

# **Renewables Obligation Order 2006 (Amendment) Order 2007 Final Decisions**

**January 2007 – URN 07/648**

## **Introduction**

*This paper sets out the Government's decisions on options presented in the 2007 Renewables Obligation Order Statutory Consultation. Subject to Parliamentary approval (including clearance by the appropriate Parliamentary Committee), changes to the Renewables Obligation Order 2006 will be made by the Renewables Obligation Order 2006 (Amendment) Order 2007. The draft Amendment Order accompanies this paper. For ease of reference, a copy of the Renewables Obligation Order 2006, incorporating the amendments to be made by the draft Amendment Order, also accompanies this paper. A copy of the statutory consultation document can be found at <http://www.dti.gov.uk/consultations/page34162.html> .*

### **1. Small Generators (50kW and under)**

#### **a) Allowing agents to act on behalf of small generators**

*The consultation proposed that agents should be allowed to act on behalf of small generators when participating in the Renewables Obligation (RO). This proposal was strongly supported in responses to the consultation and the Government intends to implement this from 1 April 2007.*

*The consultation also sought views on a number of specific arrangements for the use of agents. These issues are as follows:*

#### **Issuing of ROCs to agents and generators**

*The consultation proposed that where a generator is using an agent, the ROCs should only be issued to agents. Whilst many responses asked for flexibility for ROCs to be issued to either the generator or the agent no strong advantages were identified for providing this option. Generators can already appoint a person to deal with the administrative aspects of the RO but the generator is still required to authorise documents and the ROCs must be issued to them. This proposal takes these arrangements a step further as their effect is to allow the agent to act as though they are the generator. For generators who wish to have ROCs issued to them directly they can continue to operate as they do under the current arrangements. Government will implement this change as proposed from 1 April 2007.*

#### **Switching of agents during an obligation period**

*The consultation proposed that generators would be restricted to using one agent per obligation period except in exceptional circumstances where they*

would be allowed to terminate their contract with an agent. There was mixed support for this proposal. Some respondents supported the proposal because it limited administrative burdens whilst a large number felt that it could restrict the market. Whilst we would not want to restrict the market in any way it is likely that this effect will be limited and it needs to be balanced against the administrative complexity for Ofgem of allowing generators to switch agents as often as they want. The Government intends to amend the legislation from 1 April 2007 to allow generators to use only one agent during an obligation period except in exceptional circumstances. In practice, a generator can terminate their agreement during an obligation period but it would not become effective for the purposes of the RO until the end of the obligation period and all ROCs relating to electricity generated during that obligation period have been issued.

#### Accreditation Scheme for agents

The consultation did not seek to introduce an accreditation scheme for agents but invited views on whether there should be one. There was mixed support among respondents for the introduction of an accreditation scheme. The main arguments against an accreditation scheme were that it added another level of regulation and administration while those supporting it felt that it would provide reassurance. The Government is keen that these changes should be deregulatory and would want to avoid adding further administrative burdens to the RO process. Government will not therefore require the introduction of an accreditation scheme but would encourage the renewables industry to establish its own scheme if demand becomes apparent. To provide some transparency in the market, Ofgem will publish a list of agents who are claiming ROCs on behalf of generators.

#### **b) Amalgamation of output by agents**

The consultation proposed that where agents represent two or more generators they would be required to amalgamate the output. This proposal was well supported in responses to the consultation and will be implemented from 1 April 2007.

The consultation also sought views on a number of specific issues relating to the amalgamation of output. These are as follows:

#### Geographical restrictions

The consultation proposed that there should be no geographical restrictions on amalgamation, except across obligation boundaries. This proposal was accepted by the majority of respondents and we intend to implement it from 1 April 2007. It should be noted that this restriction would not prevent an agent representing a group of generators accredited under the ROS and a separate group of generators accredited under the RO.

#### Should agents be able to submit monthly or annual ROC claims

*The consultation proposed that the existing rules that allow small generators to make annual or monthly ROC claims should still apply where generators are using agents. As with the current rules, generators cannot switch between monthly and annual claims during an obligation period even if they are using an agent. Responses to the consultation supported this proposal and the Government will be implementing it from 1 April 2007.*

*Should amalgamated output be grouped by technology*

*The consultation proposed that when an agent is amalgamating output it should do so by technology e.g. all wind generators would form one group, all solar another and so on. There was fairly strong support for allowing groups to be mixed as this makes administration easier for agents and also means only one return for Ofgem. There was also concern about how this would work where, for example, a householder uses a mixture of technologies.*

*The reasoning behind this proposal is that restricting groups by technology allows ROCs to be issued on a technology basis which in turn allows Ofgem and DTI to see how much generation is coming from different technologies. This approach would also facilitate the introduction of a banded RO in future – banding the RO was the subject of Part 1 of the consultation document. The Government, therefore, intends that agents should amalgamate generation by technology and that this will be implemented from 1 April 2007.*

*Summary of amalgamation rules*

*Agents will need to group their generators in the following way:*

- Generators accredited under the RO, ROS, NIRO;*
- then within this generators on annual claims or monthly claims;*
- then within this generators split by technology.*

*Where a generator has more than one technology installed they will be accredited by the predominant technology as happens under the current RO rules.*

***c) Change to the notice required by newly accredited small generators who want to make annual claims***

*Under current rules where a small generator is first accredited under the RO they must give at least one months notice if they wish to make annual ROC claims. Government is amending the ROO so that a small generator, when it first becomes accredited under the RO, simply has to notify Ofgem of their wish make annual claims prior to making their first ROC claim.*

***2. Removal of Requirement For Sale and Buyback Agreements***

*The consultation proposed to remove the requirement which, in effect, meant that generators consuming their own electricity had to enter into sale*

*and buyback agreements in order to claim ROCs. There was strong support for this proposal among consultation responses. The Government will take forward this proposal although recognises the concern raised by some responses about the potential impact on ROC prices. This situation arises because removing the need for sale and buyback agreements also removes this element of generation from the obligation. Because this generation will no longer be counted towards any suppliers supply figures it may be difficult to monitor but we will explore ways that this can be achieved so that the impact can be assessed.*

*Responses to the consultation also raised the issue of removing the arrangement that exists in practice for generating stations, who are not licensed suppliers, but who are supplying directly to a customer. This issue was not addressed in the ROO 2007 consultation and raises significant issues which we feel should be the subject of further consultation before any change is made. We therefore cannot address this in the ROO Amendment Order but intend to explore this issue further with a view to addressing it in the future.*

### **3. Co-firing Interim Changes**

#### **a) Interim changes to the co-firing rules**

*The consultation proposed that in order to ensure that the UK's energy crop market continued to develop between the Energy Review announcement last year and the possible introduction of banding, the Government would introduce an interim change to the co-firing rules which would be to allow the co-firing of energy crops outside the existing caps on co-firing. This means that co-firing of energy crops would be awarded 'normal ROCs' rather than 'co-fired ROCs'. The majority of responses supported this proposal and we intend to implement it from 1 April 2007.*

#### **b) Change to the definition of an energy crop**

*The consultation proposed a new definition for energy crops. The crops identified in this definition are unlikely to be used for any purpose other than as a fuel and so changing the definition in this way will simplify the administrative processes currently required. The new definition will mean that no evidence will need to be produced to show that the specific crops mentioned in the definition were planted with the primary intention that they were to be used as a fuel. The new definition for an energy crop is a "plant crop planted after 31<sup>st</sup> December 1989 and which is grown primarily for the purpose of being used as fuel or which is one of the following – a) miscanthus giganteus; b) salix (also known as short rotation coppice willow); c) populus (also known as short rotation coppice poplar)." The majority of responses supported this proposal and we intend to implement it from 1 April 2007.*

#### 4. Fuel To Be Treated As Biomass

*The consultation proposed a small change to the basis on which biomass fuels are measured where if a power station burns more than one fuel stream then as long as 90% of the total energy content of those fuels is derived from biomass, fuels will be treated as biomass fuels for the purposes of establishing ROC eligibility. ROCs will still only be issued for the actual biomass fraction of the total fuel. This approach will allow burning of a wider range of biomass fuels by these generators, that for example, might have otherwise gone to landfill. The majority of responses supported this proposal and we intend to implement it from 1 April 2007.*

*Renewables Obligation Team, DTI, January 2007*