

By email

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7117
Email: luke.hargreave@ofgem.gov.uk

Date: 19 October 2010

Dear Richard

Response to Statutory Consultation on the Renewables Obligation Order 2011

Ofgem welcomes the opportunity to respond in respect of DECC's statutory consultation on the proposed amendments to the Renewables Obligation (RO) Order. We also welcome the liaison to date in terms of working with you to ensure that the proposals can be practically and efficiently implemented by us, should the changes be introduced. Administering the Renewables Obligation is an important duty for Ofgem E-Serve and we are committed to ensure that the Government's amendments are implemented within the appropriate timescales and in as cost effective fashion as possible.

Amendments to the RO legislation increase the complexity of the programme and the cost of scheme administration. The Government should consider very carefully any future proposals that increase the complexity of the programme as such changes can lead to perverse behaviours by participants which ultimately increase the cost of the programme without the commensurate increase in renewable generation. Ofgem would be happy to discuss with DECC ways to reduce the complexity of the RO scheme to reduce costs and limit the potential for perverse incentives and fraud.

DECC's proposal to enhance the 20 year support changes made in the 2010 RO Order for large offshore wind projects appears to be justified in that a larger percentage of the installed capacity will realise 20 years of RO support. However, as with any bespoke change to RO legislation, it should be considered that the scheme becomes more complex for stakeholders to understand and for Ofgem to administer. In particular, we consider that the proposal for additional capacity commissioned at existing offshore wind generating stations to have the option of being phased is unnecessary in that it is highly unlikely such additional capacity would be deployed over a long period. This change will also require costly amendments to our administration systems, which will ultimately be passed through to consumers.

We note that the introduction of sustainability criteria for bioliquids is mandatory and in line with the requirements of the Renewable Energy Directive. The introduction of these requirements within a short period of time represents an implementation and administration challenge to Ofgem and may result in significant costs. The sustainability

criteria reporting required for solid and gaseous biomaterials proposed by DECC again represents an implementation and administrative challenge in a short timeframe.

To manage both sets of requirements, Ofgem is considering a phased approach to providing guidance material for the relevant liquid, solid and gaseous biomaterials. Under this approach, Ofgem would complete the drafting of bioliquids guidance material, and consultation with industry on that guidance material, for the 1 April 2011 implementation date. For solid and gaseous biomass, Ofgem would issue high level direction prior to 1 April 2011, with drafting and consultation on detailed guidance material occurring after 1 April 2011.

This approach will help Ofgem to manage the resource implications of implementing the sustainability criteria across all forms of biomaterial, without delaying the implementation. It will also reduce the consultation burden on industry by only having one consultation (bioliquids first followed by solid and gaseous biomass) underway at any one time.

We note that as currently drafted, independent audit reports are due during the December following the end of the first obligation period to which the new reporting requirements apply. Under this requirement, Ofgem will receive the first audit reports in December 2012, eight months after the first obligation period. We would prefer the audit reports to be due in the May immediately following the obligation period. This would mean that verification was available after a month, rather than eight months as currently drafted, and allow Ofgem to come to an early view as to the compliance with the new criteria.

Finally, as with previous consultation responses, we would urge DECC to liaise closely with the Scottish Government and the DETI Northern Ireland with regards to any changes to the RO Orders. A consistent approach to the RO schemes across Government and the devolved administrations is essential if they are to be administered effectively and if they are to maintain investor confidence.

If you wish to discuss any of the issues raised in this consultation response, please contact Luke Hargreaves, Head of Renewables and CHP using the details in the header of this letter.

Yours sincerely

David Pimm

Group Finance Director
Ofgem