



Department of Energy & Climate Change

Energy Act: Renewables Obligation Transitional Arrangements

Issue: To provide for the closure arrangements for the Renewables Obligation (RO), as part of the overall transition to Contracts for Difference. Clarity on the closure arrangements and the operation of the RO in its final years are needed to provide confidence to developers and generators during the period of transition.

Policy commitment:

In July 2011, the Government published a White Paper on Electricity Market Reform (EMR), which included Government's proposals for the RO transition and closure arrangements. In July 2013, Government published a consultation on those transition arrangements, providing further detail on the way we expected to implement existing proposals.

The transition from the Renewables Obligation to Contracts for Difference as the primary support mechanism for renewable electricity generation will contribute to our renewables targets and help fulfil our ambitions for a low carbon economy.

Legislative proposal:

Under the existing scheme, Renewables Obligation Certificates (ROCs) are issued by Ofgem to renewable electricity generators. Licensed electricity suppliers are required to submit a certain number of these ROCs to Ofgem each year, or pay a buy-out price.

The Energy Act contains provisions:

- to enable the Secretary of State to replace the RO with a Certificate Purchase Obligation. In Great Britain, this will impose an obligation on Ofgem, the Secretary of State or the Contract for Difference (CfD) counterparty body to purchase certificates at a fixed price. In Northern Ireland, this will impose the obligation on the Northern Ireland Authority for Utility Regulation or the CfD counterparty body;
- to provide for the issue of the fixed price certificates, in place of the current ROCs;
- to provide for the Certificate Purchase Obligation to be funded by a certificate purchase levy charged on the supply of electricity by electricity suppliers;
- to enable the Secretary of State to set the price of the certificates; and
- to enable the Secretary of State to close the RO in England, Scotland and Wales, and to enable the Northern Ireland Department for Enterprise, Trade and Investment to make similar provision to close the RO in Northern Ireland.



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Relationship to other legislative proposals:

Government has proposed that there will be a transition period between the introduction of CfDs in 2014 and the closure of the RO to new capacity on 31 March 2017, during which new renewable capacity will be able to choose between support under the RO or under CfD. DECC published a consultation on the arrangements for this transition period on 17 July 2013, and expects to publish the Government Response to that consultation shortly. DECC published a consultation on the RO closure and associated grace periods in England, Scotland and Wales on 7 November 2013.

Background:

The RO is the main financial mechanism by which Government incentivises deployment of large-scale renewable electricity projects. It came into effect in 2002 in England & Wales and in Scotland and in 2005 in Northern Ireland. Banding, whereby different technologies receive different levels of support, was introduced in April 2009.

In April 2010, the end date of the RO was extended from 2027 to 2037 for new projects to provide long-term certainty for investors and to ensure continued deployment of renewables to meet the UK's 2020 renewables target.

The EMR White Paper and subsequent Technical Update set out Government's intention to introduce a new financial mechanism to support low-carbon generation, including nuclear, carbon capture and storage, and renewables. In the same documents, we set out transition arrangements from the RO to the new CfD support mechanism, with the aim of preventing a hiatus in renewables investment while the new CFD support mechanism is put in place.

Why are you fixing the value of the certificate?

As we near 2037, the obligation on suppliers to submit ROCs would be set against an ever decreasing pool of generators and, if some suffer prolonged outage (e.g. a low wind year), then the obligation would have been set too high and consumers would overpay. A fixed price certificate scheme gives increased confidence in the value of a certificate in the final years of the scheme and will enable generators to access the full value of the certificate. This removes the perception that a shrinking obligation could be vulnerable to price volatility.

Why does the Energy Act contain a power to close the RO?

The power to close the RO will ensure that the arrangements for the RO closure can be taken forward on a clear legislative basis across Great Britain as a whole, increasing certainty both for investors and consumers.