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Sent: 10 July 2008 16:40
To: NIRO REFORM 2008
Subject: NIRO Banding Consultation Response - ScottishPower
Attachments: NIRO Banding Consultation Response - ScottishPower.pdf

Dear Mr McKernan

Please find attached ScottishPower's response to this consultation.

Regards

Rupert Steele

*Rupert Steele
Director of Regulation
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10 July 2008

rupert.steele@scottishpower.com

Dear Mr McKernan

Preliminary Consultation on Proposed Banding of the Northern Ireland Renewables Obligation (NIRO)

ScottishPower is part of the Iberdrola Group, which operates in 30 countries worldwide. It owns 80% of Iberdrola Renovables, which is a major investor in renewables and the world's leading producer of electricity from wind energy, and which owns ScottishPower Renewable Energy Ltd (SPREL).

SPREL is already the UK's largest wind developer with a €1.2 billion investment programme over the next three years for developing renewable energy projects in the UK. It has over 1200MW of capacity in operation, under construction or consented, and is developing the world's largest generating wave farm in Orkney with plans to invest further in marine energy developments (including tidal stream projects) in both Scottish and Northern Ireland waters. ScottishPower is a buyer and trader of renewable energy and is also investing in a dedicated biomass plant at the Longannet site in Scotland.

This response to DETI's consultation on the proposed banding of the Northern Ireland renewables obligation (NIRO) is on behalf of ScottishPower and SPREL and references to "we" and "ScottishPower" mean either or both companies as the context requires. Our detailed points are set out in the attached note, but we would especially like to draw your attention to the following:

- ScottishPower strongly supports the RO, ROS & NIRO as a means of delivering the UK's targets for renewable generation and understands that changes to the current obligations are required to ensure that these targets are achieved. We therefore support DETI on the introduction of banding to the NIRO and welcome the consistency and alignment that this will provide across all three UK obligations.
- We have for some time advocated the need to extend the time frame and maximum target level of the RO in order to achieve continued investment in renewable generation. To this end, we welcome BERR's proposed Renewable Energy Strategy published on 26 June. We urge the DETI to work with BERR in

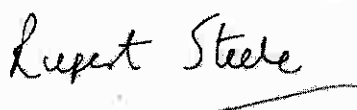
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supporting these proposals, to ensure Northern Ireland continues to be an attractive arena for investment in renewable generation in the future.

- In order to ensure equity across all UK consumers, consistency must be maintained where possible between all 3 obligations (RO, ROS and NIRO). We therefore support the DETI in working with BERR and Scottish Government to ensure consistency of changes to the RO mechanism.

Please contact me using the details above or Denise Smillie on 0141 568 5009 if you require more information, or would like to further discuss any elements of our response to this consultation.

Yours sincerely

A handwritten signature in black ink that reads "Rupert Steele". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Rupert Steele
Director of Regulation

PROPOSED BANDING OF THE NORTHERN IRELAND RENEWABLES OBLIGATION

ScottishPower's response to preliminary consultation

1) Banding

We believe that banding levels should be consistent across all three of the UK's obligations to ensure a level playing field for all renewable technologies. However, we consider that the UK Government's proposal for the support offered to marine technologies is currently insufficient to ensure their development. Our detailed comments on support required for marine, across the UK, are outlined below. We also provide some comment on suggestions that higher band levels may be required for landfill gas projects in Northern Ireland.

Marine

The marine industry has the potential to deliver considerable environmental and economic benefits for Northern Ireland, and across the UK as a whole. However, to fully establish this industry it is vitally important that adequate levels of support are in place to allow projects to progress and banding provides an opportunity for this to happen. We have looked at the options for support of marine projects and believe that banding is the most logical approach.

1) Support through banding

In Scotland the Marine Supply Obligation (MSO) has been used to encourage development of marine projects to date and a number of devices are due to be installed in Scottish waters between now and 2010. In their consultation on banding the Renewables Obligation (Scotland) (the ROS), the Scottish Government propose to discontinue the MSO and replace it with support under the banded obligation. We believe that this would be the most logical approach and provides an opportunity for consistency across all three obligations. In order to fully establish the industry, the band levels would however need to be set higher than those currently proposed by UK Government. We believe that the ROC multiples applied should equate to the level of support offered under the MSO for projects in Scotland in order to retain investor confidence.

ScottishPower analysis, outlined below, translates the support currently available under the MSO into ROC multiples required to provide the same levels of support under banding. The table shows how we have arrived at these banding levels, based on revenues at 2015, i.e. the timeframe within which we expect post demonstration marine projects to be getting underway. (At this point it is anticipated that guaranteed headroom will apply across all three obligations, stabilising ROC prices):

Technology	MSO ¹	RO ²	Multiple
Wave	£227/MWh	£45.27	5
Tidal	£136/MWh	£45.27	3

- Notes:
1. Value of MSO support at 2015 with 30% headroom (Current Policy) i.e. relevant buyout price plus recycle associated with 70% market compliance
 2. ROC value at 2015 with 8% guaranteed headroom (Proposed Policy) i.e. relevant buyout price plus recycle associated with 92% market compliance

The analysis suggests that 5 and 3 ROCs are the multiples initially required if support is to be maintained at the same level as the MSO. Although it is expected that these costs will fall (and converge) over time as the industry gains experience, additional support is essential now over and above the UK Government's current proposal for 2 ROCs if the industry is to be fully established.

If banding is to be adopted in Northern Ireland, then we believe these higher ROC multiples should be applied to the NIRO as well as the RO and ROS.

2) Support through banding & capital support

The UK Government's proposal for a double ROC band for wave and tidal could, however, be sufficient if accompanied by appropriate capital grant support.

To date grant support for demonstration projects has been offered through MRDF at the UK level, and WATES in Scotland. However, the MRDF has not been successful so far for various reasons; one of these is that costs for the first generation projects have escalated, rendering the level of support under this scheme inadequate.

There is a proposal that MRDF funding should increase from 25% to 40% grant support (i.e. similar to WATES), and that this should apply on top of 2 ROCs rather than single ROCs. We also see merit in this approach, and have urged Scottish Government to apply this to WATES for consistency across all three obligations.

We urge DETI to work with BERR and Scottish Government to agree on appropriate support to encourage development of marine technologies across the UK.

Landfill Gas

We note the suggestion that landfill gas sites in Northern Ireland should not be banded down to the level proposed by UK Government (0.25 ROCs), given the absence of any generation from this technology to date. However, without supporting evidence on what levels DETI believe are necessary for new landfill projects, it is difficult to provide detailed comment at this point.

We would urge DETI, BERR and Scottish Government to maintain a consistent approach to banding across the three obligations, therefore if it is determined that additional support, over and above BERR's proposals, is required for landfill gas investments then grant support may be the more appropriate route to establish this technology in the Northern Ireland market.

Should more detail on this suggestion be included in the statutory consultation, we will be happy to respond accordingly.

3) Grandfathering

We fully support the UK Government's proposals for grandfathering as a means of ensuring that existing projects, whose technologies would be allocated less than 1 ROC under banding, receive the support expected when those investments were made.

We are not aware of any issues specific to Northern Ireland that would require different treatment for grandfathering projects. We therefore urge DETI to align with

BERR and Scottish Government to maintain consistency for existing investments across all three obligations.

4) Headroom

We understand that special arrangements may be required for the implementation of headroom into the Northern Ireland obligation, however, we cannot comment on how this will work in practice until more detail is provided. We therefore look forward to responding to the detail of the headroom calculation, which will form part of the DETI statutory consultation, due to be published later in the year.

5) Administration

We support the proposal that costs incurred by NIAUR and OFGEM in administering the obligations will be met from the annual Buyout fund. However, under banding the administration of the RO will become more complex, therefore costs must be quantified in advance of the start of each year and should be presented in a timely and transparent manner, where industry is given the opportunity to question the proposed level of administration costs.

In addition a cap should also be placed on costs to ensure long-term certainty of the impact the costs can have on ROC values.

6) Biomass and Waste

We are not aware of any specific Northern Ireland issues relating to deeming the biomass content of waste or making the RO "neutral to waste". We therefore urge DETI to maintain consistency with the RO and ROS obligations.

With regard to biomass sustainability reporting we believe that additional requirements for generators must be kept to a minimum. Detailed information, relating to the fuels used for claiming ROCs, is already provided to OFGEM on a monthly basis. Other environmental information, in varying levels of detail, is also sent to organisations such as BERR and SEPA / EA in relation to biomass procurement, delivery and consumption.

7) Aim for consistency across all UK markets

Finally, in order to ensure equity across all UK consumers, consistency must be maintained where possible between all three obligations (RO, ROS and NIRO). We therefore support the DETI in working with BERR and Scottish Government to ensure consistency of changes to the RO mechanism.