

RENEWABLES OBLIGATION

The Renewables Obligation lays down the 2010 target. The Obligation requires electricity companies to source an increasing proportion of their supply from renewable technologies to reach the 10% goal by 2010. The Obligation will extend to 2027, affording long-term security for the renewables market, and may well be increased to meet more ambitious requirements for renewables beyond 2010.

Renewable Obligation Certificates (ROCs) will be awarded to accredited generators of eligible renewable electricity produced within the UK – solar energy (including photovoltaics), hydro, wave power, tidal energy, geothermal energy, biofuels (including energy crops) and on-and offshore wind. Companies that are unable or unwilling to source the required amounts have the option of 'buying out' their Obligation. The 'buy out' price is initially set at £30/MWh (US\$43/MWh), and will be adjusted annually in line with the retail price index. Monies raised from companies 'buying out' in this way will be redistributed to companies that have met their Obligation, in proportion to the number of ROCs they presented in that year. This will act as a further market stimulation.
(Renewable Energy World)

A Green Certificate authenticates that the source of a given unit of electricity generation is from renewable energy. (Specifically, it separates the green attribute from green energy production so that its value ("Green Premium") can be identified and traded independently.

As a result of the Renewable Obligation, Green Certificates traded within England, Wales and Scotland are referred to as Renewable Obligation certificates or ROCs. This is to avoid confusion with carbon trading or International Green Certificate trading. ROCs are able to be traded separately from electricity.

Not all sources of Renewable Electricity are eligible for ROCs. The DTI considers Large Hydro (>10MW) and energy from waste schemes to be competitive with conventional energy sources. These Renewable energy sources are therefore not eligible for additional support as provided by ROCs, although their output will contribute towards the Government's Renewable targets.
(Renewable Trading Limited www.renewabletrading.com/whataregreen.htm)

Other than the first period, which will run until 31 March 2003, Obligation periods will be a year long, from 1 April to 31 March. The final Obligation period will end on 31 March 2027.

The Government's Role

The Government is committed to the Obligation in order to stimulate investment in renewable energy generating capacity. In order to give the necessary confidence for investment, we want to assure the renewables industry that, once the Obligation is in place, the Government has no plans to:

- lower the buyout price during the time that this initial Obligation remains in force;
- reduce the scale of this initial Obligation;
- curtail the duration of the Obligation.

It must be noted, however, that each Parliament remains sovereign and may repeal or amend legislation. The Obligation will also be subject to any changes in UK law brought about to comply with European Union Directives, or any changes required to obtain or maintain State Aid clearance.

A Directive on Renewable Energy is currently under consideration and is expected to be adopted later this year. Every effort has, however, been made to ensure that these proposals are compatible with the draft Directive.

The Role of Ofgem

Ofgem will be responsible for monitoring and enforcing compliance with the Obligation following its introduction. It will perform a similar role in respect of the ROS. This is likely to include a number of functions:

- accrediting generators;
- issuing Renewables Obligation Certificates (ROCs);
- assessing compliance;
- monitoring implementation;
- calculating the buyout price;
- receiving and recycling buyout funds; and
- reporting annually to the Secretary of State or, in the case of the ROS, the First Minister, on compliance with the Obligation.

Ofgem has been developing its procedures for implementing the Obligation and will publish, on its website, a consultation covering its intended procedures shortly. These procedures will indicate how Ofgem intends to fulfil its functions described above. These procedures will include the accreditation of generators, the issue of ROCs, evidence requirements to demonstrate compliance, the requirements in order to effect buyout recycling and the processing of any disputes.

Eligibility

Existing Generating Stations

We propose to exclude existing generating stations from the Obligation, unless built or refurbished on or after 1 January 1990, with the exception of some co-fired stations and micro-hydro stations. Refurbishment is defined as the replacement of all specified (in the Order) major components.

Location of Generating Stations

To be eligible, the electricity must be physically supplied to customers in Great Britain. ROCs issued in respect of electricity supplied to customers in Great Britain, whether in Scotland or in England and Wales, will be eligible for the Obligation in England and Wales. We anticipate that similar arrangements will apply to electricity supplied to customers in England and Wales under the ROS.

In order to be eligible for the RO, electricity from an eligible renewable source must be generated in the UK or its territorial waters, or within the UK Continental Shelf. For generators sited in Northern Ireland, and offshore generators connected to the transmission and distribution system in Northern Ireland, additional evidence of physical supply across the interconnector will be required. Offshore generators must be connected to the transmission and distribution system in the UK and may not be connected to such systems elsewhere.

The Operation of the Obligation

Renewables Obligation Certificates

Renewables Obligation Certificates (ROCs) will be issued as evidence that electricity from an eligible renewable source has been supplied to customers in Great Britain by a licensed supplier. Electricity generated from eligible renewable sources in Great Britain but exported to countries elsewhere (including to Northern Ireland) will not be eligible for ROCs. The Financial Services Authority has recently conducted a consultation on proposals concerning the regulation of certificates and notes associated with energy supply. The consultation paper can be found at www.fsa.gov.uk/pubs/cp/96/index.html

Issuing of ROCs

Turning now to the actual issue of the ROCs; these certificates will be issued to accredited generators for eligible renewable electricity generated within the United Kingdom, its territorial waters and Continental Shelf, and supplied to customers in Great Britain. Again this issue will be carried out in a similar fashion to the issuing of Levy Exemption Certificates (LECs). The ROCs will be based on metered output, rounded to whole MWh, and will be issued electronically to generators or, in the case of output sold through existing NFFO and SRO contracts, to suppliers. They will follow the same format as the LECs and will be issued in units of 1MWh. Each 1MWh certificate will have a unique number and will detail the generating station, the renewable source used and the period in which the electricity was generated. A supplier may discharge the Obligation by buying ROCs from generators or another party as ROCs can be sold separately from the electricity.

(New and Renewable Energy – Prospects for the 21st Century, DTI)