

POLICY NOTE

DRAFT : THE RENEWABLES OBLIGATION (SCOTLAND) AMENDMENT ORDER 2014

2014 No.

The above instrument was made in exercise of the powers conferred by section 32(1) and (2), 32A(1) and (2), 32B(1), 32C(1) to (6), 32D(1) and (2), 32J(3) and 32K(1) and (3) of the Electricity Act 1989. The instrument is subject to affirmative procedure.

Introduction

1. Scottish Ministers are committed to the promotion of renewable energy in Scotland; as part of this, they have set a target that the equivalent of 100% of the electricity generated in Scotland (as a proportion of gross consumption) should come from renewable sources by 2020, with an interim target of 50% by 2015. This commitment is an important part of a package of initiatives aimed at tackling climate change. The Renewables Obligation (Scotland) Order, or ROS, is a key measure in terms of increasing the amount of renewable electricity generating capacity in Scotland.

Background to the Renewables Obligation

2. The ROS was first made in 2002 under powers in the Electricity Act 1989 which were executively devolved (as regards Scotland) to the Scottish Ministers. The Order imposes an obligation on electricity suppliers to provide an increasing percentage of their supply to customers in Scotland from qualifying renewable energy sources.

3. In line with the wishes of the energy sector subject to the Order and those affected by its provisions, the ROS was introduced in almost identical terms to the Renewables Obligation Order 2002 (the ROO), covering England and Wales, which also came into force on April 1 2002. Following reviews of its operation and to accommodate the introduction of a number of changes, the ROS has been revised and replaced or amended each April from 2004 through to 2013 (with the exception of 2012).

4. The UK Renewables Obligations work by awarding to generators of electricity from eligible renewable sources a number of Renewable Obligation Certificates, or ROCs, for each MWh (megawatt hour) of electricity they generate. "Banding" of support, allowing different technologies to receive different levels of support, was introduced in April 2009 to drive greater and more rapid deployment of renewable electricity generation. This means that support levels vary depending on the way in which the renewable electricity has been generated (wind, solar PV etc) and depending on when the generating station was accredited under the ROS, or when additional generating capacity was added to the station.

5. The market for ROCs is created by imposing an annual and increasing obligation on licensed electricity suppliers to provide a number of ROCs. Suppliers can demonstrate compliance with their Obligation by providing Ofgem with either the requisite number of ROCs, or by paying the buyout price, or by a combination of the two methods. The buy-out price is a fixed sum payable to Ofgem in lieu of providing ROCs; payments thus made constitute the buy-out fund. The monies paid into the buyout fund are shared between those suppliers who have provided ROCs, and in proportion to the number of certificates they produce. This means that those suppliers who are unable to produce ROCs effectively

reward their competitors, driving the market value of ROCs and thus providing income for renewable generators.

The Renewables Obligation (Scotland) Amendment Order 2014

Policy Objectives

RO transition

6. The UK Government is introducing a new financial support mechanism for large-scale low-carbon electricity generation. This will replace the Renewables Obligation (RO) across the UK with a new system of support known as Contracts for Difference (CfDs) under its Electricity Market Reform package. The Renewables Obligation Scotland (Amendment) Order 2014 implements a number of transitional arrangements between the RO and the new CfDs, and includes the following (which are consistent with those being introduced across the UK):

- A number of new definitions from the Energy Act 2013.
- Measures to prevent duplication of support for the same electricity, by ensuring that electricity supported under CfDs is not eligible for ROCS.
- New apportionment rules for input and output electricity to allow a generating station to have some of its generating capacity supported under the RO and some outside the RO.
- New requirements to ensure that new stations can't obtain preliminary accreditation or accreditation under the RO if they have entered into a CfD (subject to various exceptions).
- New rules to the effect that once a station has applied for a CfD in respect of any of that station's existing or additional capacity, it will not be able to register any further additional capacity under the RO.

Biomass sustainability

7. The amendment Order also includes provisions on biomass sustainability criteria and reporting arrangements under the RO, including the following (which are again consistent with those being introduced across the UK):

- Amendments to information that must be provided to Ofgem in respect of electricity generated by biomass.
- A new sustainability audit report requirement for biomass stations of 1MW and above which have to report against GHG and land criteria/ timber procurement standards.
- Amendments to the requirements for bioliquid sustainability audit report.
- Amendments to land criteria so that energy crops grown under the Energy Crops Regulations 2000 or an equivalent scheme are automatically treated as meeting the land criteria for solid and gaseous biomass.

- Amendments to greenhouse gas (GHG) criteria for solid and gaseous biomass to make clear that residues from forestry, arboriculture, aquaculture and fisheries can be treated as having GHG emissions at the point of their collection.

CHPQA definition

8. This amendment Order also refers to the latest Combined Heat and Power Quality Assurance Standard. The qualification criteria for biomass, bioliquid and biogas and waste combined heat and power scheme in the CHPQA standard and accompanying Guidance Note 44 have been tightened to reflect improvements in the efficiency of such schemes since the criteria were first developed.

9. Following scrutiny of the Renewables Obligation (Scotland) Amendment Order 2013, the Scottish Government gave an undertaking to the Subordinate Legislation Committee to correct Article 22C to amend the reference to “qualifying combined heat and power station” to “qualifying combined heat and power generating station” to remedy the omission of the word “generating. The amendment is reflected in this Order.

Offshore wind

10. This amendment Order also introduces two new bands which will apply to Scotland only i.e. they will not be mirrored within the other UK amendment Orders. These are:

- a band set at 2.5 ROCS aimed at supporting generation from offshore test and demonstration sites deploying innovative, new to market turbines; and
- a band set at 3.5 ROCS for pilot projects consisting of turbines which are not fixed directly to the seabed – e.g. floating turbines or those deploying ‘tension’ deployment systems.

Consultation

11. A number of consultations took place on the changes contained in the 2014 amendment Order:

- Biomass sustainability criteria were consulted on between 5 October 2012 and 11 January 2013.
- Innovative offshore wind banding was consulted on between 13 December 2012 and 7 March 2013.

12. We also held a number of discussions with interested stakeholders.

13. The consultation on biomass elicited 25 responses and the Scottish Government’s response was published on 7 November 2013¹. The consultation on innovative offshore wind elicited 20 responses and the Scottish Government’s response was published on 12 June 2013².

¹ <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Obligation-12-13/BiomassSustainabilityConsultation>

² <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Obligation-12-13/ROCOffshoreWind>

14. Both the UK and Scottish Governments consulted on the transition from the Renewables Obligation to the Contract for Difference during 2013. Following an amendment to the Energy Act 2013 giving UK ministers additional powers over all UK ROs, the UK Government carried out a further more detailed consultation between 7 and 28 November 2013 on the arrangements for grace periods to apply at the RO closure date (March 2017). Consequently, the UK Government will publish a combined response to both consultations in February 2014.

15. In addition, the UK Government issued a number of consultations on the proposals to amend the calculation of CHP Quality Index for renewable CHP schemes. The UK Government's response was published in July 2013³

European Directive

16. The ROS, in tandem with the other UK Obligations, forms an important part of the UK's compliance with the European Directive on the promotion of energy produced from renewable sources (Directive 2009/28/EC, which amended Directive 2001/77/EC).

State Aid

17. All UK Renewables Obligation Orders require State Aid clearance as the recycling buyout funds to compliant suppliers is deemed by the Commission to constitute State Aid.

18. The relevant applications relating to the new provisions and bands for offshore wind contained in the 2014 amendment Order have been submitted to the commission for approval. The Commission's response is expected shortly. The amendment Order will not be made, subject to its approval by the Scottish Parliament, until and unless the Commission's approval is received.

19. The rest of the instrument does not make any changes that affect the state aid approval.

Financial Impacts

RO transition

20. The additional administrative processes will impose costs on the Authority, and on the generators applying to accredit under the RO or adding additional capacity to accredited generating stations. However, this is considered justified in order to enable generators to have a choice between the two schemes. Generating stations opting to have some capacity supported under each scheme will face the costs of complying with the rules of each scheme.

Biomass sustainability

21. The requirement to provide information on the biomass used, and to provide a sustainability audit report, will impose costs on generators using biomass. The Authority will incur costs in monitoring and enforcing the new information and audit requirements. The Authority is able to recover its costs from the buyout fund, which reduces the amount that is recycled back to electricity suppliers.

³ <https://www.gov.uk/government/consultations/revising-certification-criteria-for-renewable-combined-heat-and-power-schemes>

CHPQA

22. The tighter qualification criteria under the CHPQA Standard and Guidance Note 44 will impact on operators and developers of new renewable combined heat and power schemes. They may receive fewer ROCs under the RO where they do not fully meet the new qualification criteria.

Offshore wind

23. The Renewables Obligation creates additional costs for electricity suppliers which they can then pass through to industrial, business and domestic consumers as part of their electricity bills. We estimate that the cost of the RO across the UK during 2012/13 was £1.9 billion, adding around £27 to the average annual household electricity bill. The Department for Energy and Climate Change estimates this will increase to around £63 in 2020.

24. We estimate that, if expected potential under the enhanced ROC bands for offshore wind is fully met, the additional annual cost to the RO will be £26.5 million per year.

Scottish Government Energy and Climate Change directorate

February 2014