the Amending Regulations.	Ofgem
15(6)	Requirement for specific information to be specified in a guarantee of origin.	Regulation 7 and Schedule 2 of the 2003 Regulations, as amended by regulation 11 of the Amending Regulations.	Ofgem
15(7)	Requirement that where an electricity supplier is required to prove the share or quantity of energy from renewable sources in its energy mix for the purposes of Article 3(6) of Directive 2003/54/EC, it may do so by using its guarantees of origin.	Regulation 2 of the Electricity (Fuel Mix Disclosure) Regulations 2005, SI 2005/391 (“the FMD Regulations”). Relevant requirements are placed upon holders of electricity supply licences through the provisions of standard licence condition 21 (which replaced standard condition 30A that appears in the Schedule to the FMD Regulations).	Ofgem
15(8)	Requirement that the amount of energy from renewable sources corresponding to guarantees of origin transferred by an electricity supplier to a third party shall be deducted from the share of energy from renewable sources in its energy mix for the purposes of Article 3(6) of Directive 2003/54/EC.	Regulation 2 of the Electricity (Fuel Mix Disclosure) Regulations 2005 (SI 2005/391 “the FMD Regulations”). Relevant requirements are placed upon holders of electricity supply licences through the provisions of standard licence condition 21 (which replaced standard condition 30A that appears in the Schedule to the FMD Regulations).	Ofgem
15(9)	Requirement that Member States shall recognise guarantees of origin issued by other Member States. Recognition may only be	Regulation 9 of the 2003 Regulations as amended by regulation 9 of the Amending Regulations.	Ofgem

	refused where a Member State has well founded doubts about its accuracy, reliability or veracity. Member States are required to notify the Commission of all such refusals and their justifications.		
15(10)	Requirement that if the Commission finds that a refusal to recognise a guarantee of origin is unfounded, the Commission may adopt a decision requiring the Member State in question to recognise it.	Action for the European Commission no implementation required. Regulation 9(2) of the 2003 Regulations provides for where the Commission have required recognition of a guarantee of origin	European Commission
15(11)	Requirement that a Member State may introduce in conformity with Community law, objective, transparent and non-discriminatory criteria for the use of guarantees of origin in complying with the obligations laid down in Article 3(6) of directive 2003/54/EC.	Regulation 2 of the Electricity (Fuel Mix Disclosure) Regulations 2005 (SI 2005/391 “the FMD Regulations”). Relevant requirements are placed upon holders of electricity supply licences through the provisions of standard licence condition 21 (which replaced standard condition 30A that appears in the Schedule to the FMD Regulations.	Ofgem
15(12)	Requirement that where energy suppliers market energy from renewable sources to consumers with a reference to environmental or other benefits of energy from renewable sources, Member States may require those energy suppliers to make available, in summary form, information on the amount or share of energy from renewable sources that comes from installations or increased capacity that become operational after 25 th June 2009.	This option has not been exercised.	Secretary of State

Title: Changes to Renewable Energy Guarantees of Origin (REGOs) Lead department or agency: DECC Other departments or agencies: Ofgem	Impact Assessment (IA)
	IA No:
	Date: 26/10/2010
	Stage: Development/Options
	Source of intervention: Domestic
	Type of measure: Secondary legislation
Contact for enquiries: Birgit Wosnitza	

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

A number of changes are required to the arrangements governing Renewable Energy Guarantees of Origin (REGOs) by 4th December 2010 under Article 15 of the Renewable Energy Directive (RED). These changes need to be transposed into GB law.

What are the policy objectives and the intended effects?

To transpose a number of mandatory technical changes made by the Renewable Energy Directive 2009 regarding REGOs, making them consistent across Europe. These changes include:

- changes to the definitions of 'renewable energy sources' and 'biomass';
- a change to the unit of measurement of a REGO from Kilowatt hour to Megawatt hour;
- expiry of the REGO 12 months is already provided for in Fuel Mix Disclosure Regulations. GB will cancel REGOs on a rolling basis 16 months after production of the electricity for which it is issued.;
- various changes to information to be included in the REGO itself.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

- 1) 'Do minimum implementation' (preferred option)
- 2) Extend REGOs to cover heating and cooling

Option (1) is our preferred option as it will only marginally increase administrative requirements on Ofgem and renewables generators and it will facilitate the comparability of REGOs across Europe. Extending REGOs to cover heating and cooling would require changing reporting and monitoring structure at extra cost. Introduction of heating and Cooling REGOs will be considered as part of arrangements governing the planned RHI.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 07/2012
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible: Charles Hendry Date: 4th November 2010

Summary: Analysis and Evidence

Policy Option 1

Description: Impacts of “do minimum implementation”

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: n/a

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	n/a	n/a	n/a

Description and scale of key monetised costs by ‘main affected groups’

n/a

Other key non-monetised costs by ‘main affected groups’

While the costs would be marginally higher than the costs of the current REGO system, due to the fact that “do minimum” is mandatory, this higher level of costs is treated as counterfactual in this IA. Compared to doing nothing (for illustration only) the compulsory changes to REGOs will marginally increase administrative requirements on Ofgem and renewables generators.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	n/a	n/a	n/a

Description and scale of key monetised benefits by ‘main affected groups’

n/a

Other key non-monetised benefits by ‘main affected groups’

A benefit of the “do minimum” option is that it facilitates comparability across Europe, as it is likely that all other European countries will implement “do minimum” instead of any extended REGOs.

Key assumptions/sensitivities/risks

Discount rate (%)

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings:	Yes/No

Summary: Analysis and Evidence

Policy Option 2

Description: Impacts of extending REGOs to cover heating and cooling

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: n/a
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	
Low	Optional		Optional	Optional	
High	Optional		Optional	Optional	
Best Estimate	n/a		n/a	n/a	
Description and scale of key monetised costs by 'main affected groups'					
n/a					
Other key non-monetised costs by 'main affected groups'					
Extending the use of REGOs to heating and cooling causes comparability problems across Europe, should other countries not pursue the same. Furthermore, extending the use of REGOs to heating and cooling would require the development of a reporting and monitoring structure immediately, at extra cost. These extra costs haven't been quantified due to lack of data. Extending the use of REGOs to heating and cooling would be difficult and bring forward the costs associated with the monitoring and reporting system will already be introduced for the RHI. By delaying the issuing of REGOs for heating and cooling until the introduction of the RHI would allow to use the structure in place for RHI purposes.					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	
Low	Optional		Optional	Optional	
High	Optional		Optional	Optional	
Best Estimate	n/a		n/a	n/a	
Description and scale of key monetised benefits by 'main affected groups'					
n/a					
Other key non-monetised benefits by 'main affected groups'					
Extending REGOs to heating and cooling would make more technologies eligible for REGOs and therefore allow generators to receive REGOs for previously excluded technologies. However, as REGOs have no monetary value attached, any benefit is limited. Electricity suppliers could potentially have reputational benefits through demonstrating that they have sourced more electricity from renewable technologies.					
Key assumptions/sensitivities/risks				Discount rate (%)	

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):		In scope
New AB:	AB savings:	Net:	Policy cost savings:		Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	
---	--

From what date will the policy be implemented?			05/12/2010		
Which organisation(s) will enforce the policy?			n/a		
What is the annual change in enforcement cost (£m)?			n/a		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			n/a		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: 0	Non-traded: 0	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: n/a		Benefits: n/a
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro n/a	< 20 n/a	Small n/a	Medium n/a	Large n/a
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

No.	Legislation or publication
1	Renewables Obligation Order 2011 consultation document, available at: http://www.decc.gov.uk/assets/decc/Consultations/Renewables%20Obligation/261-statutory-con-renewables-obligation.pdf
2	Draft Renewables Obligation Order 2011 Impact Assessment (July 2010)

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Impact Assessment accompanying Statutory Consultation on changes to Renewable Energy Guarantees of Origin certificates

Background

Renewable Energy Guarantees of Origin (REGOs) are transferable certificates which demonstrate that electricity has been produced from a renewable source of energy within the European Union. Ofgem administers the REGO scheme in Great Britain. There is a single accreditation process for generators to undergo in order to be able to claim any combination of REGOs, ROCs and LECs. REGOs are issued by Ofgem on a monthly or annual basis when requested by a electricity producer (or by the relevant NFFO / SRO₂ purchaser). Once issued, REGOs remain in Ofgem's Renewables and CHP Register and can be transferred between parties until used.

One REGO is issued per kWh of renewable electricity generated. REGOs are rounded up or down to the nearest whole kWh. REGOs have a unique reference number representing the generating station, technology and country of origin. The REGO also states the period over which the electricity was generated. A REGO can be transferred, usually between the producer (or NFFO/SRO purchaser) and the final electricity supplier or user. REGOs have no shelf life and do not have a value in the way that ROCs or LECs do.

The main purpose of REGOs in GB are as evidence for Fuel Mix Disclosure (FMD) purposes. FMD regulations requires that GB licensed electricity suppliers who supply electricity to customers report the different energy sources used to generate the electricity supplied to their customers. REGOs are used as the main evidence of renewable electricity generation for these purposes.

Suppliers must hold all evidence by 1st July annually, for disclosure by 1st October on customers' bills and through publicity. This means that it is increasingly likely that if a generator is selling electricity to an electricity supplier the supplier may require the generator to provide a REGO to accompany that electricity for FMD purposes.

Problem under consideration

The Renewable Energy Directive mandates a number of changes to REGOs, which would be enacted through amendments to the Electricity (Guarantee of Origin of Electricity produced from Renewable Energy Sources) Regulations 2003 by 4th December 2010. These changes are required under Article 15 of the Renewable Energy Directive (RED). The changes include:

- **changes to the definitions of 'renewable energy sources' and 'biomass';**
 - The definition of energy from 'renewable energy sources' will be amended to include energy from Aerothermal and Hydrothermal.
 - The existing definition of tidal energy will be replaced by ocean energy
 - The exiting definition of biomass will now include matter from fisheries and aquaculture.
- **a change to the unit of measurement of a REGO from Kilowatt hour to Megawatt hour;**
 - A REGO will be issued for electricity rounded up or down to the nearest MWh. Therefore 1 REGO will be issued for electricity generation of 0.5MWh or more and generation of 0.49MWh or less will not earn a REGO.
- **'Use' of the REGO 12 months after production of the electricity for which it is issued and the requirement for REGOs to be cancelled once used;**
 - The 12 month time-limit for a 'use' of a REGO is already adequately provided for in FMD Regulations. The RED requires that REGOs should be cancelled after they are used. In GB introduction of a 16 month rolling cancellation allows Ofgem's current administrative arrangements for FMD to continue whereby REGOs are held by electricity suppliers against the appropriate FMD period which runs from April to March annually to be redeemed by Ofgem at midday on the 1 July following that period each year.

- **various changes to information to be included in the REGO itself;**
 - Generators will be required to provide the following information to be recorded on the Ofgem Renewables and CHP Register:
 - When and from which renewable energy source the electricity was produced
 - The identity, location and capacity of the station
 - Whether and to what extent the installation has benefited from investment support
 - Whether and to what extent the unit of energy has benefited from any other national support scheme
 - The date the installation became operational
 - The date and country of issue and a unique identification number.

Rationale for intervention

The EU Renewables Directive sets out mandatory technical changes to Renewable Energy Guarantees of Origin (REGOs) to make them consistent across Europe.

The rationale for having REGOs is a evidence of renewable energy generation . In GB REGOs provide evidence to customers on the electricity sourced from renewable technologies as part of the Fuel Mix Disclosure that requires GB licensed electricity suppliers to report the different energy sources used to generate the electricity supplied. REGOs are also used as evidence of Green House Gas emissions in the UK.

Policy Objectives

The policy objective is to transpose the changes required to REGOs by the Renewable Energy Directive into GB law.

Options

- 1) Do minimum – make the changes listed in the four bullet points above
- 2) Extend REGOs to cover heating and cooling (as currently REGOs are only given for renewable electricity).

Costs and benefits

- 1) A benefit of the “do minimum” option is that it facilitates comparability across Europe, as it is likely that all other European countries will implement “do minimum” instead of any extended REGOs.

The costs of “do minimum” (i.e. making the mandatory changes as listed in the four bullet points above) would be marginally higher than the costs of the current REGO system. Costs haven’t been monetised due to lack of available data.

The costs and benefits of implementing the “do minimum” option compared to doing nothing are considered below for illustration:

Costs

The compulsory changes to REGOs will marginally increase administrative requirements on Ofgem and renewables suppliers and generators. This is the case as Ofgem and generators will have to incur a one off administration cost for including the new requirements as mentioned above in their IT systems. The changes to REGOs are unlikely to require new IT programs or ongoing increased operational costs for generators, suppliers or Ofgem.

There will be a small cost to those electricity suppliers who get rounded down to a whole number of MWh of generation for fuel mix disclosure purposes, whereas without the changes, they would be rounded to a higher number of kWh of renewable electricity.

Benefits

The compulsory changes to REGOs will facilitate the comparability of REGOs across Europe, i.e. if the whole of the EU applies the mandated REGO changes but the UK doesn't, REGOs issued in the UK would not be comparable. In addition, by changing REGOs, the UK foregoes having to pay a fine for not complying with EU regulation.

Through making more technologies eligible for REGOs, electricity suppliers may benefit in terms of Fuel Mix Disclosure (FMD) purposes as they might be able to report a higher share of their different energy sources as being renewable. This might have beneficial reputational effects.

The new rounding arrangements, i.e. receiving 1 REGO for electricity generation of 0.5MWh or more and generation of 0.49MWh or less, might be slightly beneficial for some electricity suppliers as they might be able to disclose a higher amount of REGOs for their fuel mix. This might have beneficial reputational effects.

A further benefit from implementing the minimum changes listed above is more transparency due to more information included in REGOs the changes to REGOs may benefit some producers / consumers. This is considered to be of limited value.

- 2) Compared to “do minimum” the second option considered in this IA, i.e. extending the use of REGOs to heating and cooling, would require the development of a reporting and monitoring structure immediately, at an extra cost. It is likely to require an extended IT program and possibly might incur ongoing operational costs.

It will be beneficial to delay the issuing of REGOs for heating and cooling until the introduction of the RHI, which will be accompanied by the development of a monitoring and reporting structure for heating and cooling for RHI purposes. Such a system could then be used to issue REGOs for heating and cooling at little additional costs.

Weighing the costs and benefits of the options explored in this IA indicates that “do minimum” is the preferred option.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</p>
<p>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</p>