



Department  
of Energy &  
Climate Change

# Consultation on the Transition from the Renewables Obligation to Contracts for Difference

July 2013

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The Consultation and Analytical Annex can be found on the Government's website:  
<https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>

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# General Information

## Purpose of this consultation

This consultation sets out the Government's proposals for the operation of the Renewables Obligation (RO) during the period of transition to the new Contract for Difference (CfD) support mechanism. The Department of Energy and Climate Change (DECC) invites interested parties to submit comments and evidence in response to these proposals.

## Territorial extent

This consultation covers arrangements on the RO in England and Wales only.

*Scotland:* Because the introduction of transition arrangements to the Scottish RO will be delivered as part of separate secondary legislation in Scotland, the Scottish Government will publish its own separate consultation seeking views on the proposals as set out within this document during summer 2013.

*Northern Ireland:* Due to reforms to the Single Electricity Market in Northern Ireland, the Northern Ireland Executive does not plan to open its market to CfDs for projects commissioning before 2016 at the earliest. The transition period in Northern Ireland will therefore be shorter than in Great Britain. This consultation document does not cover the transition arrangements and associated secondary legislation for Northern Ireland, which will be the subject of a separate consultation from the Northern Ireland Executive in due course.

## How to respond

**Issued:** 17 July 2013

**Respond by:** 25 September 2013

**Enquiries to:**

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**Consultation reference:** URN 13D/150

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Reasoning and evidence to support your answers will be particularly helpful. If you wish to include any long reports as part of your evidence, please identify the relevant sections.

Please use the proforma provided on the Government's website to record your response and evidence:

<https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>

Please send the completed proforma to [rotransition@decc.gsi.gov.uk](mailto:rotransition@decc.gsi.gov.uk). Alternatively, hard copy replies should be sent to the Renewables Obligation (Transition) Team at the address above.

## Consultation Provisions

### Additional Copies

You may make copies of this document without seeking permission. An electronic version can be found at:

<https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us at [correspondence@decc.gsi.gov.uk](mailto:correspondence@decc.gsi.gov.uk) to request alternative versions.

### Confidentiality and Data Protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at <https://www.gov.uk/government/consultations/transition-from-the-renewables-obligation-to-contracts-for-difference>.

This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

## Quality Assurance

This consultation has been carried out in accordance with the Government's Consultation Principles, which can be found here:

<https://www.gov.uk/government/publications/consultation-principles-guidance>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator

3 Whitehall Place

London SW1A 2AW

Email: [consultation.coordinator@decc.gsi.gov.uk](mailto:consultation.coordinator@decc.gsi.gov.uk)

## Terminology

Please see below for the definition of terms used within this consultation document:

- **RO-accredited station** – a renewable electricity generating station which has accredited under the Renewables Obligation (RO).
- **New generating station** – a renewable electricity generating station which has not previously been accredited under the RO or small scale FIT.
- **Additional capacity** – new generating capacity added to a generating station accredited under the RO, which does not form part of, or replace any, accredited capacity of that generating station.
- **Operator** – person, company or organisation:
  - Proposing to construct or operate a new generating station;
  - Proposing to operate additional capacity at an existing generating station;
  - Currently constructing or operating a generating station or generating capacity.

NB: choices made by one operator in relation to a given generating station or any part of it continue to apply to that generating station even if the operator changes e.g. due to the rights to a station being sold during construction.

- **Dual scheme plants** – plants with some generating capacity accredited under the RO, and some generating capacity covered by a CfD.
- **Generating capacity** – the equipment used to generate electricity at a generating station.

# Executive Summary

Electricity Market Reform (EMR) will deliver the greener energy and reliable supplies that the country needs, at the lowest possible cost. It will transform the UK electricity sector to one where low-carbon can compete with conventional, fossil-fuel generation. A fifth of our capacity is due to close by the end of the decade, and consumers are facing rising energy costs due to growing dependence on uncertain supplies of imported fossil fuels, so now is the time to move towards a diverse and low-carbon electricity mix.

One key aspect of EMR is the transition from the Renewables Obligation (RO), the current main support mechanism for large scale renewable electricity generation, to Contracts for Difference (CfD), the new support mechanism for low-carbon electricity generation, including renewables, nuclear, and Carbon Capture and Storage.

This consultation seeks views on the policy and processes for the transition period, from mid-2014 to 31 March 2017, during which the RO and CfD will both be open for applications from new renewable generating capacity. New generating capacity will have a choice between the two schemes, which we propose will be made at the point of application to either scheme. Such capacity will also have the option of applying for an investment contract under Final Investment Decision (FID) Enabling. All applications will be subject to the rules for the scheme in question, and to confirmation that the capacity is not receiving support under one of the other schemes.

Additional generating capacity of more than 5MW at an existing RO-accredited generating station will also be eligible for this choice of scheme during the transition period, and will continue to be entitled to apply for a CfD after the transition period ends. Where a generating station has some capacity within the RO and some covered by a CfD, it will be termed a 'dual scheme plant', and we propose that it will be subject to additional metering requirements, to ensure that generation within each scheme is measured accurately. Additions of capacity of 5MW or less at existing RO-accredited stations will not be eligible to apply for CfDs, in order to align with CfD eligibility arrangements.

On 31 March 2017, the RO will close to new capacity, and will then continue running in support of accredited capacity for a further 20 years, until 31 March 2037. We will grandfather support at existing levels on the closure date. We will also offer grace periods for operators who expected to deploy prior to the RO closure date, but were delayed, ensuring that such operators are still able to accredit under the RO when it is appropriate that they should do so. This consultation proposes key principles to be used as the basis for defining the precise length, evidence and eligibility criteria for these grace periods.

There are two transition measures which are specific to particular technologies: biomass co-firers, and offshore wind. To incentivise RO-accredited biomass co-firers to convert to full biomass firing, we propose that they would be able to apply for a CfD as a biomass conversion, and to withdraw from the RO as a co-firer if successful. This option would be available for full stations and for units or groups of units within stations. In addition, such co-firers will be able to bid in to the Capacity Market, and to withdraw from the RO if successful. In both cases, stations or units would not be able to return to the RO once they have made this choice. Operators of offshore wind stations who have not yet registered all phases of their RO-accredited capacity will be entitled to register those under the RO on or before the closure date, even if the phases have not yet commissioned. They will also be entitled to apply for a CfD for the unregistered phases.

Finally, in response to stakeholder comments, we are seeking views on the timing of the introduction of the fixed price certificate scheme. After the closure to new capacity on 31 March 2017, the number of operators operating within the RO will gradually reduce, therefore the RO could be vulnerable to price volatility. The fixed price certificate scheme is designed to fix the



income operators receive during the final decade of the scheme, both to give operators and investors confidence in a certain RO income, and to prevent overpayments by consumers.

On the basis of a consultation in 2010/11, we chose to implement the fixed price scheme in 2027. This was seen as providing the best balance between the need to ensure price certainty in the final years of the scheme, and the need to protect existing Power Purchase Agreements (PPA) from the impact of change in law provisions. However, since that point we have received indications from some stakeholders that they would prefer an earlier implementation, therefore we are seeking wider views on that issue.

# Aims of the Consultation

Overarching policy on RO transition was consulted upon within the December 2010 Electricity Market Reform (EMR) consultation, and details on the position taken as a result of that consultation were set out in the July 2011 White Paper entitled *Planning our electricity future*.<sup>1</sup>

The policy established at the time of that consultation includes the following key points:

- The Renewables Obligation (RO) will close to new entrants on 31 March 2017. Support for capacity within the scheme at that date will be grandfathered at existing levels, and grace periods will be offered for those who miss the closure date;
- During the transition period between the introduction of CfDs in 2014 and that closure, developers will have a one-off choice of scheme between the RO and CfD;
- To ensure ongoing RO stability, generating capacity accredited under the RO will continue to be supported under the RO and will not be permitted to transfer to the CfD;
- After 31 March 2017, operators within the RO who add additional capacity of more than 5MW will be able to apply for support under the CfD mechanism for that additional capacity;
- RO-accredited offshore wind operators will be able to apply for either the RO or a CfD in respect of phases which have not commissioned by 31 March 2017.

Since the publication of the July 2011 White Paper, DECC has also indicated that we are minded to offer the option for RO-accredited biomass co-firing station to leave the RO and apply for a CfD as a full biomass conversion.

In that context, the aims of the current consultation are as follows:

- To seek views upon the intended processes for implementing the above pre-established policies on RO closure and transition;
- To seek views upon some additional points of policy in relation to RO transition arrangements, and the associated processes;
- To test whether the position on the timing of the introduction of the fixed price certificate remains as set out in the July 2011 White Paper.

This consultation will not cover:

- Policy decisions taken on the overarching principles for the RO transition period as set out within the July 2011 White Paper;
- Secondary legislation relating to the implementation of the Fixed Price Certificate scheme. The powers for the latter are currently being progressed within the Energy Bill and are subject to Parliamentary process and to Royal Assent. We intend to publish a further consultation in spring 2014 on secondary legislation and associated arrangements for the Fixed Price Certificate scheme;
- The eligibility criteria and other arrangements for the CfD. CfD strike prices for the first five years are set out within the draft Delivery Plan.<sup>2</sup> The current intention is for secondary legislation covering the management of CfDs to be subject to consultation in October 2013.

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/48129/2176-emr-white-paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48129/2176-emr-white-paper.pdf)

Subject to the responses received to this consultation, our aim is to implement the proposals set out within this document via a Renewables Obligation Order 2014 (ROO 2014), to come into force on 1 April 2014. The proposals set out in this document are subject to the Energy Bill, which is currently before Parliament. They are also subject to Parliamentary approval of the Order amending the RO legislation and any State Aid clearances that may be required.

This consultation covers England and Wales only, and the timings specified throughout this document should be seen in that context.

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<sup>2</sup> <https://www.gov.uk/government/consultations/consultation-on-the-draft-electricity-market-reform-delivery>

# Section 1: Context

This section introduces the key policies relevant to the transition period and to the provisions within the consultation. A timeline showing key milestones for all of these policies in parallel is at **Annex 1**.

## Electricity Market Reform

- 1.1 Electricity Market Reform (EMR) will deliver the greener energy and reliable supplies that the country needs, at the lowest possible cost. It will transform the UK electricity sector to one where low-carbon can compete with conventional, fossil-fuel generation.
- 1.2 A fifth of our capacity is due to close by the end of the decade, and consumers are facing rising energy costs due to growing dependence on uncertain supplies of imported fossil fuels, so now is the time to move towards a diverse and low-carbon electricity mix.
- 1.3 This presents a huge opportunity for growth and jobs, with EMR designed to unlock up to £110 billion investment in our energy infrastructure and support up to 250,000 jobs during this decade alone. The electricity sector is one of the biggest areas in the UK economy for investment over this decade and the Government is keen to support industry to maximise this potential.
- 1.4 Alongside and within the EMR framework for low-carbon support, the Government has made clear its commitment to increasing the deployment of cost-effective renewable energy across the UK in the sectors of electricity, heat and transport. Our goal is to ensure that 15% of our energy demand is met from renewable sources by 2020 in the most cost effective way.
- 1.5 This will provide long-term energy security, protect consumers from fossil fuel price fluctuations, and drive investment in new jobs and businesses in the renewable energy sector, as well as keeping us on track to meet our carbon reduction objectives for the coming decades. Beyond 2020, further cuts in emissions will be necessary to keep us on a cost effective path to meeting our 2050 commitments for carbon emission reduction.

## Renewables Obligation

- 1.6 The RO is currently the Government's main financial incentive for large-scale renewable electricity. It places an obligation on licensed electricity suppliers to submit a specified number of Renewables Obligation Certificates (ROCs) in respect of each megawatt hour of electricity they supply to customers in England & Wales.
- 1.7 The RO is administered by Ofgem, who issue ROCs to renewable electricity operators in relation to the amount of eligible renewable electricity that they generate. Operators sell their ROCs to suppliers or traders which allows them to receive a premium in addition to the wholesale price of their electricity. ROCs can be sold with or without the electricity they represent. Suppliers must present ROCs to Ofgem to meet their obligation or pay a penalty, known as the 'buy-out price'.
- 1.8 Since its introduction in 2002, the RO has succeeded in supporting the deployment of increasing amounts of renewables generation from 3.1GW in 2002 to 12.3GW in 2011 and

increasing the level of renewable electricity in the UK from 1.8% in 2002 to 9.4% in 2011. Our assessment is that the RO might be able to deliver the longer term decarbonisation we need. However, it would not be able to do so at the lowest cost to the consumer. The transition from the Renewables Obligation (RO) to Contracts for Difference (CfD) is therefore an integral part of EMR.

## Contracts for Difference

- 1.9 CfDs have been designed to provide the most efficient long-term support for all forms of low carbon electricity generation – including nuclear, renewables and Carbon Capture & Storage. CfDs will give greater certainty and stability of revenues by removing exposure to volatile wholesale prices, and will protect consumers from paying for support when electricity prices are high. This consequently makes the development of low carbon generation cheaper for both investors and consumers. This approach is suitable for all forms of low carbon generation.
- 1.10 CfDs will offer certainty and stability in the following ways:
- a. CfDs will be private law contracts between operators and the CfD Counterparty, a Government-owned limited company.
  - b. CfDs will be offered on the basis of a fixed strike price, which ensures investors have clarity on revenue, and that when the wholesale electricity prices are higher than the strike price the operator pays the difference back, so costs to consumers are capped.
  - c. CfDs will be offered significantly earlier in the project development process than the RO, giving operators certainty on the future level of returns.
- 1.11 The reduced risk and uncertainty which CfDs provide should in turn reduce cost of capital. All of this means that CfDs are expected to provide more efficient support for renewable electricity generation than that provided under the RO.
- 1.12 CfD applications for renewable generation (to be defined in the CFD regulations) will be submitted to National Grid as CfD Delivery Body. If the Delivery Body decides to direct the CfD Counterparty to offer a CfD to an operator, that CfD will then be entered into by the Counterparty and operator and managed by the Counterparty.
- 1.13 Further information on CfDs is provided in the following publications:
- a. EMR Investment Package – Spending Review: published on 27 June;<sup>3</sup>
  - b. Draft Delivery Plan, covering strike prices for the period 2014-18, to be published in July;<sup>4</sup>
  - c. CfD summer publications, covering:
    - i. CfD allocation arrangements;
    - ii. CfD contract terms;
  - d. Consultation on associated secondary legislation on CfDs, to be published from October 2013.

<sup>3</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/209361/Levy\\_Control\\_Framework\\_and\\_Draft\\_CfD\\_Strike\\_Prices.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209361/Levy_Control_Framework_and_Draft_CfD_Strike_Prices.pdf)

<sup>4</sup><https://www.gov.uk/government/consultations/consultation-on-the-draft-electricity-market-reform-delivery>

## Final Investment Decision (FID) Enabling

- 1.14 The Government is committed to working with relevant operators to enable early investment decisions, including those required ahead of EMR implementation, to progress to timetable wherever possible. Powers in the Energy Bill will allow the Secretary of State to give effect to early CfDs – referred to as ‘investment contracts’ – with the intention that these contracts will be transferred to the CfD counterparty body when that is established.
- 1.15 DECC launched Final Investment Decision (FID) Enabling for Renewables on 14 March 2013 and published *Final Investment Decision Enabling for Renewables: Update 1: Invitation to Participate*. The Update set out the process, qualification criteria and indicative timetable for Phase 1. Under Phase 1, applicants who meet the qualification criteria for participation receive a letter notifying them of their successful qualification. In addition, qualifying applicants could also request a Status Letter. The application window for Phase 1 closed on 1 July 2013.
- 1.16 Further details on the process were published on 27 June 2013 in *Update 2: Investment Contract Allocation*. This sets out the process and indicative timetable for developers to apply for investment contracts in Phase 2 of FID Enabling for Renewables, as well as details of the evaluation criteria which they will be assessed against.
- 1.17 Applicants, who have successfully qualified to participate for FID Enabling for Renewables in Phase 1, can apply for an Investment Contract in Phase 2. In Phase 2 applications will be assessed on whether they continue to meet the Phase 1 qualification criteria and will be evaluated against the Phase 2 evaluation criteria. The evaluation criteria include Project Deliverability and Impact on Industry Development. Applications for investment contracts in Phase 2 need to be received by midday on 6 September 2013.

## Capacity Market

- 1.18 There are increasing threats to security of electricity supply as a significant proportion of existing plant close, and more and more of our energy comes from intermittent and inflexible sources such as wind and nuclear. This means we may not have enough investment to ensure we have the capacity we need to avoid blackouts – for example in periods of low wind and high demand. The Capacity Market has been designed to most efficiently bring forward the investment we need to minimise security of electricity supply risks, by giving capacity providers the revenue certainty they need to invest and put capacity in place.
- 1.19 The Capacity Market will involve payments to capacity providers in return for a commitment to provide a level of capacity over a delivery period. This will ensure overall that there is enough capacity in place to meet the desired level of reliability of electricity supply. Capacity providers will face penalties if they fail to deliver energy when needed.
- 1.20 In more detail:
  - a. A forecast of future peak demand will be made, i.e. four years ahead of the delivery year in which it must be available;
  - b. The amount of capacity needed to ensure sufficient security of electricity supply (which is likely to be determined through an enduring reliability standard) will be acquired through a competitive central auction;

- c. Generation and non-generation approaches such as demand side response will be able to participate in the capacity auction. All generation plant, including existing plant, will be eligible to participate in this auction, with some exceptions (e.g. low carbon plant receiving the CfD);
  - d. Providers of capacity successful in the auction will enter into capacity agreements, committing to provide electricity when given notice in the delivery year (in return for steady capacity payments) or face financial penalties; and
  - e. The costs of the capacity payments will be shared between electricity suppliers in the delivery year.
- 1.21 In line with the Capacity Market publication of 27 June,<sup>5</sup> RO-accredited operators will not be entitled to bid in to the Capacity Market while in receipt of ROCs or (post-2027) fixed price certificates. This is because we consider that this could constitute double support.

## Fixed Price Certificate

- 1.22 As detailed above in the **Aims of this Consultation**, detailed arrangements and secondary legislation relating to the implementation of the Fixed Price Certificate (FPC) will not be covered within this document. We intend to publish a further consultation in spring 2014 on secondary legislation and associated arrangements for the fixed price scheme.
- 1.23 The defining feature of the fixed price scheme is the obligation on the purchasing body to purchase certificates at a fixed price, which will replace the obligation on suppliers to purchase ROCs or to pay into the buyout fund. Making this change in the obligation requires legislative and mechanical replacement of the RO with a fixed price scheme.
- 1.24 We have the following policy intentions in relation to the FPC:
- a. Subject to responses to **Section 6** of this consultation, the fixed price scheme will replace the RO from 1 April 2027, and will run until the RO end date of 31 March 2037;
  - b. In moving to the fixed price scheme, we have no intention of changing the level or length of support received by operators in relation to capacity within the RO, or the frequency with which certificates are issued;
  - c. Generating capacity which qualified for ROCs under the RO will qualify for FPCs on a like-for-like basis;
  - d. The price for a FPC will be fixed at the 2027 RO buyout price, plus 10%. This will be inflation-linked, and there will be a legal obligation on a purchasing body to purchase FPCs at that fixed price;
  - e. The detail on fixed price certificates currently in place within the relevant clause of the Energy Bill was written to mirror the level of detail set in primary legislation in relation to the RO. We also intend to draft the secondary legislation on fixed price certificates to mirror the detail in the Renewables Obligation Order (ROO).

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<sup>5</sup> <https://www.gov.uk/government/publications/electricity-market-reform-capacity-market-proposals>

## Section 2: New Generating Stations

During the transition period between the introduction of Contracts for Difference (CfDs) in 2014 and the closure of the RO to new capacity on 31 March 2017, operators will have a one-off choice of scheme between the RO and CfD for support for new generating stations. Our proposals in relation to the way in which this option should be made available and managed are set out below.

### Transition Period

- 2.1 The transition period is defined as follows:
- a. The time period in which both accreditation under the Renewables Obligation (RO) and investment contracts under FID enabling are available. Investment contracts are open for Phase 2 applications until 6 September 2013, and are expected to be signed in March 2014.
  - b. For the choice between Contracts for Difference (CfD) and the RO, the transition period begins when CfDs are available and ends when the RO closes to new capacity on 31 March 2017.

### Eligibility

- 2.2 The rules proposed below in relation to the choice of scheme will operate so as to ensure that particular generation can only get one form of support, regardless of who makes the application in respect of that generating station or generating capacity. It will not be possible for different individuals, companies or organisations to make different choices or applications in respect of the same generating station or generating capacity.
- 2.3 The one-off choice will be exercised by applying for a CfD, by entering into an investment contract or by applying for accreditation under the RO. Eligibility for support will be subject to the eligibility criteria and application processes for the scheme chosen.
- 2.4 As proposed in the draft Delivery Plan, not all renewable technologies which are eligible for RO support are being offered a strike price at this time. Technologies which are not being offered a CfD strike price or case-by-case CfD consideration will not be able to access the choice of scheme at this time, in line with CfD eligibility criteria. Details of the rationale and technologies in question are set out in the draft Delivery Plan, and views on this proposal should be included in responses to the draft Delivery Plan consultation.<sup>6</sup>
- 2.5 We will not permit operators to receive support for the same generating capacity under both CfDs and the RO, whether during the transition period or at any later date. The same applies for investment contracts and the RO. This is necessary to prevent over-compensation.
- 2.6 In that context, we propose that once an operator has entered into an investment contract or applies for a CfD for a new generating station, that generating station will not be eligible

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<sup>6</sup> <https://www.gov.uk/government/consultations/consultation-on-the-draft-electricity-market-reform-delivery>



for accreditation under the RO, unless the investment contract is terminated through no fault of the operator parties to the investment contract or the application for the CfD is rejected by National Grid (or the Secretary of State, if applicable).

- 2.7 Similarly, if an operator chooses to apply for accreditation under the RO for a new generating station, that generating station will not be eligible for an investment contract or CfD in respect of its accredited capacity, although the operator may still apply for a CfD for additional capacity of more than 5MW which is added to the station at a later date. The detailed rules proposed for additional capacity are set out in **Section 4** of this document.
- 2.8 It is our intention that generating capacity which has received support under the RO will not be eligible for support under an investment contract or CfD, even if it has reached the end of its period of support under the RO (RO support runs to 2027 or for 20 years, subject to the 2037 end date). This is because we consider that the capital costs of the generating capacity should have been recovered over the term of RO support.
- 2.9 Separate rules are proposed for RO-accredited biomass co-firing stations which are being converted fully to biomass on a unit or station-wide basis and for unregistered offshore wind phases at RO-accredited stations. Further details on the arrangements and rationale for these exceptions are set out in **Section 5** of this document.
- 2.10 Eligibility arrangements are set out in detail in the eligibility chart at **Annex 2**.

## Point at which Choice of Scheme is required

- 2.11 The one-off choice of scheme will apply at the following point:
  - a. An application for RO accreditation;
  - b. An application for a CfD;
  - c. The entry into an investment contract.<sup>7</sup>
- 2.12 An application for RO preliminary accreditation will not be regarded as making a one-off choice for the RO.
- 2.13 Once an operator makes an application for a CfD or enters into an investment contract, that operator will not be permitted to apply for RO accreditation in respect of that generating station, unless the investment contract is terminated through no fault of the operator party to the investment contract, or the application for the CfD is rejected by National Grid or the Secretary of State. Should National Grid or the Secretary of State reject the CFD application, the operator will once more have the choice to apply for the RO during the transition period. The proposed approach is shown in the flowchart at **Annex 3**.
- 2.14 The rationale for this approach is that it provides a straightforward and clear baseline for identifying and enforcing eligibility criteria. An alternative approach would be to allow simultaneous applications to the CfD and the RO. We do not prefer this approach for the following reasons:
  - a. It would increase the administrative burden of the Choice of Scheme process substantially, due to the requirement to process additional applications to both schemes;

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<sup>7</sup> Earlier expressions of interest / applications to be considered for investment contracts will not constitute a choice of scheme.

- b. This would have a knock-on effect on the application timeline, and could result in unfair treatment of other applicants – in particular in the context of the ‘first come first served’ CfD process;
  - c. It could be more challenging to police the prevention of supporting one project under more than one scheme.
- 2.15 We propose to allow simultaneous applications for an investment contract and the RO, because we expect the process for application and award of investment contracts to be substantially completed before April 2014, when the proposed choice of scheme arrangements for the RO would come into force. A project will cease to be eligible for an investment contract, and its application for an investment contract will be rejected, if the generating station becomes accredited under the RO.
- 2.16 If an operator applies for a CfD in relation to a new generating station and then chooses to withdraw voluntarily from the process that generating station will no longer be eligible for RO accreditation. If an operator enters into an investment contract or a CfD in relation to a new generating station and then causes the contract or CfD to be terminated, fails to meet a condition of the contract or CfD or otherwise withdraws from the process, that generating station will no longer be eligible for RO accreditation.
- 2.17 Paragraphs **2.12-16** notwithstanding, operators which have applied for a CfD in relation to a generating station and been notified that they have not been successful, will then be eligible to apply for accreditation under the RO, until the RO is closed to new entrants on 31 March 2017. The same would apply to operators which have entered into an investment contract in relation to a generating station, which is subsequently terminated through no fault of the operator party to the investment contract.

## Application Process

- 2.18 The RO, investment contracts and CfDs are subject to separate application processes, managing bodies and timescales, as follows:
- a. RO accreditation applications are submitted to Ofgem, and the ongoing support is likewise administered by Ofgem. Stations must be commissioned before an application for accreditation can be granted. Under current Ofgem process, operators can apply for accreditation up to two months before commissioning, and Ofgem will then consider the application and determine eligibility for accreditation under the RO;
  - b. Applications for CfDs for renewable generation will be submitted to National Grid, and the ongoing support will then be administered by the Counterparty Body. The CfD allocation process will provide earlier certainty of CfD award by enabling operators to apply for a CfD at an early stage in the project development;
  - c. The process for applying for an investment contract is detailed<sup>8</sup> in the *Final Investment Decision Enabling for Renewables Update 1: Invitation to Participate* published on 14 March 2013 and in the publication *Final Investment Decision Enabling for Renewables Update 2: Investment Contract Allocation* published on 27 June 2013.
- 2.19 In that context, it is necessary to ensure that clear processes for managing the Choice of Scheme opportunity are in place. In respect of applications for support under the RO,

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<sup>8</sup> <https://www.gov.uk/government/publications/increasing-certainty-for-investors-in-renewable-electricity-final-investment-decision-enabling-for-renewables>

these processes will be set by Ofgem on the basis of provisions within secondary legislation made by means of amendments to the Renewables Obligation Order (ROO). The processes will apply from the point at which the amended Order comes into force. Our intention is that this will be 1 April 2014.

### RO Preliminary Accreditation

- 2.20 RO preliminary accreditation does not itself entitle an operator to RO support. On that basis, as noted above, we propose that RO preliminary accreditation should not constitute a choice of scheme within the transition period. Operators will be entitled to apply for RO preliminary accreditation alongside applications for an investment contract or CfD, if they wish to do so.
- 2.21 Once a station has entered into an investment contract or CfD, it will have exercised its choice of scheme, and in that case we propose it should not be allowed to subsequently apply for preliminary accreditation under the RO (unless the investment contract has been terminated through no fault of the operator party to the contract).

### RO Accreditation

- 2.22 In order to ensure that applications for RO accreditation take into account the eligibility requirements described in this chapter, operators will be required to provide Ofgem with the following items at the point of their application for accreditation:
- a. Written confirmation from the operator that:
    - i. A CfD has not been entered into in respect of the station, or any part of it;
    - ii. An application for a CfD is not under consideration in respect of the generating station, or any part of it;
    - iii. An investment contract has not been entered into in respect of the station, or any part of it, or the investment contract has been terminated through no fault of the operator parties to the contract;
  - b. Written confirmation from National Grid that:
    - i. The applicant has informed National Grid of its application for RO accreditation, and
    - ii. The operator has not been offered a CfD in respect of the generating station or any part of it.
- 2.23 Ofgem will have the option of seeking further information if it considers that necessary. Ofgem will also have the option of contacting National Grid to double-check the written confirmation provided.
- 2.24 The above process is set out in detail in the flowchart at **Annex 3**.
- 2.25 The intention is that a process with similar effect will be embedded within the CfD application process. The exact design is still being developed and more details will be set out within CfD publications as detailed in **Section 1**.

## Obligation-Setting

- 2.26 During the transition period, the CfD Supplier Obligation and the Renewables Obligation will both impose costs on suppliers, each obligation being set separately to provide support for the generating stations in their respective schemes. The choice of scheme for new generating capacity will affect the way in which DECC predicts the capacity which will enter the RO in the next obligation period, in order to set the Renewables Obligation level.
- 2.27 At present, the Secretary of State sets the level of the Renewables Obligation for the coming obligation period by 1 October of the preceding year. In order to set the obligation, DECC undertakes research, including discussions with industry on their investment and deployment intentions, during July and August. We consider that, during the transition period, not all operators with new projects which will commission in the following financial year will have made a firm choice of support mechanism at that point in time. For example, an operator with an onshore wind project due to commission in December 2015 will not necessarily have made a choice of scheme for that project by August 2014.
- 2.28 Therefore, in order to facilitate accurate and reliable obligation-setting, we intend to change the latest point at which the level of the RO is set from 1 October to 1 February immediately preceding the obligation period. This will significantly increase the information available to us on the intentions of operators for the coming obligation period, while still ensuring that suppliers have an advance indication of the level of the obligation for the period in question. This change will come into force for the calculation of the 2015/16 RO.
- 2.29 The detailed approach for the CfD Supplier Obligation is still under development. However, the contract with each CfD operator will determine the payments to be made. This calculation will therefore automatically exclude generation under the RO. Further information on the CfD Supplier Obligation will be set out in an update to be published in Summer 2013.

### Consultation Questions

1.	<p><b>Do you agree that the choice of scheme for new generating stations should take place at the point of application for a CfD (and at point of entry into an investment contract)?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
2.	<p><b>Do you agree with the proposed changes to the eligibility and additional evidence requirements for accreditation and preliminary accreditation under the RO?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
3.	<p><b>Do you agree with the proposed change to the timing for setting the level of the Renewables Obligation?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>

## Section 3: Additional Capacity

During the transition period, operators adding additional capacity of more than 5MW to a generating station accredited under the RO, will have a one-off choice of scheme between the RO and CfD in relation to that additional capacity. Our proposals in relation to the way in which this option should be made available and managed are set out below.

### Definitions

- 3.1 New additional capacity is defined as new generating capacity added to an RO-accredited generating station on or after 1 April 2014 which does not form part of, or replace any, accredited capacity at the station, and which has never been registered for RO support.
- 3.2 In the case of additional capacity, the transition period is defined as beginning on 1 April 2014, when the proposed registration process for new additional capacity under the RO would come into force. The transition period is defined as ending when the RO closes to new entrants on 31 March 2017.

### Eligibility

- 3.3 During the transition period, and subject to meeting the eligibility criteria for the scheme in question, operators putting in place additional capacity of more than 5MW will be able:
  - a. **Either** to apply to register that additional capacity under the RO;
  - b. **Or** to apply for a CfD in respect of that additional capacity.
- 3.4 The original accredited capacity at the station will remain within the RO in both cases, as will any additional capacity added to the station before 1 April 2014.
- 3.5 The choice of scheme for additional capacity is available only for additional capacity added to an RO accredited station on or after 1 April 2014 and before 1 April 2017. Following the closure of the RO to new capacity on 31 March 2017, operators of RO-accredited stations will continue to be able to apply for a CfD in respect of support for new additional capacity of more than 5MW at those stations, but will no longer be able to apply to register that additional capacity under the RO.
- 3.6 The choice of scheme for additional capacity will be subject to the following restrictions in relation to the RO:
  - a. Operators of RO-accredited stations will not be eligible to apply for an investment contract in respect of any additional capacity at those generating stations;
  - b. Once an operator has applied for a CfD in respect of any additional capacity at an RO-accredited generating station, they will not be eligible to register any further additional capacity at that generating station under the RO, until that application is rejected (in line with arrangements for new generating stations set out in **Section 2**). In other words, the choice will be available only in the direction of RO to CfD, not the other way round. (This is intended to avoid the administrative complexity that would arise if stations were

entitled to swap back and forth between the RO and the CfD on each element of additional capacity.)

- c. Applications to register additional capacity under the RO will be rejected if an application for a CfD has been made in respect of the generating station, or any part of it, unless the application has been rejected by National Grid or the Secretary of State.
- 3.7 New additional capacity intending to opt for the CfD will need to meet the CfD eligibility requirements. This is likely to include requirements to ensure that the capacity in each scheme is distinct, and the outputs can be measured separately.
- 3.8 For example, in the case of an RO-accredited biomass station which replaces a 5MW boiler-turbine-alternator arrangement with one of 11MW, it is likely that the operator would not be eligible to apply for a CfD in respect of the resultant additional 6MW of generating capacity.

## Point at which Choice of Scheme is required

- 3.9 We propose that the one-off choice of scheme for additional capacity will apply at the point at which an application for support is made. In this context, an application for support constitutes:
- a. An application for registration of the additional capacity under the RO; or
  - b. An application for a CfD in respect of the additional capacity, or in respect of any other part of the generating station.

## Registration and Application Processes

- 3.10 At the present time, RO secondary legislation does not set out a specific application process to allow an operator to realise support on any additional capacity they may add to their station. In practice, operators of RO-accredited stations are required to notify Ofgem of any changes to their station, including the addition or reduction in generating capacity. This timeframe is currently within two weeks of the change occurring.
- 3.11 In the case of a change in capacity, the details recorded by Ofgem in respect of the station are amended. If Ofgem is content that everything is in order, this allows any additional capacity to realise the appropriate level of RO support.
- 3.12 During the transition period, in order to manage the choice of scheme for additional capacity, we propose to set a formal registration process in secondary legislation, which operators will be required to use if they wish to take up the option of RO support for additional capacity at an RO-accredited station.
- 3.13 This process will require operators to provide Ofgem with the following:
- a. Written confirmation from the operator that:
    - i. The additional capacity is not covered by a CfD;
    - ii. No application for a CfD in respect of this additional capacity is currently under consideration;
    - iii. No other capacity at the station in question is covered by a CfD, nor is any application for a CfD under consideration for any capacity at the station.

- b. Written confirmation from National Grid that:
    - i. The operator has informed National Grid of its intention to apply for RO registration for the additional capacity, and
    - ii. The operator has not been offered a CfD in respect of the additional capacity.
  - c. Information sufficient to identify the additional capacity, including the amount of its total installed capacity and the date it first formed part of the station. It will not be possible to register additional capacity under the RO before it has been constructed.
- 3.14 As in the case of applications in respect of new generating stations, Ofgem may seek additional information from operators, and/or contact National Grid to verify the written confirmation provided. The intention is that a process with similar effect will be embedded within the CfD application process. The exact design is still being developed and more details will be set out within CfD publications as detailed in **Section 1**.
- 3.15 RO-accredited operators who apply for a CfD in respect of any additional capacity will be required to advise Ofgem of their application at the point at which they make that application. They will also be required to:
- a. Confirm their understanding that they therefore will not be eligible for ROCs for that additional capacity, and will not be able to register any further additional capacity under the RO for that station in the future;
  - b. Provide details of the metering system which will be used to ensure that the electricity generated under the CfD can be measured separately (Further details under ‘Dual Scheme Plants’ below.)
- 3.16 If an operator’s application for a CfD is successful, they will be required to:
- a. Advise Ofgem when the additional capacity is added to the station;
  - b. Inform Ofgem that they have taken up a CfD, and advise Ofgem of the target commissioning date for the CfD in question.
- 3.17 The requirements set out in **paragraphs 3.15 and 3.16** are to ensure that Ofgem has the information it requires to manage the support for the RO capacity within dual scheme plants effectively, and to prevent gaming opportunities.

## Dual Scheme Plants

- 3.18 RO-accredited stations which have applied for and received a CfD in respect of additional capacity will have some capacity supported within the RO, and some capacity covered by a CfD. Such generating stations will be termed ‘dual scheme plants’.
- 3.19 In order to prevent the risk of double support, and to manage gaming opportunities, operators of dual scheme plants will be expected to treat the capacity within each scheme, and the generation that results from that capacity, as distinct and separate. It will be necessary to ensure that electricity and fuel inputs and electricity outputs are attributed to the correct scheme, and this will impose additional monitoring and administrative requirements on operators and on the scheme administrators.
- 3.20 Due to the different nature of the two schemes, the monitoring and administrative requirements of each scheme may likewise be different. This includes the rules set by each scheme to ensure that the capacity and generation in each scheme is distinct and separate. Arrangements which are acceptable for the RO may not be acceptable for CfDs, and vice versa.

## Output Electricity

- 3.21 In Annex D to the July 2011 White Paper, we indicated that: ‘the administration of a FiT CfD will require approved and registered operational metering. We anticipate that output readings can be calculated on a pro-rata basis for stations that are also accredited under the RO.’
- 3.22 However, since publication of the July 2011 White Paper, CfD design has advanced considerably. The *Contract for Difference Draft Operational Framework* (published in November 2012) set out the fact that CfD payments would be on the basis of metered output<sup>9</sup> (rather than measured by means of pro-rata systems). As dual scheme plants will have to meet CfD requirements in relation to their CfD capacity, we therefore anticipate that the total electricity output from the CfD capacity will need to be metered on a distinct basis, rather than calculated on a pro-rata basis as anticipated in 2011.
- 3.23 Under the RO, we propose that the requirement for measuring RO generation at dual scheme plants should be that a metering system be used which:
- a. Is consistent with standard RO metering requirements;
  - b. Demonstrates to Ofgem’s satisfaction that the generation for which ROCs is being claimed is from RO generating capacity. For RO purposes, this may be done by:
    - i. Separately metering the output from the RO generating capacity, or
    - ii. Metering the total station output and deducting the separately metered output from the CfD generating capacity.
- 3.24 CfD requirements will be set out within separate CfD publications. Our understanding is that CfD contracts offered in respect of additional capacity at dual scheme plants will be subject to pre-operational metering requirements set out within the conditions precedent of the contract. Details on these requirements will be provided in CfD publications.

## Input Electricity

- 3.25 The RO scheme requires operators of accredited stations to deduct input electricity from the gross electricity generated by the station in order for ROCs to be issued. The CfD scheme is also expected to contain requirements to deduct input electricity. Input electricity includes the following kinds of electricity:
- a. Electricity generated by the generating station used to operate the generating station;
  - b. Electricity imported from the transmission or distribution network, or any other source;
  - c. Standby generation electricity e.g. generation that occurs when a generating station is disconnected from the transmission or distribution network and is used to support the essential services of that generating station.
- 3.26 We propose that for dual scheme plants, there should be the following options in the RO rules for calculating the input electricity for the RO:
- a. A pro-rata method, based on the proportion that the CfD capacity bears to the total installed capacity of the generating station. This is then deducted from the total input electricity for the station;

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<sup>9</sup> Electricity Market Reform Policy Overview, *Annex B: Feed-In Tariff with Contracts for Difference: Draft Operational Framework*, p. 51



- b. Separate measurement of the input electricity which is used only for the CfD capacity. This is then deducted from the total input electricity for the station;
- c. Separate measurement of all of the input electricity which is used wholly or partly for the RO capacity.

3.27 CfD rules will be set out in CfD publications, however, we understand that they are likely to be along the following lines:

- a. Ensure that the BSC-approved metering system used for settlement purposes is capable of separately measuring the input electricity used under each scheme;
- b. Use a BSC-approved metering system for settlement purposes to capture the input electricity for the CfD section of the plant, and seek to agree an ongoing, conservative estimate with Ofgem for the RO-related input electricity.

## Fuel Data

3.28 We propose that fuelled dual scheme plants, for example biomass plants with one unit converted within the RO, and another unit converted within the CfD, should be required to provide separate fuel data to the two managing authorities in accordance with the rules within each scheme. Such a plant would provide fuel data to Ofgem on fuel usage within the RO-accredited unit, and would provide separate fuel data to the CfD Counterparty (or its agent) in accordance with the CfD rules. In this context, such plants would no longer be able to provide one set of pro-rated fuel data for all units, as they may sometimes do at present under the RO.

## Conclusion

3.29 In practice, meeting the metering and fuel data requirements of both schemes is likely to impose additional costs on operators of dual scheme plants, which operators will wish to take into account when considering their investment decisions. These costs will vary depending on the detailed requirements for CfD capacity, and on the circumstances at the dual scheme plant in question.

3.30 For example, we are aware that large combustion plants will often have a number of separate import and export connections. That is, it is commonplace for such stations to export through separate connections on a unit-by-unit basis, whilst importing electricity to support loads that are common to the whole station or loads used by units during running up to, and down from, synchronisation and generation. Moreover, these stations will switch from station to unit supplies once the generation by a unit has reached a certain level of stability. These configurations will create additional complexity, for example in metering input electricity separately, in respect of any station that has units supported under both the RO and CfD schemes.

3.31 This complexity notwithstanding, we have taken the view that metering and monitoring arrangements which meet the requirements of both schemes will be key to the prevention of gaming. Without such arrangements in place, it could be possible for an operator to allocate input electricity, generation or fuels to the different schemes differently at different times. We therefore consider that, despite the associated challenges, this approach to dual scheme plants is the most appropriate available.

## 5MW or Less

- 3.32 We propose that the choice of scheme should not apply to additional capacity of 5MW or less. Up to and including 31 March 2017, RO-accredited operators will retain the option of registering additional capacity of 5MW or less under the RO, as long as the station has not up to that point applied for, or entered into, a CfD on any of its generating capacity. This is also subject to the new registration process set out above. After that date, we are minded not to provide support for additional capacity of 5MW or less at an RO-accredited station.
- 3.33 These proposals differ from the minded to position set out in the July 2011 White Paper (section D.22). In coming to this position, we tested the following options for providing such support, and propose to reject them for the details set out below.

### Option A: Support via RO registration

- 3.35 One way to provide support for additional capacity of 5MW or less would be to allow RO-accredited stations to continue to register that additional capacity under the RO. However, this would in practice constitute keeping the RO partially open beyond the closure to new capacity in 2017. That would be incompatible with the over-arching transition to Electricity Market Reform (EMR), which is intended to increase certainty for investors and operators, and improve value for money for consumers. On that basis, we have rejected this option.

### Option B: Support via small-scale FIT

- 3.36 Allowing additional capacity of 5MW or less to access an alternative support mechanism such as small-scale FITs (ssFIT) would require complex surrounding measures e.g. in terms of separate metering, which would be challenging to apply at the 5MW or less level, and could involve disproportionate costs. The small-scale FITs scheme is not designed to support the same types of installation as the RO, support is provided in different ways under the two schemes, and the mechanisms required to set up and administer dual RO-ssFIT plants would therefore be complicated. Moreover, **Option B** would not provide a solution for non-ssFIT technologies, and would therefore only constitute a fair and consistent opportunity for all renewable technologies if combined with **Option C** below. Such a combination would involve setting up arrangements for two kinds of dual scheme plants, adding to the complexity of the support landscape and the associated administrative and legal requirements.

### Option C: Support via CfD

- 3.37 We have examined the possibility of applying the approach set out above for additional capacity of more than 5MW, to additional capacity in general. This would have the advantage of consistency. However, we consider that the administration required from Ofgem and the CfD Counterparty to manage the resultant dual scheme plants would be disproportionate to the benefits resulting from additional capacity at this deployment level.
- 3.38 As set out in the CfD Operational Framework published in November 2012, CfDs will be open to applications for capacity of 5MW or less only for non-ssFIT technologies. In that context, Option C would not provide a solution for ssFIT technologies, and would therefore only constitute a fair and consistent opportunity for all renewable technologies if combined

with **Option B** above. Such a combination would involve setting up arrangements for two kinds of dual scheme plants, adding to the complexity of the support landscape and the associated administrative and legal requirements.

## Conclusion

- 3.39 In summary, the provision of support for new additional capacity of less than 5MW at RO-accredited stations after 31 March 2017 would require either a change to the closure arrangements for the RO, or the eligibility criteria for ssFITs or CfD. On available evidence, we do not anticipate that there are substantial numbers of RO-accredited stations at which it would be feasible to add low levels of additional capacity, and who would do so if this support were provided. We therefore do not consider that a policy change either to RO closure arrangements or to ssFITs / CfD eligibility criteria is warranted.
- 3.40 To allow Ofgem to issue ROCs accurately, in respect of RO-accredited generation only, operators of RO-accredited stations will be obliged to inform Ofgem of any additional capacity they add to their stations on or after 1 April 2017. Generation from this additional capacity will not be eligible to receive ROCs.

Consultation Questions	
4.	<p><b>Do you agree that the choice of scheme for additional capacity should take place at the point of application for a CfD?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
5.	<p><b>Do you agree with the proposed registration process, eligibility and evidence requirements, for new additional capacity opting for the RO?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
6.	<p><b>Do you agree with the metering and fuel measuring requirements proposed for Dual Scheme Plants?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
7.	<p><b>Do you agree that no support should be given for new additional capacity below 5MW that is not registered under the RO before 1 April 2017?</b></p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>

## Section 4: Closure Arrangements

The Renewables Obligation will be closed to new capacity on 31 March 2017. It will then continue to run for accredited generation until 2037. The specific arrangements relating to closure are set out below.

### Grandfathering

- 4.1 Grandfathering is our policy to maintain a fixed level of support for the full lifetime of a generating station's support under the Renewables Obligation (RO), from the point of accreditation (or for additional capacity, from the point it forms part of the station). When a station moves between RO bands, grandfathering runs from the point at which the station moves into the new band. Support for the majority of RO-accredited generating stations is already covered by grandfathering. An exception is low-range co-firing, which is not currently grandfathered.
- 4.2 We intend to grandfather support for all RO-accredited stations on the basis of the support rates applicable on 31 March 2017.
- 4.3 Under present RO provisions, operators of RO-accredited fuelled generating stations are allowed to claim ROCs for generation under different support bands depending on the fuels they use and their circumstances in a given month.
- 4.4 In order to promote RO stability after the 31 March 2017 closure date, we propose that operators of RO-accredited fuelled generating stations be required to notify Ofgem of the RO support band in which they wish to be grandfathered, prior to the closure date. The detailed provisions surrounding this notification will be for Ofgem to determine.
- 4.5 Under this proposal, following RO closure, such operators would only be entitled to claim ROCs for generation which was generated in accordance with the requirements for:
  - a. Either the band in which they have chosen to be grandfathered;
  - b. Or a band for the same technology which is directly adjacent to the band in which they have chosen to be grandfathered.
- 4.6 For example, an operator might choose to grandfather a station as a biomass co-firing mid-range station. Generation from that station would then be eligible for ROCs if generated in accordance with the requirements for the low-range, mid-range or high-range biomass co-firing bands. Any other generation would not be eligible for ROCs.
- 4.7 We also considered the alternative options of:
  - a. Allowing the current full flexibility of movement between support bands to continue after 31 March 2017;
  - b. Limiting operators to the one support band in which they chose to be grandfathered.
- 4.8 We assess that **option a.** would limit the stability of the RO after the closure date, and would be inconsistent with the overall transition away from the RO to CfDs. **Option b.** would unduly penalise operators for last-minute fuel fluctuations which they cannot necessarily control.
- 4.9 We therefore believe that the current proposal strikes an effective balance between offering flexibility for fluctuations in fuel availability, and increasing the long-term stability of

the RO post-closure. Although the proposal would mean that low and mid-range biomass co-firers would no longer be able to move to the RO conversion band after 31 March 2017, we believe that this limitation is addressed by, and consistent with, the provision allowing the operator of an RO-accredited co-firing station or unit to apply for a CfD as a conversion, which is set out in detail in **Section 5**.

- 4.10 In the case of the energy crop uplift for low-range co-firing, this was brought to an end on 31 March 2013, with the exception of existing contracts for energy crops, which will be supported until 31 March 2019 or the life of the contract, whichever is earlier

## Grace Periods

- 4.11 We have offered 'grace periods' for operators under previous RO reforms, including under the recent Banding Review for the 2013-17 period. In principle, these grace periods have been designed to address situations in which operators have taken an investment decision on the basis of support levels which they are then unable to access, due to a delay in their commissioning caused by certain factors which they could not have foreseen and which were beyond their control.
- 4.12 We have previously indicated our 'minded to' position to offer six month grace periods (i.e. until 30 September 2017) for generating capacity which fails to commission before the closure date, due to delays to grid connection or radar installation or upgrade, which were beyond the operator's control. This position was consistent with the approach taken under the recent RO Banding Review, and took into account the following points:
- a. DECC's policy intent is to facilitate a smooth and gradual transition from the RO to CfDs as the principal support mechanism for renewable electricity, while minimising any hiatus in investment;
  - b. At the point of RO closure to new capacity, operators will have had approximately six years' notice of the closure date, and will have had the opportunity to factor that closure date in to their own investment, construction and deployment plans;
  - c. Any operators that feel they are under significant risk of failing to commission by 31 March 2017 RO closure date will have the option of choosing to seek support under the new CfD mechanism in the first instance (subject to meeting the eligibility criteria for the CfD).
- 4.13 However, a number of stakeholders have advised us that grace periods of this length and for these limited circumstances would be insufficient to address the impact of missing the RO closure date, which constitutes a more significant change than a change in banding support level. On that basis, we would welcome proposals on possible alternative grace period lengths and conditions.
- 4.14 Please note that we propose to base our analysis of possible grace period lengths and conditions will be based on the following principles:
- a. Grace period arrangements must be consistent with the overarching policy of transition towards CfDs;
  - b. Grace period conditions must be straightforward to prove and assess, to ensure that Ofgem is able to determine whether a generating station is eligible for the grace period quickly, easily and without controversy;

- c. The end date of the RO will not be extended beyond 2037 for those operators benefiting from any grace period, therefore more extensive grace periods will constitute a reduced length of support.
- 4.15 Whatever the length and conditions of the grace periods we put in place, we are minded that these grace periods will only be available to new generating stations, rather than to additional capacity. This means that, after 31 March 2017, operators will not be able to apply for registration under the RO of additional capacity at an RO-accredited station.

### Consultation Questions

8.	<p><b>Do you agree with the proposed approach to grandfathering at specific support bands?</b></p> <p><b>If not, please detail your preferred alternative, and provide evidence supporting it.</b></p>
9.	<p><b>What would your preferred approach to grace period length and conditions be at the point of RO closure to new capacity?</b></p> <p><b>Please take the principles set out in paragraph 4.14 into account when determining your preferred approach, or set out your reasons for not doing so.</b></p> <p><b>Please provide your rationale for your preferred approach, and any associated evidence.</b></p>

## Section 5: Technology-Specific Measures

Alongside the generic transition measures set out in the earlier sections of this consultation, we intend to provide measures to meet two technology-specific requirements, for biomass plants and for offshore wind.

### Biomass Co-Firing Stations

- 5.1 We propose that RO-accredited biomass co-firing stations should have several specific opportunities, set out in detail below. These opportunities will be open both on a full station and individual unit basis. They will be available to operators of stations and units operating as Combined Heat and Power (CHP) stations or electricity only.
- 5.2 For current purposes, ‘co-firing stations’ are defined as those fuelled stations which are co-firing and have never received ROCs at the station conversion or dedicated biomass RO Bands at the points set out below. Co-firing units are defined as those fuelled units which are co-firing and have never received ROCs at the unit conversion or dedicated biomass RO bands:
  - a. At the point at which they apply for or enter into a CfD or investment contract;
  - b. At the point at which they bid in to the Capacity Market;
- 5.3 The opportunities set out below would only be available to biomass co-firers, as defined above. They will not be available to RO-accredited biomass conversions, defined as RO-accredited biomass plants or unit which have received ROCs at the biomass conversion RO Band.

### Transfer to CfD: Proposals for Full Stations

- 5.3 Operators of RO-accredited biomass co-firing stations will have the option of applying for a CfD or an investment contract for those stations as biomass conversions. This is the one exception to the principle detailed in **Section 2**, that capacity which has previously received RO support will not be eligible for CfD support. Details of the CfD strike prices and contract terms for biomass conversions will be set out within CfD publications as detailed in **Section 1**.
- 5.4 This option will be open to operators of co-firing stations from the point at which investment contracts and CfDs are open for applications, subject to the detailed arrangements in place for both of these schemes. This option is intended to maintain the incentive for operators of biomass co-firers to move towards full conversion.
- 5.5 One option we considered was to offer this option to operators of biomass co-firing stations only after 31 March 2017. However, this is not our preferred option because we consider that it is more consistent to offer all transition-related options from the point at which CfDs become available, and that not doing so could result in an investment hiatus, as biomass co-firers might wait to convert until they could do so under CfDs.

- 5.6 In order to apply for a CfD, an operator of an RO-accredited co-firing station will be obliged to notify Ofgem of its intention to make the application. As part of the CfD application, we expect the operator will then be required to provide a letter from Ofgem confirming that:
- a. Ofgem is aware of the application for a CfD;
  - b. The plant has never claimed ROCs at the station conversion or dedicated biomass band.
- 5.7 If successful in its application for a CfD, the operator will be required to inform Ofgem of that success, and to advise Ofgem of the month in which it expects to convert the station. RO-accredited capacity at the station will then continue to be entitled to the RO for the renewable generation resulting from co-firing, until the conversion takes place. However, it will not be entitled to ROCs at the RO conversion band. At the point of conversion, the station will permanently cease to be eligible to receive ROCs for its generation.
- 5.8 Once a station has successfully applied for a CfD, it will not be able to claim ROCs at the RO station conversion band at any point in the future. Ofgem may require information from the operators of co-firing generating stations to ensure they have not yet fully converted and are not claiming ROCs and CfD payouts for the same generation.
- 5.9 If the schedule for the conversion changes, the operator may continue to receive ROCs for co-firing generation, subject to keeping Ofgem informed of these changes. If the operator determines prior to conversion that it is no longer able or willing to convert the station or unit in full, and is therefore withdrawing from its CfD, the station would still no longer be eligible for ROCs from the point at which it would have converted under the CfD. This is consistent with the policy on the point of choice of scheme, as detailed in **Section 2**.
- 5.10 The opportunity detailed above must be seen within the context of DECC's established policy on biomass sustainability; that is, that biomass is a transitional technology, and that RO support for generating capacity accredited under the RO on or before 25 June 2008 will end on 31 March 2027. In order to maintain consistency across the two support mechanisms, the same end date will apply to those plants who take up a CfD as a biomass conversion. Such stations will therefore receive different lengths of CfD support depending upon the point at which they commission and begin receiving CfD payments.

### Transfer to CfD: Unit by Unit

- 5.11 The conversion opportunity set out in paragraphs **5.3-10** above for operators of RO-accredited biomass co-firing stations will be available on the same terms for individual co-firing units, or for groups of co-firing units, at co-firing stations. Operators will be able to take up this opportunity for one unit only, or on a unit by unit basis, e.g. one unit in 2015, one unit in 2016 etc. It will also be open to co-firing units within a biomass station at which other units have been converted under the RO. The rules set out above in respect of co-firing stations will apply equally to each co-firing unit. Transfer on a unit by unit basis will not be permitted for those units which have claimed ROCs under the RO unit conversion or dedicated biomass bands.
- 5.12 Biomass plants will be defined as dual scheme plants for the period of time that some units are supported within the RO, whether as co-firers or full conversions, and others are fully converted units under CfDs. They will be subject to the provisions for dual scheme plants set out in **Section 3** of this document during that period of time.



## Transfer to Capacity Market

- 5.13 We propose that operators of RO-accredited biomass co-firing plants and units will be entitled to a one-off choice of scheme between remaining within the RO, and bidding in to the Capacity Market (CM), subject to the terms of Capacity Market participation set out within the Capacity Market publication referenced in **Section 1**. This option is available to biomass co-firing plants and units only, as a significant proportion of stations which are primarily coal-firers have at some point claimed low levels of co-firing ROCs. We did not wish to exclude such coal-firing stations from the Capacity Market.
- 5.14 In contrast to the CfD choice of scheme, this choice will apply at the point at which a bid for the CM is successful. At that point, the operator of the co-firing plant or unit/s will be required to inform Ofgem of the successful bid, and to advise Ofgem of the point at which it will leave the RO and begin participation in the CM (the CM participation date). The plant or unit/s will then continue to be entitled to the RO for the renewable generation resulting from co-firing, until the last day prior to the CM participation date.
- 5.15 At that point, the plant or unit/s will no longer be eligible to receive ROCs. Once the period for which a capacity agreement is held is over, the plant or unit/s will not be entitled to return to the RO. However, the operator will have the option of bidding for further CM participation in future years, subject to the terms of CM participation.
- 5.16 It will not be possible for an operator who has made a successful CM bid in relation to a plant or unit/s to receive ROCs for that plant or unit after the date given as the CM participation date. The one exception to this rule is that such an operator may still choose to withdraw from the CM in order to fully convert the plant or unit to biomass under the RO (prior to the 31 March 2017 closure date) or under a CfD, provided the operator withdraws from the CM prior to the year-ahead auction for the delivery year for which the Capacity Agreement is held.
- 5.17 For this exception to apply, the operator must inform Ofgem of its withdrawal from the CM before the date given as the CM participation date. The generating station or unit will still be ineligible for co-firing ROCs after the date given as the CM participation date, but may receive ROCs under the station conversion or unit conversion band, if the conversion is taking place under the RO.

## Offshore wind phasing

- 5.18 The Renewables Obligation (RO) allows operators of offshore wind stations to phase their RO support, with each phase being eligible for up to 20 years support subject to the end date of the RO. Up to five phases of turbines over a maximum period of five years can be registered, with the first phase being at least 20% of the total registered capacity of the generating station.
- 5.19 In line with the closure of the RO to new capacity on 31 March 2017, offshore wind operators will not be entitled to register offshore wind phases under the RO after that date. Offshore wind operators which have received RO accreditation and begun phasing under the RO before 31 March 2017 will have the following options of support for the remaining phases:

- a. Register all the remaining phases that constitute the accredited capacity of the station under the RO on or by 31 March 2017, whether or not these phases have been constructed or are ready to begin generating;
  - b. Register one or more of the remaining phases under the RO on or by 31 March 2017, whether or not these phases have been constructed or are ready to begin generating, **and** apply for a CfD in respect of any of the other unregistered phases;
  - c. Apply for a CfD for all the unregistered phases, either on the same terms as all other eligible technologies, or under CfD phasing rules.
- 5.20 In the July 2011 White Paper, DECC indicated that the above options would be available specifically for those offshore wind operators who would not be able to complete all RO phases by 31 March 2017, which suggested that the policy would only apply at the point of RO closure. On consideration, we have determined that it is more appropriate to offer these options throughout the transition period. We therefore do not propose to require offshore wind operators to demonstrate that they would not be able to complete all RO phases by 31 March 2017.
- 5.21 These options will be subject to the following criteria:
- a. The 20-year RO support period for the remaining phases registered under the RO will begin from the point of registration, not from the point at which those phases begin generating. The lifetime of the RO will not be extended beyond the current 2037 end date. In that context, depending on the expected commissioning date, such phases would be likely to receive less than 20 years of RO support;
  - b. Phases may only be registered for the RO if no application for a CfD has been made for prior phases; in other words, there must be one shift from the RO to CfD for any given station at a given point in time (e.g. between phases 3 and 4). In that context, phases registered for the RO will be subject to some additional application and verification processes in line with those set out in **Section 2** for new generating stations during the choice of scheme period.
  - c. Capacity for which a CfD has been signed will not be eligible for the RO;
  - d. Operators who choose to apply for a CfD in respect of one or more of their phases will be defined as dual scheme plants, and will be subject to the application requirements for additional capacity, and the provisions for dual scheme plants detailed in **Section 3**.
- 5.22 The metering system requirements in relation to dual scheme plants mean that operators who apply for a CfD for one or more phases will have to ensure that the turbines within those phases can be metered separately (e.g. using difference metering) from those previously registered under the RO. This is an additional requirement to those previously set out for phasing under the RO, which operators will wish to take into account in choosing between the options set out in paragraph **5.19**. Similarly, operators will wish to consider the CfD phasing arrangements set out in CfD publications in making their choice.
- 5.23 At present, DECC is not aware of offshore wind operators who wish to have some offshore wind phases in the CfD and some in the RO at the same station. We therefore consider that it is possible that options **5.19 b. or c.** are no longer required by industry, and would be grateful for views on that point. If these options are not required, then our preferred approach would be to offer registration of outstanding phases under the RO only, as this would be administratively more straightforward.

## Consultation Questions

10.	<p>Do you agree with the proposed arrangements whereby biomass co-firing stations or units will be able to leave the RO if successful in a CfD application as a biomass conversion?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
11.	<p>Do you agree with the proposed arrangements whereby biomass co-firing stations or units will be able to leave the RO and bid into the Capacity Market?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
12.	<p>Do you agree with the proposal for of three support options (RO only, RO + CfD, and CfD only) for offshore wind phases which are unregistered during the transition period, or would you be content with only allowing unregistered phases to register under the RO, rather than seek a CfD?</p> <p>Please detail your rationale, and provide evidence supporting it.</p>

## Section 6: Fixed Price Certificates

Current policy is that the fixed price certificate scheme will be put in place in 2027 to cover the last ten years of the Renewables Obligation. Some stakeholders have advised that they believe this policy should be revisited, and we would be interested in hearing wider views in that context.

### Context

- 6.1 As set out in Annex D to the July 2011 White Paper, the closure of the RO to new stations will create a closed pool of capacity which will decrease over time as we approach the overall end date for the RO of 31 March 2037. We consulted on options for mitigating the impact of this capacity degeneration within the 2010/11 consultation prior to publication of the July 2011 White Paper.
- 6.2 We then adopted the preferred option identified on the basis of responses to that consultation: that is, to calculate the RO annually by headroom until 31 March 2027, and then to move to a fixed price certificate scheme, with the price of certificates fixed at the 2027 buyout price, plus 10%. This scheme is provided for within the Energy Bill currently going through Parliament, and details on the policy intent are set out within **Section 1** of this document.
- 6.3 The rationale for this option was that moving to a fixed price certificate earlier than 2027 might damage the existing stock of both Power Purchase Agreements (PPA) and operators' financing agreements, by triggering change in law provisions. It is unlikely that there will be many projects that currently have PPAs beyond 2027, therefore this option was considered to provide a good balance between the need to protect PPA terms on the one hand, and to limit over-payment by consumers and give long-term certainty over ROC income on the other.
- 6.4 Some stakeholders have now urged the Government to reconsider this policy. This is due in part to concerns that the market price of a ROC might fall below the buy-out price, whether at or prior to 2017, and to associated concerns about current reductions in PPA availability.

### Options Analysis

- 6.5 Our assessment of the options available at this stage is set out below. This assessment is based on the premise that any approach which deviates from the current policy would need to be deliverable within current legislative constraints – in other words, it would need to be covered by the existing clause on the fixed price scheme within the current Energy Bill, or to be implementable without changes to primary legislation. This premise assumes that the approach would need to be confirmed in the course of the next year or 18 months.
- 6.6 In that context, we are aware of two options:
  - a. Maintain current plan to implement the fixed price scheme in 2027;
  - b. Bring implementation of the fixed price scheme forward to 2017.

## 2027

- 6.7 Implementing the fixed price scheme in 2027 would have the advantages set out above, of balancing the potential impact of the scheme on the change in law provisions within existing PPAs, against the need for long-term certainty over ROC income. Between 2017 and 2027 a large pool of capacity will remain within the RO, therefore it is reasonable to assume that ROCs will remain tradable and that ROC values should not fall below the buyout price. Indeed, after 31 March 2017 it will be possible to set the RO annual level with greater accuracy than in the past, due to the closed nature of the scheme, and therefore it can be anticipated that ROC values will be extremely predictable and reliable.
- 6.8 On the other hand, at present the expectation of RO closure to new capacity on 31 March 2017, and the upcoming transition to CfDs may be dampening the ROC market, which in turn may be reducing PPA availability. We consider that this dampening effect is likely to be a temporary result of current uncertainties, which will resolve itself as CfDs get underway, choices of scheme are made and the likely overall size of the RO in 2017 becomes clear. However, if this dampening effect were to continue during the transition period it could create an incentive away from the RO, with an associated investment hiatus.

## 2017

- 6.9 Implementing the fixed price scheme in 2017 would mitigate the uncertainty outlined in **paragraph 6.8**, and reduce the associated dampening effect, by demonstrating that there would definitely be a buyer for certificates, and that they would have a reliable value. However, it would also shift the balance of risk relating to decisions on RO accreditation during the transition period away from operators and on to consumers, by providing immediate certainty on ROC income.
- 6.10 Moreover, views vary considerably as to the possible impact of implementing the fixed price scheme in 2017 on change in law provisions within the existing stock of PPAs. If that impact remains, then early implementation of the fixed price scheme could cause disruption to those existing PPAs. This risk must be balanced against the possible benefits re mitigating current uncertainty, in particular given that we expect those uncertainties to be reduced as the detailed arrangements for the transition period and for CfDs become clear.

## Next Steps

- 6.11 In determining the timing of introduction of the fixed price scheme, we will consider the risks and benefits of the different possible implementation dates for existing RO-accredited stations, for operators and for consumers. Responses to the question below would be valuable in that context.

### Consultation Questions

- |     |  |
|-----|--|
| 13. | <p><b>Do you consider that the policy of moving to a fixed price scheme (in place of ROCs) from 2027 reflects your current view of the balance of risks and benefits for all parties?</b></p> <p><b>If not, please propose your preferred solution, and provide detailed evidence in favour of it.</b></p> |
|-----|--|

# Catalogue of consultation questions

## Section 2: New Generating Stations

1.	<p>Do you agree that the choice of scheme for new generating stations should take place at the point of application for a CfD (and at point of entry into an investment contract)?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
2.	<p>Do you agree with the proposed changes to the eligibility and additional evidence requirements for accreditation and preliminary accreditation under the RO?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
3.	<p>Do you agree with the proposed change to the timing for setting the level of the Renewables Obligation?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>

## Section 3: Additional Capacity

4.	<p>Do you agree that the choice of scheme for additional capacity should take place at the point of application for a CfD?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
5.	<p>Do you agree with the proposed registration process, eligibility and evidence requirements, for new additional capacity opting for the RO?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
6.	<p>Do you agree with the metering and fuel measuring requirements proposed for Dual Scheme Plants?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>
7.	<p>Do you agree that no support should be given for new additional capacity below 5MW that is not registered under the RO before 1 April 2017?</p> <p>If not, please detail your preferred alternative, and provide evidence supporting it.</p>

## Section 4: Closure Arrangements

8.	<p>Do you agree with the proposed approach to grandfathering at specific support bands?</p>
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	<b>If not, please detail your preferred alternative, and provide evidence supporting it.</b>
<b>9.</b>	<b>What would your preferred approach to grace period length and conditions be at the point of RO closure to new capacity? Please take the principles set out in paragraph 4.14 into account when determining your preferred approach, or set out your reasons for not doing so. Please provide your rationale for your preferred approach, and any associated evidence.</b>

### **Section 5: Technology-Specific Measures**

<b>10.</b>	<b>Do you agree with the proposed arrangements whereby biomass co-firing stations or units will be able to leave the RO if successful in a CfD application as a biomass conversion? If not, please detail your preferred alternative, and provide evidence supporting it.</b>
<b>11.</b>	<b>Do you agree with the proposed arrangements whereby biomass co-firing stations or units will be able to leave the RO and bid into the Capacity Market? If not, please detail your preferred alternative, and provide evidence supporting it.</b>
<b>12.</b>	<b>Do you agree with the proposal for of three support options (RO only, RO + CfD, and CfD only) for offshore wind phases which are unregistered during the transition period, or would you be content with only allowing unregistered phases to register under the RO, rather than seek a CfD? Please detail your rationale, and provide evidence supporting it.</b>

### **Section 6: Fixed Price Certificates**

<b>13.</b>	<b>Do you consider that the policy of moving to a fixed price scheme (in place of ROCs) from 2027 reflects your current view of the balance of risks and benefits for all parties? If not, please propose your preferred solution, and provide detailed evidence in favour of it.</b>
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## Annex 1: Policy Timeline

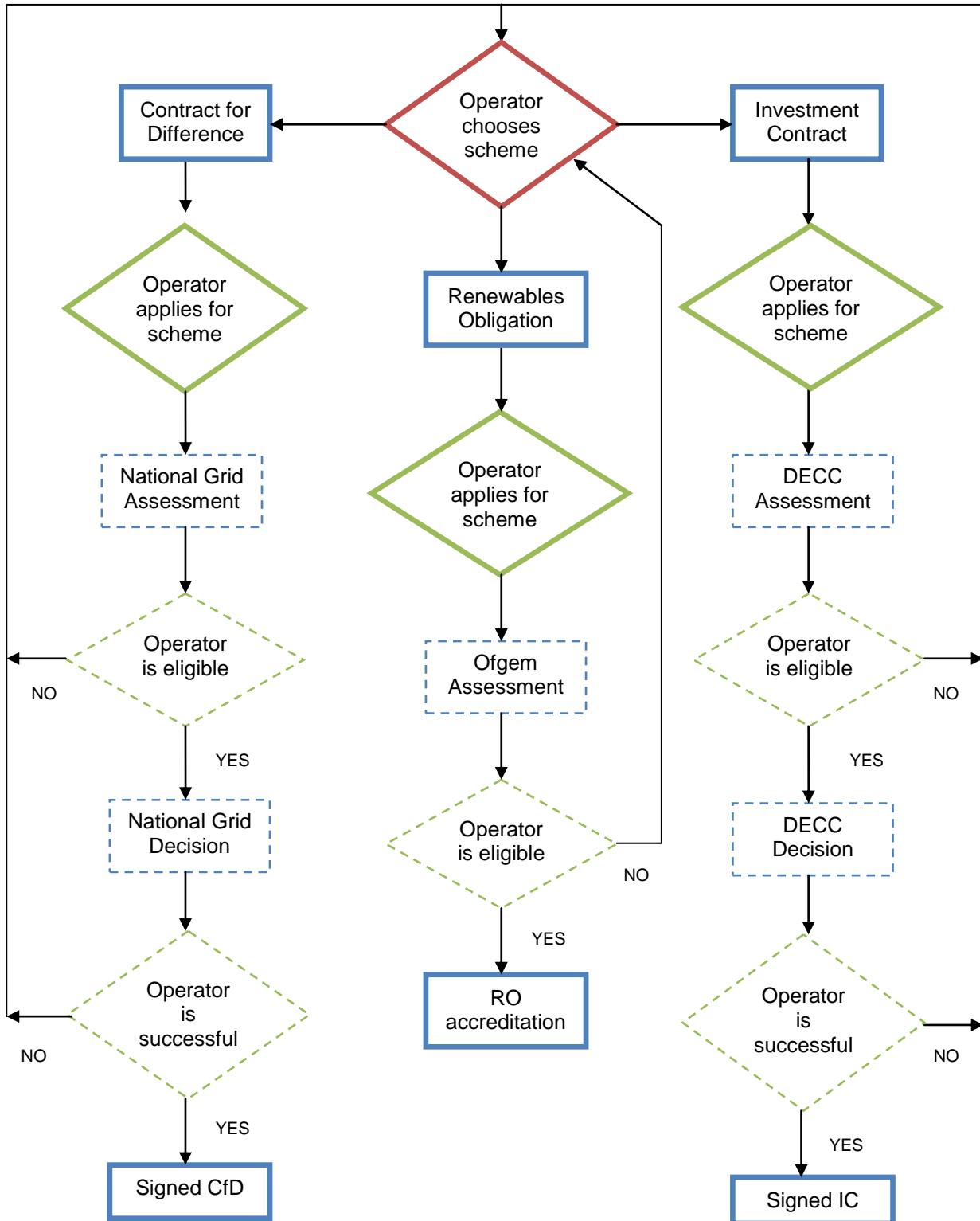
RO Transition										
	<b>July 2013</b> RO Transition Consultation		<b>Q4 2013</b> RO Transition Government Response		<b>April 2014</b> RO Transition Sec. Legislation In Place Fixed Price Scheme Consultation		<b>April 2015</b> Fixed Price Scheme Sec. Legislation In Place	<b>March 2017</b> RO Closure to New Capacity		<b>March 2027</b> Fixed Price Scheme Live
Energy Bill										
	<b>July 2013</b> Lords Committee Stage		<b>c. Oct 2013</b> Lords Report Stage		<b>c. Dec 2013</b> Royal Assent					
Contracts for Difference										
<b>June 2013</b> Strike Price and Contract Terms	<b>July 2013</b> Draft Delivery Plan	<b>Summer 2013</b> Further CfD publications	<b>Oct 2013</b> Secondary Legislation Consultation			<b>Mid - 2014</b> CfDs open for applications				
Investment Contracts										
<b>June 2013</b> Update 2	<b>1 July 2013</b> Phase 1 closes	<b>6 Sept 2013</b> Phase 2 closes	<b>Nov 2013</b> Letters issued re meeting minimum threshold evaluation criteria*	<b>Dec 2013</b> Investment Contracts offered*	<b>March 2014</b> Investment Contracts signed*					
Capacity Market										
<b>June 2013</b> Security of Supply Package			<b>Oct 2013</b> Secondary Legislation Consultation			<b>2014</b> Bids for first auction			<b>2018</b> Capacity Market operational	

\* Indicative date only.

## Annex 2: Eligibility Chart

Choice of Scheme eligibility arrangements for...	
New Generating Stations	Additional Capacity
<b>You must:</b>	
<ul style="list-style-type: none"> <li>Meet the specific eligibility criteria for the scheme you wish to apply for</li> </ul>	<ul style="list-style-type: none"> <li>Meet the specific eligibility criteria for the scheme you wish to apply for</li> <li><b>For CfD applications:</b> <ul style="list-style-type: none"> <li>Be making an addition of more than 5MW of capacity</li> <li>Ensure that generation from the additional capacity can be distinguished from generation from existing RO-accredited capacity</li> </ul> </li> </ul>
<b>You must not:</b>	
<ul style="list-style-type: none"> <li>Have ever received support under the RO for any part of the station's capacity</li> <li>Have current RO accreditation</li> <li>Have a current application for RO accreditation or a CfD</li> <li>Have made <i>and then withdrawn from</i> an application for RO accreditation or for a CfD</li> <li>Have entered into a CfD or investment contract</li> </ul>	<ul style="list-style-type: none"> <li>Have made <i>and then withdrawn from</i> an application for RO registration or for a CfD for the additional capacity</li> <li><b>For CfD applications:</b> <ul style="list-style-type: none"> <li>Have ever received support under the RO for the additional capacity</li> <li>Have current RO registration for the capacity in question</li> </ul> </li> <li><b>For RO applications:</b> <ul style="list-style-type: none"> <li>Have entered into a CfD in respect of the additional capacity or any other capacity at the station</li> </ul> </li> </ul>
<b>You may:</b>	
<ul style="list-style-type: none"> <li>Have applied <i>and been rejected</i> for support under the RO, CfDs or investment contracts</li> <li>Have RO pre-accreditation status</li> <li>Have expressed indicative interest in an investment contract</li> </ul>	<ul style="list-style-type: none"> <li>Have applied <i>and been rejected</i> for support under the RO or CfD in respect of the additional capacity or any other capacity at the station</li> </ul>

### Annex 3: Application Flowchart



# Annex 4: Analytical Annex

This annex sets out the analytical background to the consultation, and is designed to be read separately from the consultation if required.

## Introduction

- 1.1 This annex accompanies the Consultation on the Transition from the Renewables Obligation (RO) to Contracts for Difference (CfDs). The Consultation sets out the proposed rules for support, under which generating stations will operate under the RO and CfDs during the transition period.
- 1.2 The RO is currently the Government's main financial incentive for the generation of large-scale renewable electricity. It places an obligation on electricity suppliers to submit a specified number of Renewables Obligation Certificates (ROCs) in respect of each megawatt hour (MWh) of electricity they supply to customers in the UK. Contracts for Difference (CfD) have been designed to provide the most efficient long-term support for all forms of low carbon electricity generation – including nuclear, renewables and Carbon Capture & Storage (CCS).
- 1.3 CfDs will give greater certainty and stability of revenues by reducing exposure to variations in wholesale prices, and will protect consumers from paying for support when electricity prices are high. This consequently makes the development of low carbon generation cheaper for both investors and consumers, and it is suitable for all forms of low carbon generation.
- 1.4 CfDs offer greater certainty and stability in the following ways:
  - a. CfDs will be private law contracts between operators and the CfD Counterparty, a Government-owned limited company.
  - b. CfDs will be offered on the basis of a fixed strike price, which ensures investors have clarity on revenue. It also means that if the wholesale electricity price is higher than the strike price, the operator pays the difference back, so costs to consumers are capped.
  - c. CfDs will be offered earlier in the project development process than the RO, giving operators certainty on the future level of returns.
- 1.5 This increased certainty of revenue will reduce the risks to developers of generating, which will in turn mean a lower rate of return is necessary. Therefore, in the long run, CfDs will provide a more efficient long-term support for all forms of low carbon electricity generation.
- 1.6 At present, there is no mechanism under the RO to reject capacity from accreditation and subsequent support if they meet the requirements of the RO. There is also no mechanism to reject capacity that receives support under CfD from also applying for the RO. In the absence of such a mechanism, there is the possibility that developers would receive support under CfDs and the RO. This would lead to overcompensation for generators. Therefore, intervention is required to ensure that generators cannot be funded under both schemes for the same capacity.
- 1.7 This consultation sets out the proposed rules from the RO perspective, and this annex discusses the impacts of the proposals for the transition period. The requirements for

applying for a CfD are likely to be in line with the requirements for the RO, and the accompanying analysis will be set out in the relevant publication in due course. It is expected that towards the end of the transition period the CfD scheme will be more popular, as it will offer greater certainty for generators. It will also reduce potential risks associated with delays in the timetable of any particular project, which could mean that they miss the RO closure deadline.

1.8 This annex therefore discusses what these proposals are likely to mean for new renewable stations and for existing renewable stations who wish to expand their generating capacity. It then discusses the closure arrangements for existing stations, before moving on to technology-specific effects.

## New Generating Stations

2.1 This section describes the impacts of the criteria to receive RO support laid out in the consultation (**Section 2**). Under the consultation proposals, developers will not be eligible for the RO when they have an application pending for a CfD. Similarly, they will not be eligible for a CfD when they have an application pending for the RO. An application for support under the RO will not be accepted unless developers can prove that they don't have an application pending for another support mechanism for the same capacity. The purpose of this is to ensure that generators do not receive excessive levels of return by being supported under different schemes for the same generating capacity.

2.2 For the choice between the RO and the CfD, developers will have to decide which scheme is most suitable for them by the point of their application. In practice, developers applying for the CfD do so much earlier in their development cycle than would be the case under the RO.

2.3 In the absence of a decision point between the schemes there could be an incentive for developers to apply for both, as the costs of applying are likely to be negligible compared to the other costs associated with developing a new generating station. This would allow developers to make the decision about which of the schemes is more beneficial for them at the latest possible moment. For example, a generator which had made a final investment decision on the basis of one scheme, and would therefore receive sufficient support under that scheme to deploy, could shift to the other scheme if the rewards (for the plant in question's particular circumstances) were felt to be greater. This would result in a greater cost to consumers with no accompanying additional capacity. Allowing developers to apply for more than one scheme would also increase the administrative costs incurred by Ofgem and the Delivery Body (National Grid), as they would have more applications to deal with than would otherwise be the case.

2.4 The choice of scheme between the RO and investment contracts will apply at the point of signature of the investment contract, rather than at the point of application. This will mean that developers can investigate Investment Contracts over the next few months, which will help to ensure that there is no investment hiatus.

2.5 Under consultation proposals, new generating stations that have applied for and have been awarded a CfD are not eligible for the RO. This is to reduce the possibility of generators making excessive returns on their investments, as set out above. Not allowing generators to move from CfDs to the RO also means that there is greater budget certainty for both schemes and facilitates more accurate obligation setting, as it is more possible to assign plants beginning to generate in a given year to one of the potential support mechanisms.

- 2.6 Under consultation proposals, generating stations that have applied for a CfD but have been rejected will be eligible to apply for the RO until it closes to new applicants in 2017. Not offering this option could give an incentive for stations to apply for the RO first, rather than applying for a CfD. Rules that may introduce incentives for generating stations to apply to the RO rather than a CfD when CfDs are available are sub-optimal for both developers and consumers, as they increase uncertainty for developers and therefore are likely to increase costs to consumers. Under the same rationale, generating stations that have applied for an Investment Contract and have been rejected will be allowed to apply for the RO.
- 2.7 In the long term, the transition to CfDs means it is possible to manage support costs more closely, due to the introduction of an allocation process which contains a constraint process where the CfD budget is exceeded. However, this transition period is felt to be necessary so that developers can retain confidence in their investment decisions. Not having a transition period could lead to an investment hiatus.
- 2.8 Under consultation proposals, developers will be required to provide Ofgem with written confirmation that they meet the conditions set out in **Section 2**. These conditions include a written confirmation that they have not entered into an investment contract or a CfD. This confirmation will be given to OfGem and will be in the form of a letter from the CfD Delivery Body (National Grid). OfGem will be asked to provide these letters for generating stations applying for a CfD.
- 2.9 The costs associated with this are twofold. Firstly, the requirement puts a resource cost on the developers as they need to apply for the letter. Secondly, there is a similar cost on National Grid and OfGem, who will be asked for such a letter, or have to handle the letters from the other body. The costs of these are anticipated to be small, though it is not possible to quantify them at this stage. The policy has been agreed with both OfGem and National Grid, who will bear these costs.
- 2.10 Under the consultation proposals, generating stations are not allowed to apply for a CfD after their 20 years of support under the RO has ended. It is assumed that the costs these stations have incurred will have been recovered by then, so giving them support under CfDs would constitute overcompensation and thus not provide value for money for consumers.

## Additional Capacity

- 3.1 During the transition period, RO-accredited generators will be allowed to apply for accreditation under the RO or for a CfD for additional capacity of more than 5MW, as set out in **Section 3** of the consultation. After the RO closes, RO-accredited generators will be allowed to apply for a CfD for blocks of additional capacity more than 5MW. The reasons for this are set out below.
- 3.2 Until the closure date, the possibility of accrediting additional capacity under the RO will remain, just as new developers will be able to apply for the RO. Furthermore, additional capacity of more than 5MW will have the option of applying for a CfD during and after the transition period.
- 3.3 Once developers have entered into a CfD for additional capacity at an RO-accredited station, no further additional capacity can be registered under the RO. This is because allowing stations to swap back and forth between the RO and the CfD on each element of additional capacity would increase the administrative complexity, which would in turn increase the administrative costs of the scheme.

- 3.4 Developers need to meet the metering and fuel measuring requirements of both schemes. This is anticipated to have a cost, which would be higher if plants are accredited under both schemes. Depending on the size of this cost, there might be an incentive for the plant to apply for the RO rather than a CfD while this is still possible. It is not possible to assess the extent of costs or the overall incentives for generators at this time, as these will depend on the detailed requirements for CfD metering. The management of the metering and fuel requirements by dual scheme plants will put administrative and resource costs on Ofgem and National Grid, as they will be required to monitor generation under both schemes. After the RO closes, RO-accredited stations will retain the right to apply for a CfD for more than 5MW additional capacity as long as they meet the requirements.
- 3.5 The option will not be available for additional capacity of 5MW or less, nor will operators be able to register additional capacity of any size under the RO after 31 March 2017. This means that no additional support, on top of what the developer is already receiving, will be available for additional capacity of 5MW or less at RO-accredited stations after 31 March 2017. An alternative option to this proposal would be to allow additional capacity of less than 5MW to continue to be registered, under either the RO or CfDs. If this were under the RO, it would mean the scheme would need to remain partially open after 2017; under CfDs, it would require generators to ensure that the site is metered in accordance with requirements in the CfD contract. Both are felt to be a disproportionate administrative cost for limited additional capacity.
- 3.6 For example, between 2006 and 2012, existing stations were accredited for 190 MW of additional capacity; of this, 131 MW was 5 MW or less. 103 MW of this 131 MW additional capacity to existing stations was for landfill and sewage gas sites. Pipeline analysis suggests that most of these sites have added most of the extra capacity they can. This in turn suggests that less additional capacity will be added in future years than previously for landfill and sewage gas sites, and thus represents a small proportion of total possible deployment.

## Closure Arrangements

- 4.1 Under consultation proposals, support for generators within the RO will be grandfathered. Fuelled renewables plants would be required to choose a support band in which to be grandfathered. They would then continue to be allowed to move between that band and the support bands directly adjacent to it – that is, a mid-range co-firer could receive ROCs for generation under the low-range, mid-range or high-range support bands, but not the conversion band. This approach acknowledges the need for some flexibility, due to fluctuations in fuel availability, while being consistent with both the overall transition away from the RO and the requirement for RO stability in the longer-term.
- 4.2 The consultation proposal is also to offer grace periods at the point of RO closure. These are designed to address situations in which generators have taken an investment decision on the basis of support levels which they are then unable to access, due to a delay in commissioning caused by certain factors they could not have foreseen and that were beyond their control (this is set out in more detail in **Section 4** of the consultation). This will help to reduce the uncertainty and any potential risks associated with the transition that in the absence of grace periods may cause an investment hiatus. These grace periods are to be set on the basis of clearly defined principles, and will be subject to consultation responses.
- 4.3 This approach will provide developers more certainty, and will allow them to take a financial decision based on the balance of risk of not getting the full 20 years of support in case they

fail to commission in time. The detailed arrangements will be confirmed in the Government response; however, one of the principles to be used is that the grace periods should be straightforward for Ofgem to assess. Therefore we anticipate that the administrative costs to Ofgem should be correspondingly low. Updated analysis will be provided at the time of the Government response.

## Technology-Specific Measures

### Biomass

- 5.1 RO accredited biomass low-range, mid-range and high co-firing plants will have the option of applying for a CfD or an investment contract as a conversion, under proposals set out in **Section 5** of the consultation. They will be able to receive CfD support until 2027, so will be receiving a variable length of CfD support depending on the moment of conversion. Incentives to convert depend on the costs of converting and the benefits that it will bring. As such, generators are likely to make an assessment of the best moment to convert based on individual plant or unit circumstances to maximize their benefits. In general, converting early would allow generators to get a longer total period of support under either the RO or CfDs. This option maintains the incentive for operators of co-firing biomass plants to move towards full conversion.
- 5.2 The same conversion opportunity applies to RO-accredited biomass plants converting on a unit-by-unit basis. RO accredited plants converting a further unit can choose between the RO and a CfD. Once the plant has a CfD for one or more units, they will no longer be eligible to apply for the RO for subsequent unit conversions. If a plant has units under both the RO and units with a CfD, it will operate as a dual scheme plant. This means that it will have to incur the related costs as described earlier in this annex. Dual-scheme plants will also have to separately monitor the fuel inputs for each unit that receives support under the RO or a CfD. This will put an additional monitoring cost on developers which is necessary to ensure that they receive the appropriate levels of support. During the transition period, plants are anticipated to take these additional costs into account when making a decision to convert units under the RO or with support from a CfD. Again, this option maintains the incentive for operators of co-firing biomass units to move towards full conversion.
- 5.3 RO-accredited biomass co-firing plants will be entitled to a one-off choice of scheme between remaining within the RO and bidding into the capacity mechanism, on a whole station basis. A successful bid for the capacity mechanism will void their RO accreditation. As the capacity mechanism offers only brief periods of support in comparison to the RO (see CM publications for full details), such generators would be likely to receive less support overall than if they had stayed in the RO, unless they chose to bid for further participation in the CM and were successful in such bids. Depending on the risk assessment that generators make, this might lead to a decision to stay in the RO rather than bidding into the capacity mechanism.



## Offshore Wind Phasing

5.4 The consultation proposals set out the proposed rules around the phasing of new offshore wind farms. These rules would continue current policy allowing developers to register up to five phases of the offshore wind farm before commissioning. Under the consultation proposals this includes phases which will only be built after the RO closure date of 31st March 2017. Allowing them to register phases before they are commissioning will enhance certainty of support for these developers. As the final date for receiving RO support in 2037 does not change, developers making use of this option will not be able to claim the full 20 years of support. In deciding whether to apply for a CfD or the RO, developers are anticipated to take this into account. Extending the final date for receiving RO support would be contrary to policy intentions to close the RO and to help ensure renewables are competitive in the long run without support. Furthermore, it would not provide an adequate incentive for developers to move to CfD support.

## Fixed Price Certificate

6.1 The analysis around Fixed Price Certificates is discussed in the Impact Assessment on the Renewables Obligation Transition.

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