

## **Response by the UK Business Council for Sustainable Energy Consultation on Reform of the Renewables Obligation**

### **INTRODUCTION**

The UK Business Council for Sustainable Energy brings together the key players in the energy sector to develop an effective dialogue with Government that can help strengthen the UK's strategic agenda for sustainable energy.

Members of the Council include Centrica, EDF Energy, E.ON UK, National Grid, RWE npower, Scottish and Southern Energy, Scottish Power, and United Utilities.

The Council welcomes the opportunity to provide input to the Government's consultation on the detailed implementation of the proposed changes to the Renewables Obligation (RO).

### **KEY POINTS**

#### Renewable energy policy framework

The RO is an important policy to drive investment in renewables in the UK. It is, however, just limited to promoting electricity from renewable sources.

With the EU Councils (Heads of Government) commitment to deliver 20% of all energy from renewable sources by 2020, it is clear that additional policies will be needed, particularly with respect to heat and transport. The RO may also need to deliver greater volumes of renewable energy than currently envisaged. Indeed, this lends weight to also considering what technologies might be simultaneously exempted from the cost of the RO.

It is important that any new policies to drive investment in renewable energy build on, and do not have an adverse impact on the current RO.

Energy companies firmly support the work being undertaken by the Government to address barriers in terms of planning and grid constraints.

## Importance of stability

There have been a significant number of changes to the RO since it first came into force in April 2002. While the latest amendments are intended to improve the effectiveness of the measure, such regular changes do risk creating an impression of a less than stable regulatory framework, which can in turn undermine confidence in the market.

It is critical the Government does not create the expectation that the investment framework for renewable energy in the UK is subject to constant change.

Customers who pay for the RO, and those who are the investors in the companies whose schemes are supported by it, need to be confident in the long-term durability of the RO.

If changes to the detailed operation of the RO are made, they should be made in a timely and transparent manner within very clear boundaries to minimise any undue impact on investor confidence. The Government should also continue its programme of effective advance briefing of significant investors.

In particular, it is critical that the Government does not make changes that impact on investment decisions already made in good faith.

## Banding

Energy companies now accept the approach of setting bands based on the commercial stage of development of a technology.

The level for technologies in the Established Band is very low, and there is a view that non-energy crop co-firing projects are unlikely to be commercially viable under the reformed RO, given the current market price of non-energy crop biomass and carbon. The Government should recognise that changes to any of the bands will have impacts across other bands due to their interrelated nature.

Given the approach to banding based on commercial definitions, and looking at the early stage of development of most microgeneration technologies, a practical solution to stimulate investment in microgeneration could be to include this suite of technologies in the Emerging Technologies Band. Regardless of the way microgeneration is dealt with in the RO, continued support outside the RO is necessary to support the development of this emerging industry.

It is important to note that technologies included in the Emerging Technologies Band are likely to require additional support in the long-term to ensure commercial deployment in the long-term.

In order to evaluate whether the bands are appropriate, there needs to be clarity about other factors that impact on the commercial viability of a project, such as the grid-connection arrangements for off-shore and marine connections, the scale of project, and any complementary support mechanisms that are in place.

Energy companies support the establishment of an independent body to help agree the UK-wide bands in a transparent manner. It is important that this body

is independent and knowledgeable, and can access the commercial information held within industry.

Consideration also needs to be given to the benefits of excluding technologies from the RO as they reach a stage of development where they are commercially viable without additional support.

### Review criteria

A clear set of criteria that could signal a review must be determined in advance. Where possible, such criteria should be quantitative.

The criteria for an emergency review should be very clear, and appropriately constrained. At the moment there are far too many criteria listed in the consultation. The most important criterion to be considered in any review is whether the RO is delivering additional energy from renewable sources.

### Energy crops and biomass

The Government needs to be clear about its goals for developing energy crops in the UK, and develop policies that target these goals. If the Government has a policy objective of stimulating the development of energy crops based in the UK, then the appropriate policy response could be to target the supply chain directly, rather than have an indirect approach through the RO.

Given the increased focus on biomass for both stationary energy and transport fuels, broad consideration needs to be given to strategic land use in the UK to ensure a coordinated approach, and to avoid unintended consequences.

### Grandfathering

It is important that the Government maintains its commitment to grandfathering. It would not be appropriate to change the level of support received under the RO retrospectively, as investment decisions will have been made under a particular set of assumptions and in good faith. Any retrospective change has the potential to undermine investor confidence in future projects of all energy types.

### Headroom

Concerns have been expressed that 6% headroom on its own may not achieve what is intended because of fluctuations in other areas of the market.

These concerns arise from the complexity of being able to accurately predict future electricity generation due to external factors such as weather, fossil fuel and carbon prices.

To address these uncertainties, the headroom could be raised to ensure that there is a low (1 in 10) probability of over delivery. An increased headroom of 10% would provide this level of confidence while not unduly increasing costs to consumers. Alternatively, higher weather outturn expectations could be used when forecasting ROC generation.

Energy companies propose that the obligation level is set with any adjustment for headroom 12 months ahead of the given obligation period

### Long-term framework

The arrangements post-2027 are not clear and need to be addressed in the first review, particularly in relation to the EU renewable energy targets.

### Analysis

Generally energy companies agree with the cost analysis undertaken by Ernst and Young that was undertaken to support the consultation on the Reform of the RO, apart from concerns that the costs of co-firing appear to be significantly underestimated.

However, it is important to recognise that this analysis is based on a snapshot at a particular time, and the market for renewable energy continues to evolve.

### Appropriate administrative burden

As an overarching principle, it is important that smaller projects have a less onerous administrative burden.

One example of how this might work in practice is the Australian Renewable Obligation scheme (the Mandatory Renewable Energy Target), where a deemed approach is applied for small generators and solar water heaters, and the number of Certificates for the lifetime of the installation are estimated and created in one upfront transaction.

## **CONCLUSION**

The Council welcomes the opportunity to provide input into the consultation on the Reform of the Renewables Obligation, and supports the establishment of a stable framework for investment in renewable energy in the UK.

The Council recognise that further action will be required to deliver the EU 20% renewable energy target. Council members look forward to working with Government to support the development and implementation of any new policies and initiatives.

**UK Business Council for Sustainable Energy  
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*The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UKBCSE. However, they do reflect a general consensus.*