

## **Renewables Obligation**

### **Background**

- The UK Government has international climate change commitments (under the Kyoto Protocol) on greenhouse gas reductions as well as a more demanding domestic target for carbon dioxide reduction. It has also established a target of 10% of electricity to come from renewables by 2010, in part to address the climate change challenge.
- The promotion of renewable energy generation is, therefore, a key theme in the UK's energy policy with the UK Government signalling an aspiration of 20% renewable generation by 2020, and the Scottish Executive adopting a 40% target for Scotland, also by 2020. These targets could influence the development of the Renewables Obligation.
- The Renewable Obligation (RO) is one of a number of mechanisms employed to promote renewable energy, which in turn is one element of the Government's Climate Change Programme.
- The Obligation finally came into force 1<sup>st</sup> April 2002 following two rounds of consultation.

### **What is it? How does it work?**

- The Obligation is a market-based mechanism which incentivises suppliers to buy renewable energy. The Obligation does not explicitly favour any technologies but under current conditions on-shore wind is the most commercial technology. Large hydro and most waste technologies are excluded.
- Under the Obligation all licensed suppliers are obliged to supply a specified percentage of renewables, or at least hold Renewable Obligations Certificates (ROCs) equal to that percentage. The initial obligation of 3% will rise to 15.4% by 2015 where, in the absence of any new initiatives, it is due to remain until 2026.
- A very significant increase in the rate of growth in renewables is required if the UK is to come close to meeting the target of 10% renewables by 2010. An ever-greater response would be required to achieve the more challenging long-term targets.
- The Obligation does not guarantee delivery of renewables projects, and the lack of certainty in the future value of ROCs is one of the major obstacles to securing finance for projects.
- There are a number of ways of meeting the obligation: buying ROCs (with or without electricity associated with them), generating ROCs by building and operating renewable plant, or paying a £30/MWh buyout price.
- The buyout price of £30/MWh is fixed for the duration and at this price the cost to consumers in 2010 is likely to be about £1bn, equivalent to about £160/tonne of carbon. Revenues generated from the buyout price will be split pro-rata amongst compliant suppliers. This provides an additional incentive to suppliers to meet their obligation.

- Excess ROCs can also be banked for future years to a limited extent, and can be converted to carbon credits and sold in the UK Emissions Trading Scheme.

**British Energy's position**

- British Energy welcomes market based instruments to deliver low or zero carbon technologies since these, in principle, should enable low cost solutions.
- However, the RO is essentially a single technology instrument - wind - and is an expensive way of delivering carbon savings, with significant costs to the consumer.
- British Energy recognises that renewables have a role to play in combating climate change. The company is investing in two wind developments: the Lewis Wind Project will deliver 600MW, and a 42MW development at Knowehead. Both projects are awaiting planning application decisions.