

Renewables Obligation 2013 - 2017 Banding Review Proposals



Key Issues	Page
Offshore Wind	2
Wave and Tidal	2
Biomass	3
Solar PV	3
Final Comments	4
Annex – Banding Review Table	5

The UK Government has proposed important changes to the support levels available for renewable energy projects under the Renewables Obligation for the 2013 – 2017 period in England and Wales ¹. The proposals ramp up support for new technologies such as wave and tidal energy but reduce it for more mature technologies such as offshore wind and solar photovoltaic and remove it altogether for landfill gas projects. The Scottish Government has also set out its banding proposals which differ in some aspects. This briefing considers the changes to offshore wind, solar PV, biomass and wave / tidal and sets out the full list of banding level changes for England, Wales and Scotland.

The UK Government's consultation paper ² proposing new banding support levels for 2013 - 2017 is the culmination of the banding review commenced in October 2010. Support levels for this period are particularly important given the impending deadline for the UK to meet its 2020 target for 15% of energy generation from renewable sources. In this review the Department of Energy and Climate Change (DECC) has focused on directing support to areas where it is most likely to be successful in meeting targets whilst minimising the cost to consumers in difficult economic times. It has therefore decided that it will not award more than two Renewables Obligation Certificates (ROCs)/MWh ³ to any technology unless there are compelling reasons to do so.

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¹ 2014-2017 with respect to offshore wind.

² [Consultation on proposals for the levels of banded support under the Renewables Obligation for the period 2013-17 and the Renewables Obligation Order 2012 – DECC: October 2011](#)

³ The level awarded to offshore wind, considered to be the most expensive technology needed to meet the Government's renewables targets.

This has resulted in the reduction of support for more mature technologies where costs are expected to reduce over the next few years (e.g. onshore wind). Support is focused also for the pragmatic purposes of maximising cheaper generation (e.g. biomass conversion of existing fossil fuel power stations, whilst reducing support for dedicated biomass plants).

The Scottish Government has published its own consultation paper⁴ with proposals for Scotland. In order to maintain a largely level playing field for investors, the proposals generally follow those for England & Wales but there are some refinements for wave / tidal and biomass. We describe the principal differences at relevant points below.

Early reaction to the changes generally show acceptance that ROC levels needed to come down where costs are reducing and relief that support levels are being trimmed rather than slashed.

We have set out the full list of banding changes in the Annex to this briefing, with colour coding showing the direction of the changes.

Offshore Wind

DECC has given a boost to offshore wind investment by maintaining the current 2 ROCs/MWh support until 2015 (previously promised until 2014). It is thereafter proposing to reduce support to 1.9 ROCs/MWh for newly accredited generation / extensions during 2015/16 and 1.8 ROCs/MWh for generating stations / extensions accredited during 2016/17. Since the Feed-in Tariff Contract for Difference (FiT CfD)⁵ is expected to provide less support than the Renewables Obligation, DECC believes that its current proposals will encourage early movers and, in particular, significant deployment before 2017.

DECC has also confirmed that it will continue its policy of allowing phasing of wind farm development whereby subsequent phases are allowed to benefit from the level of ROC support they received at initial accreditation, subject to conditions.

Consistent with the Government's previous policy, offshore wind support will be 'grandfathered' meaning that wind farms will continue to receive ROCs at that level for their operational lifetime, irrespective of future changes in law.

Offshore wind seems therefore to be a winner in this banding review, which will be of comfort in particular to developers / investors in Round 2 of the offshore wind farm consenting process⁶.

Wave and Tidal

England & Wales

Wave and tidal stream technology has yet to demonstrate that it can be effective at commercial scale. Whilst DECC recognises that these technologies are unlikely to contribute significantly to its 2020 target, it sees great potential for large scale generation and particularly as a backstop in case other technologies are inadequate to achieve future targets (e.g. for 2050). DECC therefore has decided to increase support dramatically for both wave and tidal stream projects, from 2 to 5 ROCs/MWh for stations accredited before 1 April 2017. This will be subject to a limit of 30MW for any project, with the excess eligible for the current 2 ROCs/MWh level.

Tidal range schemes (e.g. across the Severn Estuary) are a much bigger and longer term challenge, in particular given their environmental issues. As a result, support will be kept in line with the offshore wind support levels.

Scotland

Scotland has previously offered higher support for wave and tidal stream projects (5 and 3 ROCs/MWh respectively) due to the desire to build a strong Scottish wave and tidal industry. Both types of project in Scotland will be eligible for 5 ROCs/MWh support under the new proposals but discussions continue over the type of capacity threshold that ought to be placed on larger scale projects.

⁴ [Renewable Energy - The Renewables Obligation \(Scotland\) Order 2011- Consultation on Review of ROC Bands – The Scottish Government: October 2011](#)

⁵ See our client briefing "[Electricity Market Reform White Paper – Increasing Investor Confidence \(July 2011\)](#)".

⁶ From a timing perspective, those in Round 3 seem more likely to be supported under the FiT CfD.

Biomass

England & Wales

The position for biomass electricity is more nuanced given the variety of different ways in which biomass is used and the sustainability issues involved. DECC has taken a decision to focus support on two new bands of technology:

- *Biomass conversions (i.e. adapting existing coal-fired generating stations to burn biomass)*. These would benefit from 1 ROC/MWh where the conversion occurs on or after 1 April 2013 (as opposed to the current biomass rate of 1.5 ROCs/MWh). However, unlike previously, support will be grandfathered from 1 April 2013.
- *Enhanced biomass co-firing*. Support is set at 1 ROC/MWh as long as generating stations meet a minimum biomass content of 15%. The current 12.5% cap on co-firing will also be removed⁷. This increases support from the current 0.5 ROC/MWh support for standard co-firing (which currently applies to these projects) and again this support will be grandfathered. Where the percentage biomass content falls below 15%, so will its support fall to the standard level.

Standard co-firing of biomass, on the other hand, will remain subject to 0.5 ROC/MWh support and will not be grandfathered on the basis that little investment is needed to support it.

Dedicated biomass plants (other than conversions) will remain eligible for 1.5 ROC/MWh support but this will be reduced to 1.4 ROC/MWh support from 1 April 2016 for new facilities and additional capacity. This is partly due to the Government's concerns over sustainability of feedstocks. Reduced support is likely to mean that only small scale biomass plants (under 50MW) with fewer sustainability concerns are likely to come forward on this basis.

Energy Crop Uplift

The Government is keen to encourage the use of energy crops but only from non-food sources. It proposes the following changes to the 0.5 ROC/MWh uplift given to the varying forms of biomass generation where energy crops are used:

- The definition of "energy crops" will be narrowed to a list of short rotation coppice crops and perennial grasses.
- Dedicated energy crop support will fall to match the new offshore wind support level but with the uplift element newly grandfathered from 1 April 2013.
- Standard co-firing with energy crops will remain eligible for 1 ROC/MWh but again the 0.5 ROC/MWh uplift element will be similarly grandfathered.

Although the Government feels that the two new biomass conversion and enhanced co-firing bands using energy crops should, in principle, benefit from the uplift, it is carrying out more research on this before making a decision.

Sustainability

From 1 April 2013, all support for biomass for generators at 1MW or over, will need to satisfy sustainability criteria. It should be noted that DECC does not intend to "grandfather" sustainability criteria, so any changes in due course will have to be met by all generators whenever accredited if they are to receive continuing support.

Scotland

The Scottish Government is concerned that the proposals for England & Wales rely on the large scale importation of biomass material which may prove unavailable or expensive, whilst providing limited carbon reduction benefits. It would prefer to concentrate on biomass used for heat production and proposes to establish a threshold (to be determined) beyond which new large scale dedicated biomass electricity generation would not receive support. It also wants to consider further whether the new bands for conversion / enhanced co-firing in England & Wales should be applied in Scotland.

Solar PV

Currently, solar PV projects between 50kW and 5MW can choose to receive either feed-in tariffs (under the Government's microgeneration FIT regime) or ROCs (at 2 ROCs/MWh). Solar PV projects above 5MW are only eligible for ROCs.

Although costs of solar PV technology have been reducing, DECC does not regard solar PV as a cost-effective technology to meet its targets and therefore sees no need to make a special case to support this technology. Solar PV support under the Renewables Obligation will therefore decline in line with offshore wind levels although DECC has asked for further evidence to support its thinking on likely deployment.

⁷ Currently suppliers can only meet 12.5% of their annual obligation through co-firing.

Solar industry proponents have criticised the Government's proposals for not supporting the solar industry, particularly in light of reports that the feed-in tariff rates for solar PV microgeneration are widely expected to be reduced in the near future.

Final comments

The UK Government's Energy Market Reforms will see the Renewables Obligation replaced by the FiT CfD to be introduced in 2013/14. The Government has confirmed that it will allow generators to choose between Renewables Obligation support and the new FiT CfD during the period before the Renewables Obligation is withdrawn for new projects in 2017. Details of the final form of FiT CfD (which is still under development) and the support levels to be offered will need to be provided before this difficult choice can be made.

In the meantime, the Government's current proposals should give some comfort that economic concerns have not drastically cut off support for renewables despite George Osborne's recent announcement that the UK will not be ploughing a lonely furrow in combating climate change in front of other European Countries. It should also be remembered that this is a consultation proposal and sectors unhappy with their "allocation" should make the most of their opportunity to explain why additional support is needed. Responses to the consultation must be made by 12 January 2012.

Climate Change Group

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- Commercial transactions, funds and supply chain issues
- Renewable energy
- Disputes

For more information about our Climate Change Group, visit: www.cliffordchance.com/climatechange.

Annex – Banding Review table (England, Wales and Scotland)

This Annex contains an Extract from the banding table for England & Wales contained in the "Consultation on proposals for the levels of banded support under the Renewables Obligation for the period 2013-17 and the Renewables Obligation Order 2012 – DECC: October 2011." We have included comments in italics in the table setting out where the position is intended to be different in Scotland. We have also colour-coded the boxes where they show increased / decreased levels of support:

 Reduced support levels

 Increased support levels

Renewable electricity technologies	Current Support, ROCs/MWh[1]	Proposed ROC support/MWh[2]
Advanced gasification	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17 Call for evidence
Advanced pyrolysis	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17 Call for evidence
Anaerobic digestion	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Biomass conversion	No current band but eligible to claim 1.5 ROCs under current banding arrangements	1 Call for evidence
Co-firing of biomass	0.5	0.5
Co-firing of biomass (enhanced)	No current band but 0.5 ROCs under current banding arrangements	1 Call for evidence
Co-firing of biomass with CHP	1	1
Co-firing of energy crops	1	1
Co-firing of energy crops with CHP	1.5	1.5 Call for evidence
Dedicated biomass	1.5	1.5 to 31 March 2016 1.4 from 1 April 2016 <i>Scotland: 1.5, but consideration of capacity threshold</i>
Dedicated energy crops	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Dedicated biomass with CHP	2	2 in 2013/14 and 2014/15 <i>Scotland: As above, but consideration of capacity threshold. The Scottish Government has confirmed to us that the digression shown for 2015/16 and 2016/17 was included in the consultation paper in error.</i>
Dedicated energy crops with CHP	2	2 in 2013/14 and 2014/15; Call for evidence <i>Scotland: As above. The Scottish Government has confirmed to us that the digression shown for 2015/16 and 2016/17 was included in the consultation paper in error.</i>

Renewable electricity technologies	Current Support, ROCs/MWh[1]	Proposed ROC support/MWh[2]
Energy from waste with CHP	1	0.5 Call for evidence
Geothermal	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Geopressure	1	1
Hydro-electric	1	0.5
Landfill gas	0.25	0 Call for evidence
Microgeneration	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Onshore wind	1	0.9
Offshore wind	2 in 2013/14; 1.5 from 2014/15 onwards	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Sewage gas	0.5	0.5 Call for evidence
Solar photovoltaic	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Standard gasification	1	0.5 Call for evidence
Standard pyrolysis	1	0.5 Call for evidence
Tidal impoundment (range) – tidal barrage (<1GW)	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Tidal impoundment (range) – tidal lagoon (<1GW)	2	2 in 2013/14 and 2014/15; 1.9 in 2015/16 and 1.8 in 2016/17
Tidal Stream	2	5 up to a 30MW project cap. 2 above the cap.
	<i>Scotland: 3</i>	<i>Scotland: 5 but considering a capacity threshold (project or aggregated level)</i>
Wave	2	5 up to a 30MW project cap. 2 above the cap.
	<i>Scotland: 5</i>	<i>Scotland: 5 but considering capacity threshold (project or aggregated level)</i>

[1] Different levels of support may apply to certain types of generating station accredited before 1 April 2009. The default rate of 1 ROC/MWh applies to eligible generation that does not fall within any other banding provision.

[2] Years refer to obligation periods under the RO. For example, 2013/14 refers to the period 1 April 2013 to 31 March 2014.

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