

The Renewables Obligation 2006-2007: Facts and Figures

Factsheet 75

14.05.08

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Energy regulator Ofgem is responsible for administering one of the Government's key schemes for assisting the growth of the renewable energy industry. The Renewables Obligation (RO), which sets targets for electricity suppliers to take an increasing portion of their electricity from renewable sources, is helping Britain reduce emissions of harmful greenhouse gases.

► What is the Renewables Obligation and how does it work?

The Renewables Obligation is a statutory requirement on electricity suppliers to buy an annually increasing portion of their electricity from renewable sources. It started in 2002-2003, when they had to source 3 per cent of their power from renewable generation and it currently stands at 7.9 per cent (2007/08). The RO continues until 2027, when electricity suppliers will have to ensure 15.4 per cent of their electricity is from renewables.

The renewable electricity used by suppliers to meet their targets comes from various sources. It is the Department of Business Enterprise and Regulatory Reform and the Scottish Executive's role to decide which sources are eligible. They include:

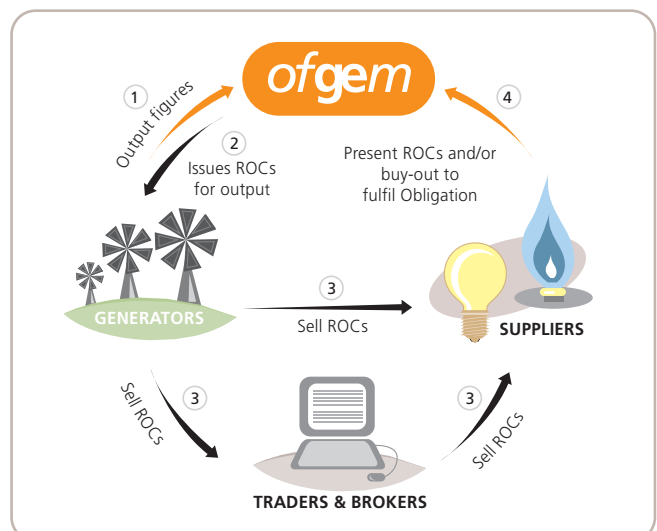
- onshore and offshore wind power;
- energy crops and other biomass;
- co-firing (the blending of biomass with fossil fuels);
- landfill and sewage gas and;
- hydro-electric stations (that have a declared net capacity of 20 megawatts (MW) or less. Hydro stations over 20 MW are eligible if they were commissioned after 2002.)

Electricity generators can apply to Ofgem for accreditation for their scheme to prove their generation comes from eligible renewable sources. Ofgem then issues generators with Renewables Obligation Certificates (ROCs) and Scottish Renewables Obligation Certificates (SROCs) for their qualifying output. Each ROC represents one megawatt hour (MWh) of renewable electricity generated. ROCs may be sold

to suppliers (or third parties) either with or separately from the electricity generated.

To meet the targets, suppliers can present Ofgem with ROCs or use a buy-out clause to make up any shortfall. They can also use a combination of ROCs and buy-out to meet their obligation. For each year of the obligation, Ofgem adjusts the buy-out price to reflect changes in the Retail Prices Index. In 2006-07 the buy-out price was £33.24. It currently stands at £34.30 and for the next year of the scheme (2008-09) it will be £35.76 MWh.

Proceeds from the buy-out fund are paid back to suppliers in proportion to the number of ROCs they have presented.



► Facts and figures for 2006-2007

Ofgem accredited 338 generating stations located in Great Britain during the 2006-07 obligation period. Of these, 219 accredited stations commissioned during this period. There

were a total of 1274 generating stations located in Great Britain accredited for the RO at the end of 2006-07, this compares with 931 at the end of 2005-06.

► ROCs issued by location

In 2006-07 the total number of ROCs and SROCs issued was 14,616,322 compared with 13,493,936 in 2005-06. Figure 1 shows that generating stations in England still receive just over half of all ROCs issued, although this figure has decreased for the first time from just under two thirds of all ROCs issued in 2005-06. This may be attributed to the reduction in the maximum percentage of co-fired ROCs that a supplier may

present against its obligation. England's renewable generation relies heavily on the co-firing of biomass with fossil fuel. Scotland's share of ROCs has increased to 35 per cent of all ROCs issued, compared with just of 25 per cent in 2005-06. Wales' share of ROCs issued has also risen from 7.4 per cent in 2005-06 to 8.1 per cent in 2006-07.

Figure 1: A comparison of the total number of ROCs issued by generation location

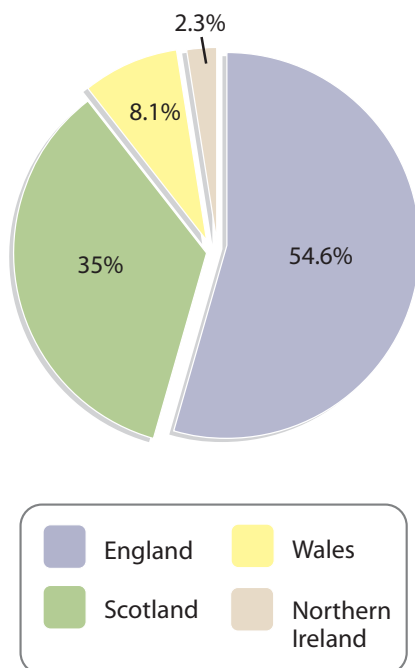


Figure 2: A comparison of the total number of ROCs issued by generation technology type

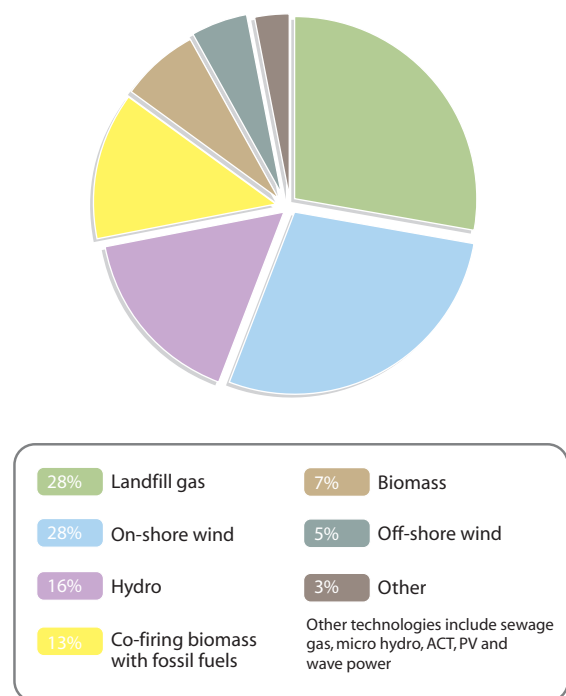


Figure 2 shows that landfill gas and on-shore wind generation both attracted the largest share of ROCs issued (over 28 per cent for each technology). This is an increase in the proportion of ROCs being issued to onshore wind but a decrease in the proportion of ROCs issued to landfill gas. In 2005-06 landfill gas received just under 30 per cent of all ROCs while onshore wind received 19 per cent of all ROCs.

Hydro generating stations with a declared net capacity of less than 20MW attracted 16 per cent of all ROCs in 2006-2007 compared with 14 per cent in 2005-2006. The proportion of ROCs issued to co-firing schemes decreased from 25 per cent in 2006-07 to only 13 per cent in 2006-07, again this can be attributed to the reduction in the maximum percentage of co-fired ROCs that a supplier may present against its obligation.

► Compliance by electricity suppliers

The total Renewables Obligation in England and Wales in 2006-07 was 19,390,016 MWh compared with 16,175,906 MWh for 2005-06. In Scotland, the total size of the Renewables Obligation was 2,022,791 MWh compared with 1,648,679 MWh in 2005-06. The charts below show how suppliers met their obligation (either through presenting 100 per cent ROCs, 100 per cent in buy-out or a combination of both).

The percentage of the total GB obligations met by ROCs decreased from 76 per cent in 2005-06 to 66 per cent in 2006-07. One reason the percentage of ROCs presented by suppliers fell was due to the reduction in the maximum percentage of co-fired ROCs that a supplier may present against its obligation. This number was reduced from 25 per cent of a supplier's total obligation in 2005-06 to 10 per cent in 2006-07.

Figure 3: Percentage of each supplier's RO that was satisfied by ROCs

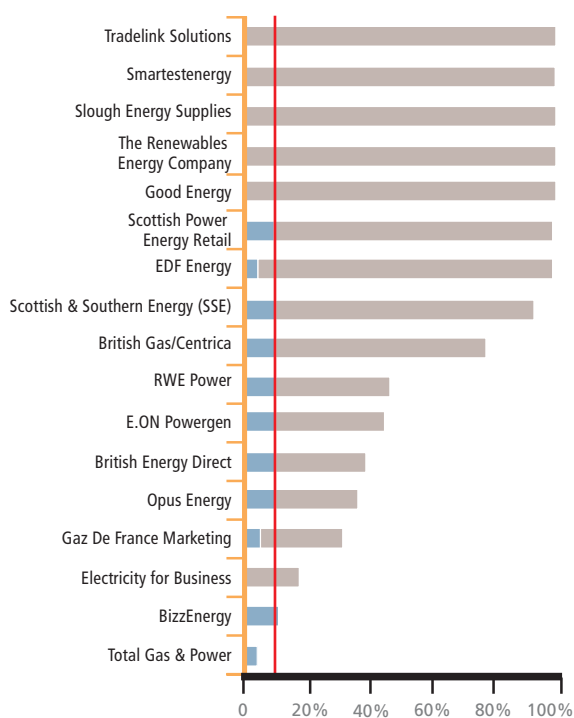
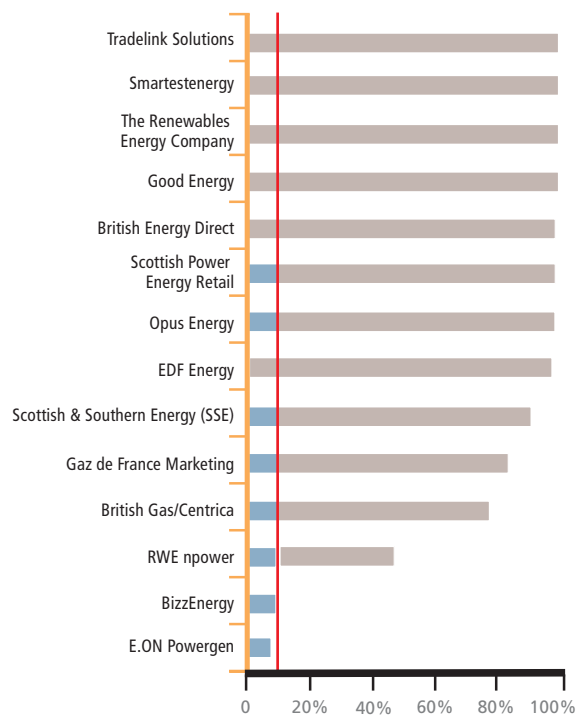


Figure 4: Percentage of each supplier's ROS that was satisfied by SROCs



■ % Co-fired ROCs
 ■ Other technology ROCs

► Buy-out redistribution

Figure 5 shows the buy-out distribution for the RO and the ROS. The total buy-out fund for 2006-2007 was £216,778,249 in England and Wales and £9,613,938 in Scotland. This is compared with £126,704,565 and £7,086,897 in England and Wales and Scotland respectively in 2005-2006.

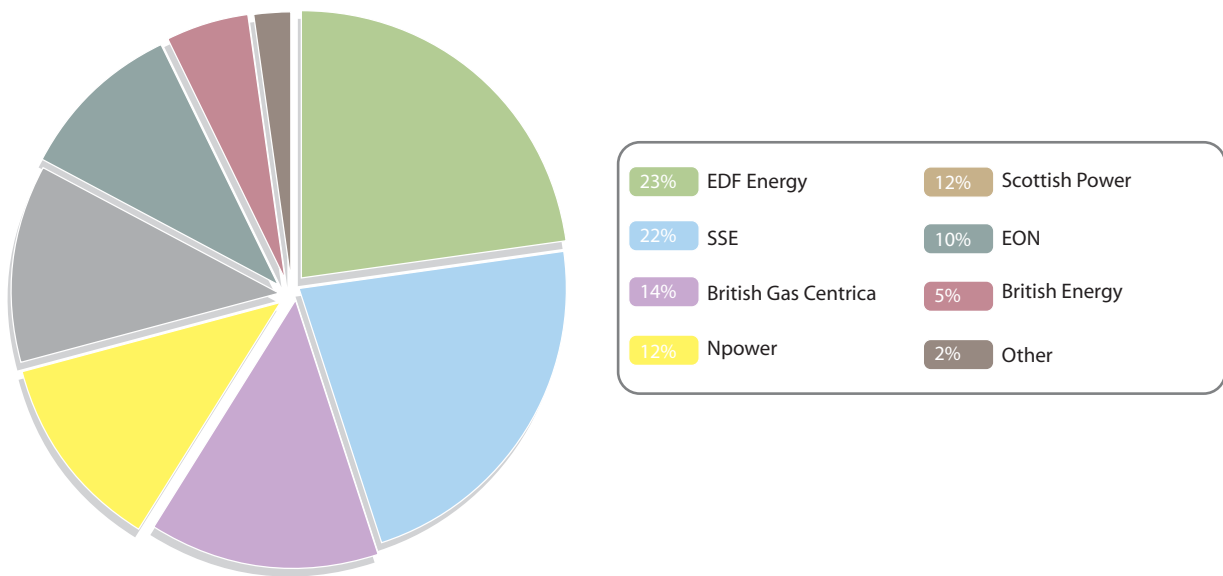
28 suppliers received a share of the buy-out funds. Of these, SSE received the largest payment, £50,579,313. EDF Energy and British Gas each received payments in excess of £30m.

► Late payments

One supplier tried to meet 40 per cent of its Scottish obligation using co-fired ROCs (exceeding the 10 per cent co-fired cap) and had to pay a late payment of £258,978.42 (including interest) to meet its obligation. This late payment was redistributed alongside the buy-out fund on 1 October

2007. Suppliers can make a late payment between 1 September to 31 October each year. Interest at 5 per cent above the Bank of England base rate is payable for every day a late payment remains unpaid.

Figure 5: Redistribution of buy-out and late payment funds (by supplier group)



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