



James P Thomson  
Renewables and Consents Policy  
Unit  
2<sup>nd</sup> Floor  
Meridian Court  
5 Cadogan Street  
Glasgow  
G2 6AT

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Your Ref:  
Our Ref: EP/RO/REV/2  
Direct Dial: 0207 901 7010  
Email: roy.field@ofgem.gov.uk

Date: 5 July 2008

Dear James

**Ofgem's response to Scottish Executive consultation on the introduction of banding to the Renewables Obligation (Scotland)**

Ofgem welcomes the opportunity to respond to the Scottish Executive's consultation paper on the introduction of banding to the Renewables Obligation (Scotland).

To make our response more focussed to policy being pursued by the Scottish Government which appears minded to differ in terms of the support levels proposed by BERR, we have limited this response to those issues. This response should be read in conjunction with our response to BERR's consultation<sup>1</sup>.

Ofgem welcomes the proposal to discontinue the Marine Supply Obligation (MSO) with effect from April 2009, should a banded mechanism be introduced. As we set out in our response to the statutory consultation in December 2007, it would cause us significant administrative difficulties to run the MSO alongside a banded Renewables Obligation, as well as increase costs to consumers.

It is important that the Renewables Obligation is as consistent as possible across the devolved administrations. Inconsistent support schemes that provide a higher level of support for equivalent energy in one area than another could lead to inefficient decisions on location and over subsidy. In addition, inconsistency increases the complexity of the scheme and the administrative burden on Ofgem. Taken together these issues are problematic as they can lead to higher costs for Scottish consumers and possibly lower income to renewable generators.

The proposal to consider evidence of higher costs facing wind projects on the Scottish islands is also welcomed by Ofgem. Ofgem is open to the principle of island wind being considered a different technology but, as with all other banded technologies, the rationale in support of any additional financial support and associated justification that this does not represent an over subsidy has yet to be presented and proven. We would like to see thorough and transparent cost/benefit analysis, which is consistent with that used for other technologies and includes additional benefits such as higher wind speeds, greater load factors and the potential for capping of transmission charges.

We note that BERR has already undertaken some analysis in the context of considering whether it should exercise its power to cap transmission charges for renewable generators

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<sup>1</sup> This is available on our website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk) ref 222/07

located on the Orkney, Shetland and the Western Isles<sup>2</sup>. This analysis focused particularly on the difference in the economic position of developing wind farms in the Scottish Islands relative to alternative locations in the North of Scotland, and how any scheme may affect the relative economics of island wind farm projects. BERR's analysis concluded that potential returns to investors on Shetland and Orkney are much greater than comparable areas such as the north of Scotland where development of similar wind projects is already underway. As such, BERR do not consider it is necessary to exercise the power for these islands. BERR's analysis also indicated that while the economics of projects situated on the Western Isles was less favourable, the case for capping transmission charges was still only marginal. We strongly advise that the Scottish Government refer to BERR's independent analysis when developing its own analysis on costs in the statutory consultation due out in autumn 2008.

Additionally, Ofgem believes it would be helpful to the future development of marine generation located within Scotland for the Scottish Government to act to avoid the situation where wave or tidal generator located in England, Wales or Northern Ireland could register under the Renewables Obligation (Scotland) and receive a higher number of ROCs per MWh generated. Similar provisions would need to be made to ensure that only wind farms located on the Scottish Islands could be eligible for a higher number of ROCs, should such proposals be introduced.

On the broader issue of banding, Ofgem does not think that the Renewables Obligation (RO) or the Government's proposed changes to introduce a banding mechanism under the RO will deliver carbon abatement at the lowest cost. We presented our analysis on this and set out our thinking on alternative support mechanisms in our response to BERR's consultation on the reform of the Renewables Obligation<sup>3</sup>.

We would prefer that the scheme does not introduce different banding levels for those wave and tidal stations receiving capital grants as it may be difficult for us to conclusively determine that a station has not received any capital support. This makes the process of accrediting a station more onerous. We would prefer that, when setting the band(s) for wave and tidal stations, an assumption is made that the station will have received capital support, as it is likely this will happen in most cases initially. This will result in a lower cost to consumers than the alternative assumption.

We support the introduction of minimum efficiency levels for energy from waste stations fitted with advanced conversion technology (ACT) in theory. However, the introduction of an efficiency requirement will put an added administrative burden on us and on generators, as generators will have to provide evidence that their station will achieve certain efficiency and we will have to check that this evidence is legitimate and that they achieve the efficiency level needed. We would prefer this proposal to be limited to good quality CHP only, as CHPQA will assess the efficiency of the CHP plant according to established standards. Should this proposal be introduced it is important the 'efficiency' is clearly defined in the legislation to allow us to administer it effectively. In addition, the definition of 'waste' needs to be clearly set out in the legislation. Defining 'waste' too loosely may unintentionally penalise the later class of 'biomass' generators.

Yours sincerely

Roy Field  
Chief Operating Officer

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<sup>2</sup> Adjusting transmission charges for renewable generators in the Scottish islands under section 185 of the Energy Act 2004; Government statement and call for views on evidence base.

<sup>3</sup> See footnote 1.