

Francey, David

From: McKernan, Malachy
Sent: 18 June 2008 15:47
To: Mike
Cc: 'Colin Smith'; NIRO REFORM 2008
Subject: RE: Reform of the Renewables Obligation - a couple of questions

Michael,

Firstly, i want to apologise for delay in getting back to you - an oversight on my part.

I have responded by way of the blue additions to your e-mail below and hope this is helpful

Please do contact me if you wish to discuss these or other aspects of the NIRO reform

regards

Malachy

Malachy McKernan

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Please consider the environment - do you really need to print this e-mail?

From: Mike [mailto:mike@waringestate.com]
Sent: 05 June 2008 01:30
To: McKernan, Malachy
Cc: 'Colin Smith'
Subject: Reform of the Renewables Obligation - a couple of questions

Dear Malachy,

On reading the consultation paper on the Reform of the Renewables Obligation I wonder if you could help me with a couple of questions on my understanding of the implications of these proposals.

In paragraph 2.3 (b)

the Buy-Out Fund proceeds are redistributed among suppliers, at the end of each Obligation period, [of the Buy-Out Fund proceeds among suppliers] in proportion to the number of ROCs they produced in settlement of their Obligation for that period.

Is the implication of this statement that a very large electricity supplier [in proportion to all the other suppliers] who fell short of the required ROCs quota and yet still produced a large number of ROCs would have a very

large proportion of the money that they have had to pay to buy in ROCs (by way of 'fine') returned to them. Two exaggerate the position, but to make the point, if there was only one supplier in Northern Ireland and he only produced one ROC but bought in many thousands – then he would have all his money returned to him? I note the duplication of wording (in square brackets) in the quote from the consultation document - sorry for the confusion. In relation to your question, there is no advantage to any individual supplier due to their size. The NIRO is a market mechanism and would not operate with only one supplier; however, let's assume a number of suppliers all of whom met their Obligation by simply paying the Buy-out price conceivably if one of those suppliers presented 1 ROC as part of his Obligation he would 'scoop the pot'. However, such a situation would not arise because such a situation would only be possible if there was only 1 ROC in circulation (otherwise other suppliers would buy some to share the pot) ... but if there was only 1 ROC in circulation it would command an abnormally high price.... either way the market should settle itself.

Your next question below is also relevant and I hope my answer helps clarify. There is a difference between paying the Buy-Out and buying ROCs. In order to meet his Obligation in any year, a supplier could obtain ROCs (either through an agreement with the green generator from whom he buys the electricity) or buying them on the ROC market. If at the end of the year he has insufficient ROCs to meet his Obligation he must pay an amount into the Buy-Out Fund for each ROC that he is short (in 2008/09 that Buy-Out price is £35.76. At the end of the year the Buy-Out Fund is redistributed among those suppliers who have presented ROCs in proportion to the number of ROCs they actually presented. That is why the ROC price is always higher than the Buy-Out price. Although in theory (and legislation) NI has its own Buy-Out Fund the operation of the Fund and its redistribution is done on a UK-wide basis as if there was in fact a single UK Fund.

A second, perhaps naïve, question on the same paragraph is: -- is the purchase of 'buyout' different from buying ROCs on the traded market? If not how are money's used to pay for ROCs generated in different areas recovered to pay back to the local producers of ROCs; it is assumed that only local Northern Ireland ROCs suppliers would benefit from the Buy-Out fund.

In paragraph 2.15 there is reference to the very low obligation levels for Northern Ireland negotiated in the past. Will this consultation process address this important negative influence on the take up of renewable technologies and can representations be made on this topic? If the NIRO was operating in isolation from the GB Obligations it simply would not work because actual renewable generation is higher than the NIRO Obligation level - in such a scenario the market price of ROCs would plummet and, as you rightly say, it would be an ineffective support mechanism for renewables development. However, the situation can only be sustained because we are part of the wider UK-wide market for ROCs and the gap between actual generation and the obligation level in GB is sufficiently large to stimulate demand in GB for NI ROCs and enable our Obligation to work.

In paragraph 2.17 (b) are there any estimates as to what proportion of the fund will be used for administration? *Less than 1%.*

In my discussions with others there is confusion with the relevance of 'grandfathering' and the consequential eligibility of extra ROCs to the payment or repayment of grant aid. Can you confirm that a **new** anaerobic digester (for example) would be eligible for and receive all band two ROCs despite having benefited from capital assistance from government. A prime purpose of the Grandfathering principle is to take account of what is sometimes referred to as 'the legitimate expectations' of existing generating stations for whose technology the number of ROCs per MWh is being reduced - these had an expectation of getting 1 ROCs for each MWh of output (possibly indefinitely) and could be regarded as having made their investment decision on that basis. The scenario you cite which involves possible repayment of grant is the one in which the technology is 'banded up' from the 1ROC:1MWh ratio - it could be said that such stations made their investment decisions on the basis of the 1:1 ratio (possibly with grant) and did not deserve to be granted the higher level. Indeed, it could be argued that grandfathering should really only apply to those being banded down; the situation of allowing existing projects to move up to the new level could be regarded as exceptional and the requirement to repay grant previously earned is not only a recognition of this fact but also an attempt to avoid a double State Aid being applied to the project.

I am very concerned that the proposed new ROC strategy in Northern Ireland appears to ignore the disgraceful levels of waste currently dominating the electrical generation market. The sorting out of our electrical generation system and influencing the move towards a distributed generation network would do

more to 'save the planet' (and our economy) than any practical and achievable renewable strategy foreseeable within the next 50 years. Almost 1/3 of all the energy imported into Northern Ireland in 2002 was wasted as a direct consequence of our inefficient centralized power stations dominated network structure – source inferred from the Carbon Trust Energy Study 2002. [Energy efficiency both in terms of generation and consumption is widely recognised as an area that could contribute significantly to overall carbon reduction aims - however, I think it is a wider issue that the NIRO and something that would more appropriately taken up in another forum](#)

Regards

Michael Harnett.