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Malachy McKernan
Sustainable Energy Branch
Department of Enterprise, Trade and Investment
Netherleigh
Massey Avenue
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e-mail: NIRP2010@detini.gov.uk

Dear Mr McKernan,

STATUTORY CONSULTATION FOR THE RENEWABLES OBLIGATION ORDER (NORTHERN IRELAND) 2010

I am responding on behalf of the British Hydropower Association (BHA) to the statutory consultation issued by the Department of Enterprise, Trade and Investment (DETI) for the Renewables Obligation Order (Northern Ireland) 2010.

The BHA is the trade association for the UK hydropower industry. With around 150 members, the Association represents a wide range of interests: consulting engineering, design, manufacture, investment and operation, and specialist service providers. The BHA represents generators from small owner-operators to large UK and international companies.

The Renewables Obligation
The BHA believes that the Renewables Obligation, Renewables Obligation (Scotland) and the Renewables Obligation Northern Ireland (ROs) should continue as the primary support mechanism for renewable electricity in the UK. It offers a stable, long-term, market-based mechanism to incentivise renewable electricity generation.

The BHA recognises that for the growing range of financial support schemes to be successful, it is very important to ensure that the mechanisms interact correctly without adding more complexity. The original, clear objectives and design of the ROs have become increasingly complex. The BHA believes that the ROs must provide certainty for investors on a long-term basis for it to be most effective in encouraging the development of renewables to meet the UK's 2020 target. Frequent changes to the mechanism reduce investor confidence. The BHA is very concerned that there has been an emergency banding review for offshore wind when the new banding arrangements had been in operation for only three weeks. For investor confidence, the BHA feels that it is important that a clear, predictable process for future emergency reviews is laid down to ensure that a precedent to frequent reviews on the levels of support is set. Further changes should be resisted.

Feed-in Tariffs
We accept, however, that a FIT may be a more appropriate support mechanism for domestic and community-scale projects, for which the ROs are too complicated. To be effective the BHA believes that it is essential that the FIT mechanism is simple to understand and participate in.
We have commented in response to the consultation questions on the interim arrangements proposed for Northern Ireland.

With the necessary delay to its introduction in Northern Ireland, there is hope that the significant implementation challenges associated with the FIT mechanism, as laid down by the UK's Department of Energy and Climate Change, will have been addressed. It is essential that the ROs are not undermined by the introduction of FIT and that there is a smooth transition to the new arrangements. The impact of FIT on the predictability of the ROs and the management of the interface between the two schemes is of particular concern to BHA members.

The strictures of accreditation under the Microgeneration Certification Scheme (MCS) do not sit well with hydropower, which is bespoke and outside the permitted development provisions of planning regulations. This means that the consumer protection design of MCS should be covered for household and community hydropower developments by the protection afforded by planning consent procedures and licensing requirements. We believe that small-scale hydropower schemes seeking FIT support should be able to self certificate through similar arrangements to RO registration. Will Northern Ireland adopt an accreditation scheme for microgeneration?

The DETI consultation makes reference to the DECC consultation document and the BHA's response to the DECC consultation is, therefore, attached. It includes a presentation setting out the evidence in support of changes to the FIT.

Yours sincerely,

Adrian Abbott

Adrian Abbott
Policy & Consultations Manager

British Hydropower association's responses to the Consultation Questions

The responses are presented in conjunction with a presentation "FiTs proposal for BHA v8 12.10.2009" which includes further supporting information including cost data on 127 real projects

Q1. Do you agree that it is appropriate to extend the NIRO to 2033 pending the outcome of work currently being undertaken in relation to future renewables support mechanisms for NI? Please explain reasons for your response

No. The BHA believes that it would be logical to extend the RO to 2040 to ensure that projects developed up to 2020 receive 20-years support this will help to ensure that projects are developed beyond 2017, helping to ensure the best chances for the UK to meet its 2020 renewable energy target.

Q2. Do you agree that the criterion for treating projects under either the old 2027 end date or the new 2033 end date should be accreditation before or after 26 June 2008 in line with GB? If not, what should the criterion be and why?

We believe that the criterion should be the same as for Great Britain. However, we responded to the consultation on the consultation document issued by DECC RO that the accreditation date should ensure 20–years support for projects. The proposal leaves a support gap for those projects accredited for the RO in the between 1st April 2007 and 26th June 2008. The BHA believes that the accreditation should be before or after 1st April 2007. This modification would prevent a number of 'pioneers' who invested in the last couple of years being unfairly penalized and increase the likelihood of them investing further in the sector.

Q3. Do you agree that additional capacity or plant that is refurbished or replaced should be entitled to the full 20 years of support, regardless of when the original capacity started to receive support?

Yes. However, the BHA would like clarification on how additional capacity and capacity that is refurbished or replaced will be treated under the new and old regimes based on the cut off date of 26th June 2008.

Q4. Do you agree that the 20% ceiling on the NIRO level should be removed and that no new level should be imposed?

Yes

Q5. Do you agree that headroom should be used to determine the level of the NIRO after 2015/16 with regional apportionment based at present on any agreed relative fixed target levels?

Yes

Q6. Do you agree with the proposal to increase headroom to 10% by 2014?

The BHA agrees that headroom should to be increased to at least 10%. We believe it is important that there is a sufficient margin between the level of the RO and the number of ROCs produced.

Q7. Do you agree that the proposed series of 0.5% annual increases in headroom over the time period set out is the best approach to implementing any increase?

The BHA believes that headroom should be increased in this way to 10% in 2011/12. The analysis suggests that headroom at 8% creates a risk to investors that the number of ROCs issued will exceed demand. With headroom of at least 10% the risk is reduced to an acceptable level.

Q8 Do you have a view on how we should predict expected electricity use in a subsequent obligation period? What are the advantages/disadvantages of any suggested methods of predicting expected electricity use?

These are vital questions for confidence in the operation of the ROs. It is difficult assessing the suggested methods prior to operation. The BHA welcomes the announcement that a working group will be set up to look at the calculation of the future obligation levels.

Q9 Do you have a view on how the expected level of ROCs generated from existing generating stations in Northern Ireland in a subsequent obligation period should be predicted? What are the advantages/disadvantages of any suggested method?

These are vital questions for confidence in operation of the NIRO. The BHA welcomes the announcement that a working group will be set up to look at the calculation of the future obligation levels for Great Britain. Will the Northern Ireland Government tap into this work or will a separate working group be set up?

Q10 Do you agree with the proposal for accounting for banked ROCs?

Yes.

Q11 Do you agree with the proposal for predicting new generation capacity for the subsequent obligation period? What are the advantages/disadvantages of this method of predicting this new capacity?

We agree with the general approach to predicting new generation capacity.

Q12 Do you agree that the proposal to offset redeemed ROCs against a generator's future output presents a proportionate approach?

Yes. However, the BHA think that six years in which Ofgem could take retrospective action is too long. We believe that two years from the incorrect claim is more appropriate. We do not think that Ofgem should be able to revoke the original ROCs; this would impact upon a supplier's compliance.

Q13 Do you agree that the proposal to extend the measurement period for AD feedstock to 3 months rather than 1 month as at present?

The BHA does not have a view on this particular question.

Q14 Do you agree that we should not impose a restriction on the use of tallow in the NIRO until clarity of the new marketplace has been established?

The BHA does not have a view on this particular question. However we, wonder if the related sustainability issues on unrestricted use of tallow have been explored.

Q15 Do you consider the cap be retained at 12.5% going forward?

Q16 If you think the cap should be changed, when should this happen and at what level should the cap be set? Please provide evidence supporting your answer.

The BHA is not able to comment on these particular questions.

Q17 Are there any issues that are specific to Northern Ireland and require separate treatment in this regard?

The BHA does not have a view on this particular question

Q18 Do you believe a Feed-In Tariff form of assistance should be introduced in Northern Ireland? Please provide an explanation for your view.

Q19 If a FIT were to be introduced, should it apply to

d. microgenerators only (ie up to 50kW capacity);

e. small scale generators (up to what size?);

f. other generators? Please elaborate on your response.

We have set out our views on a Feed-in Tariff in the covering letter and attached supporting document originally submitted to DECC in relation to the RO for England and Wales. The BHA believes that the provisions of the NIRO, ROS and RO should be as closely aligned as possible.

We believe that Northern Ireland should introduce a Feed-In Tariffs (FIT) if they are introduced in Great Britain (GB).

The BHA believes that if a FIT is introduced it should follow as closely as possible the arrangements introduced in GB. The BHA has suggested to the Department of Energy and Climate Change that the in GB the bands applied to hydropower should be increased from four to seven as follows:

Current		**BHA Proposal**	
Lower limit kW	**Upper Limit**	**Lower limit kW**	**Upper Limit**
0	10	0	15
10	100	15	50
100	1000	50	150
1000	5000	150	500
		500	1000
		1000	2000
		2000	5000

Please see the attached document for the argument supporting this proposal. We believe that DETI should adopt these bands as far as they apply to schemes in Northern Ireland.

Q20 Do you agree that enhanced support form 2010 should meet the above criteria?

The BHA welcomes the proposals by DETI to introduce interim measures to ensure that microgenerators in Northern Ireland are not disadvantaged on the introduction of a FIT in Great Britain.

Q21 Are there any other criteria that need to be taken into account?

The BHA is not aware of other criteria that need to be taken into account.

Q22 Does the support proposed in Table 3.1 represent an appropriate interim level for Northern Ireland in the event of a FIT being introduced in GB from April 2010? Please explain fully.

The BHA considers that table 3.1 represents too sharp a step in dropping from the provision of 4 ROCs per MWh up to 100kW capacity to 1 ROC thereafter. We propose the following graded system which is more appropriate and will not lead to all hydropower projects being limited to a rating of 100kW with the consequent loss in renewable energy generation:

BHA Proposal		
Lower limit kW	**Upper limit kW**	**ROCs per MWh**
0	50	4
50	150	3
150	500	2
500	upwards	1

Q23 What, if any, other changes would you propose if this form of support is to be implemented? Please provide a rationale for your response.

The BHA does not have any further suggestions

Q24 Does retention of a support mechanism based on the current offering of 2 NIROCs and availability of capital support (Option 2) represent an appropriate

support measure for NI if a FIT introduced in GB from 2010? Please provide a rationale for your response.

Q25 Does it represent a better longer term solution than the interim proposal at 3.17 above (Option 1)?

The BHA understands that the LCBP is unlikely to continue. The current support mechanism based on 2 NIROCs alone may disadvantage Northern Ireland's microgenerators.

Q26 What do you think is the most appropriate way to support microgeneration in the longer term in Northern Ireland? Please give a rationale for your answer.

We believe that a Feed in Tariff as outlined in our response to Q19 to be the most appropriate way to support microgeneration in the longer term. With it comes the necessary financial security which will enable potential developers to obtain financing which is more difficult for microgeneration than for larger energy projects. The problem of securing funding should not be underrated.

Q.27 Do you agree that any projects being supported under the proposed new interim arrangements (if implemented) should be grandfathered in the event of a new support mechanism being introduced?

Yes

Q28 Do you believe that a wholesale price stabilisation mechanism would bring benefits to renewable generators by providing a predictable and adequate level of compensation?

Q29 Do you believe that a wholesale price stabilisation mechanism would bring benefits to customers? In particular, during periods of high fossil fuel prices, could it reduce any over compensation to generators. Would suppliers pass this on to consumers?

The BHA does not consider that a wholesale price stabilisation mechanism is required at this time. Volatile wholesale prices are an issue for the market as a whole and could affect the case for investing in all types of new electricity generation capacity needed to help maintain security of supply and reduce carbon emissions in future. We are not convinced that the proposed wholesale price stabilisation mechanism offers the right solution. The BHA believes that the issue is of such importance that it deserves wider consideration of the concerns and potential solutions.

Q30 Do you believe that a revenue stabilisation mechanism could help us meet our renewable target by encouraging more deployment?

Q31 Do you believe that a revenue stabilisation mechanism should be introduced in Northern Ireland? Please provide reasons for your answer.

There are factors to deployment of renewables other than project revenue (e.g. grid connection, availability of investment capital, delays in the planning process). The BHA does not believe that a revenue stabilisation mechanism would have much impact on deployment. The consultation document notes the difficulty in identifying an appropriate price index. This is a further indication of the complexities in setting a stabilisation mechanism. The BHA believes that the potential for a range of unintended consequences in the operation of the wholesale electricity market on the introduction of a revenue stabilisation mechanism and the complexities and challenges of implementation warrant further, specific consideration.

Q32 Do you agree that the above approach would minimise undesirable effects on market confidence whilst the introduction of revenue stabilisation is being considered? If not, what further steps need to be taken to maintain confidence in the market?

The BHA does not consider that a wholesale price stabilisation mechanism is required at this time. However, the BHA agrees with the principles of transition set out in the consultation document.

Q33 Do you agree that a Contract for Difference option would be the best choice of wholesale price stabilisation mechanism? If not, what would you recommend as the best option and why?

Q34 Do you have any initial views on whether a stabilisation mechanism should remove wholesale price risk from generators altogether or leave them with some degree of risk, via a "cap and collar" mechanism?

The BHA believes that if a revenue stabilisation mechanism was introduced, it should leave some degree of risk through a "cap and collar" mechanism.

Q35 Do you have any initial views on whether a stabilisation mechanism after 1 April 2013 should be optional or mandatory for generators under the NIRO?

There are factors to deployment of renewables other than project revenue (e.g. grid connection, availability of investment capital, delays in the planning process). The BHA does not believe that a revenue stabilisation mechanism would have much impact on deployment.

Q36 What, if any, additional complications or considerations do you see being involved because of the operation of the NIRO within the SEM as opposed to the GB wholesale market

Operating within the SEM is complicated enough without daring to consider the inevitable extra confusion and complications of anticipated changes.

Q37 Do you agree that biomass and generation involving co-firing should be excluded from any new stabilisation mechanism? If not, why not?

This is a further indication of the complexities of the proposed mechanism.

Q38 Overall, considering the balance between the benefits and the implementation challenges, do you think a wholesale price revenue stabilisation mechanism is appropriate for Northern Ireland and should, as such, be implemented?

The BHA does not consider that a wholesale price stabilisation mechanism is required at this time. Volatile wholesale prices are an issue for the market as a whole and could affect the case for investing in all types of new electricity generation capacity needed to help maintain security of supply and reduce carbon emissions in future. We are not convinced that the proposed wholesale price stabilisation mechanism offers the right solution. The BHA believes that issue is of such importance that it deserves wider consideration of the concerns and potential solutions.

Q39 If you believe that a price stabilisation mechanism should be introduced for the wholesale power price, do you think that it should be applied to the ROC price as well?

The BHA does not support the introduction of a ROC price stabilisation mechanism.