EXPLANATORY MEMORANDUM TO

THE RENEWABLES OBLIGATION (AMENDMENT) ORDER (NORTHERN IRELAND) 2014

2014 NO 146

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department of Enterprise, Trade and Investment to accompany the Statutory Rule (details above) which is laid before the Assembly.

1.2 The Rule is made using powers conferred by Articles 52 to 55F and 66(3) of the Energy (Northern Ireland) Order 2003 and is subject to the draft affirmative resolution procedure.

2. Purpose

2.1 This Statutory Rule amends the Renewables Obligation Order (Northern Ireland) 2009 (the "2009 Order") in order to introduce changes to the Northern Ireland Renewables Obligation (NIRO).

3. Background

3.1 Articles 52 to 55 of the 2003 Energy Order provide the framework for the introduction of an obligation (a 'renewables obligation') on electricity suppliers requiring them to demonstrate the supply of electricity from renewable energy sources to consumers. The current detail of that obligation (the 'NIRO'), which was introduced in 2005, is contained in the Renewables Obligation Order (Northern Ireland) 2009.

3.2 The proposed Rule will amend the 2009 Order by:

- Introducing enhanced sustainability criteria for biomass feedstock; and
- Increasing Renewables Obligation certificate (ROC) support for ground-mounted solar photovoltaic (PV) generating stations with an installed capacity above 250kW.

3.3 The effect of these proposed amendments is described in more detail below.

<u>Policy Objectives of the Statutory Rule</u>

3.4 The policy objectives of the proposed Renewables Obligation (Amendment) Order (Northern Ireland) 2014 are:

b) Introduce enhanced sustainability criteria for biomass feedstock

The introduction of enhanced sustainability criteria aims primarily to optimise GHG savings and prevent adverse land use change such as deforestation, thus ensuring biodiversity and other environmental impacts are protected. It also provides industry with greater certainty over investment conditions (regarding new generation and biomass feedstock supplies) needed in order to meet the 2020 renewable energy targets, and to deliver the accompanying benefits for increased security of supply and green jobs.

The biomass sustainability criteria changes that will be introduced on 1 June 2014 are:

- Tightening of greenhouse gas (GHG) lifecycle trajectories in a series of steps over time, i.e.:
    - From April 2020, biomass power, whether new or existing, co-firing or conversion, with or without combined heat and power (CHP) will be placed on the same GHG trajectory. The target in 2020 will be 200 kg CO_2eq per MWh target (72% saving). This will reduce further to 180 kg CO_2eq per MWh target in 2025 (75% saving).
    - Before April 2020, existing biomass power, co-firing and conversions, with and without CHP will remain on the current 285 kg CO_2eq per MWh target to reflect that long-term contracts are already in place. However, new dedicated biomass will be subject to a 240 kg CO_2eq per MWh target (66% saving) to reflect its higher cost of carbon savings.
    - These targets will be applied as annual averages, subject to a ceiling for individual consignments to allow generators to better manage the risk of one individual consignment exceeding the target.
- Introduction of new sustainable forest management criteria.
- Generating stations of 1MWe and above will be required to provide an independent audit of their sustainability report from June 2014.
- Generators will be required to report on performance against the new sustainability criteria from June 2014. It is intended that the criteria will become mandatory from April 2015, i.e. linking eligibility to receive ROCs with generators over 1MW demonstrating they have met the biomass sustainability criteria.
- To enable investment in new biomass power generation and biomass feedstock supply-chains, there is a commitment to not make further unilateral changes to the sustainability criteria before 2027. DETI would still reserve the right to make changes in response to EC recommendations on bioenergy, or to EU and international law.

b) Increased ROC banding levels for ground-mounted solar PV generating stations with an installed above 250kW

DETI intends to increase ROC levels for ground-mounted solar PV generating stations with an installed capacity above 250kW. The new levels of support will be:

Ground-mounted solar PV (above 250kW)	Current	2014/15	2015/16	2016/17
ROCs/MWh	1.6	1.6	1.5	1.4

The proposed higher levels have been informed by evidence provided through consultation which concluded on 24 December 2013. There are a number of reasons why higher levels of support are needed, including longer timescales for planning approval and grid connection, lower levels of solar irradiance in Northern Ireland and the relative immaturity of larger scale solar in Northern Ireland. These reasons are expanded in more detail in the government response.

4. Consultation

4.1 A consultation on large scale solar PV and biomass affordability and sustainability was carried out during 2012/13 and a government response to Part A: Biomass Sustainability was published on 16 October 2013. A further consultation specifically on ROC levels for ground-mounted solar PV with an installed capacity above 250kW concluded on 24 December 2013 and a response published on 30 January 2014. The proposed changes to the biomass sustainability criteria will be introduced on a UK-wide basis across all three Renewables Obligations (ROs). The proposed ROC level changes for ground-mounted solar PV are specific to Northern Ireland.

4.2 A full list of non-confidential consultation responses can be viewed at http://www.detini.gov.uk/deti-energy-consultations.htm

5. Equality Impact

5.1 The Renewables Obligation is a market-based mechanism whose rules apply in a non-discriminatory way to its participants. The proposed changes will not alter this position. It was therefore found that a full EQIA was not considered necessary.

6. Regulatory Impact

6.1 The size of the whole Northern Ireland electricity market within the UK is approximately 2.5% of total consumption and the relative costs and benefits associated with the changes must be seen within this context. The special arrangement that Northern Ireland has within the UK-wide operation of the

Obligation means that the Obligation level imposed on suppliers here is much lower than that in GB and indeed is much lower than the actual renewables generation in NI. This restricts the impact of the NIRO on consumer costs.

6.2 The introduction of the enhanced sustainability criteria will impact on relevant generators of all sizes but it will mean that a generating station of 1MWe and above will be required to provide an independent audit of their sustainability report. Generators will also be required to report on performance against the new sustainability criteria from June 2014.

6.3 Whilst the total amount of subsidy received depends on the amount of generation, the compliance costs would not be expected to vary with the size of the operator to the same degree. This would represent a potential disadvantage for small generators who could face similar costs in return for less overall support compared to larger operators. The magnitude of costs related to administration and verification would, however, not appear to be unreasonable when compared to the likely amount of ROC support that even small installations would be entitled to. A Final Regulatory Impact Assessment can be viewed at http://www.detini.gov.uk/deti-energy-index/deti-energy-sustainable/northern_ireland_renewables_obligation_.htm

7. Financial Implications

7.1 The NIRO is a market-led support mechanism through which the cost of providing support to renewable generators is borne by electricity consumers. There are no financial implications for DETI. A Levy Control Framework (LCF) was introduced by HM Treasury in April 2011 which places a ceiling on the maximum cost of all three ROs. The proposed changes introduced in this Order are not expected to have any noticeable impact on the LCF.

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. The Renewables Obligations (including the NIRO) are support measures implemented in line with recommendations of the EC Renewables Directive (EC/2001/77), but are not a mandatory requirement of the Directive.

10. Parity or Replicatory Measure

10.1 Similar legislation in relation to biomass sustainability criteria changes is being introduced in Great Britain in respect of the Obligations in Scotland and in England & Wales. The ground-mounted solar PV changes are Northern Ireland specific. It is proposed that the rule will be laid before the NI Assembly in April with the intention that it will come into operation with effect from 1 June 2014.

11. Additional information

11.1 Not applicable.

ENERGY DIVISION
Department of Enterprise, Trade and Investment
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