



**Northern Ireland
Assembly**

Committee for the Economy
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From: Peter Hall
Clerk to the Committee

Date: 5th November 2020

To: Lucia Wilson
Clerk to the Public accounts Committee

Subject: NIRO

Lucia,

At its meeting on 4th November 2020, the Committee for the Economy received an update from the Department for the Economy on the Northern Ireland Renewable Obligation.

The Committee agreed that, as the PAC has asserted its right to primacy on this issue, it will step away from it following the briefing. Members agreed to forward this briefing on to the Public Accounts Committee for its information.

Regards,

Peter Hall
Clerk to the Committee for the Economy

Northern Ireland Renewables Obligation (NIRO)
Update to Economy Committee

Introduction

1. The Renewables Obligations (ROs) came into effect in 2002 in England and Wales, and in Scotland, followed by Northern Ireland in 2005 (under direct rule at the time). It places an obligation on UK electricity suppliers to source an increasing proportion of the electricity they supply from renewable sources. Suppliers meet this obligation by purchasing Renewable Obligation Certificates (ROCs) from accredited generators across the UK in a single market, or by paying a buy-out fee, whichever is cheapest. The cost to suppliers of meeting the obligation is passed onto consumers.
2. Given that the ROs are in place across the UK, much of the NIRO does not operate as a stand-alone scheme:
 - The legislation is mirrored across the UK;
 - The Department of Business, Energy and Industrial Strategy (BEIS) sets the obligation level for all suppliers across the UK;
 - Ofgem administer the schemes across the UK; and
 - ROCs are freely traded across the UK in a single market.
3. The Department for Enterprise, Trade and Investment (DETI), and subsequently the Department for the Economy (DfE), were responsible for setting the policy and legislation relating to the NIRO. The scheme is administered by Ofgem (who administer all the ROs) on behalf of the Northern Ireland Utility Regulator. The ROs subsequently closed across the UK on 31 March 2017 to all new generation, with exceptions for those projects that met the criteria for grace periods.
4. When the NIRO was introduced, around 3% of electricity consumption in Northern Ireland was from renewable sources and carbon emissions from the power sector were 5.3 MtCO₂e. Upon restoration, the NI Executive subsequently set a range of renewable electricity targets – most recently 40% consumption by 2020 – and the NIRO was the support mechanism used to achieve these.
5. The NIRO has been **very successful at achieving the Executive's targets**. For the 12 month period to end June 2020, almost 48% of total electricity consumption in Northern Ireland was generated from indigenous renewable sources. Emissions from the power sector have fallen by 45% as a result of the changing mix of generation that the NIRO delivered, and 55% of the total emissions reductions in Northern Ireland since 2005 have come from the power sector.

NI Audit Office (NIAO) Report

6. The NIAO published a report on 'Generating electricity from renewable electricity' in October 2020. This report drew attention to the success of the NIRO and highlighted a number of positives:

- exceeding the Executive's 40 per cent renewable electricity consumption by 2020 target a year early;
- the positive impact of increased levels of renewable electricity on wholesale electricity prices.
- the NIRO operates in a manner that takes into account factors such as higher levels of fuel poverty in Northern Ireland and, as a consequence, Northern Ireland consumers pay considerably less for the NIRO than consumers in Great Britain pay for their renewables schemes;
- the resulting reduction in Green House Gases (GHG) and carbon emissions benefits the environment and society;
- the expansion of the renewables industry has led to job creation; and
- more Renewables Obligation Certificates (ROCs) are issued to Northern Ireland generators than Northern Ireland suppliers require to meet their renewables obligation; surplus ROCs are purchased by Great Britain suppliers and contribute towards meeting the Great Britain renewables obligation resulting in a net positive transfer to the local economy.

7. The report also identified a number of issues, some of which are directly about the NIRO. In these areas, the NIAO report largely focuses on the cost to consumers (of the NIRO as a whole) and the returns for generators (of a small sub-set of technologies and generators accredited at certain time periods). It also raised issues regarding planning permissions and waste management licenses of a small number of generators. This papers will set out the factual position with relation to these areas.

Cost to Consumers

8. The direct cost of supporting renewable electricity in Northern Ireland accounts for 5% of the average domestic electricity bill at £31 in 2019. This is **over 60% below the cost of supporting renewables in Great Britain** for two reasons:

- The obligation on Northern Ireland suppliers is significantly lower than for Great Britain suppliers, reflecting higher levels of fuel poverty. This was a decision made by UK Government and the obligation is set by BEIS; and
- Two additional schemes were put in place in Great Britain – the Feed-in Tariff (FIT) and Contracts for Difference (CfD). Northern Ireland does not benefit from these schemes and local consumers do not pay for them.

9. The direct cost of the NIRO is set against the overwhelming success in delivering and exceeding the Executive's targets, as well as further benefits that this has had such as driving down wholesale electricity prices for consumers. The wholesale cost of renewable generation is significantly below that of fossil fuels, and higher levels of wind in the Single Electricity Market (SEM) leads to lower wholesale prices, which make up the large proportion of consumers bills. **The NIAO report concludes that availability of renewable electricity can help control overall electricity price levels.**
10. The NIAO has also sought to quantify the value of ROCs from Northern Ireland that are traded in the UK market. It estimates that the maximum value i.e. cost to suppliers up to March 2019 has been £1.17billion, and forecasts a total value of £5billion to 2037. However, the NIAO report also highlights that these figures are not accurate and the estimates use assumptions that are unlikely to reflect the commercial reality of how costs are passed through to consumers. No attempt was made to quantify the value of ROCs from Great Britain traded into Northern Ireland.
11. These estimates represent the commercial outcomes of ROC trading. As the ROC market is UK wide, it does not matter where ROCs come from – suppliers buy ROCs from wherever they can to meet their obligation more cheaply. The lower obligation level in Northern Ireland, along with our significant renewable resources and resulting generation, means that more ROCs are issued to Northern Ireland generators than local suppliers require to meet their obligation. Because the market operates across the UK, this means that Northern Ireland is a net exporter of ROCs to suppliers in Great Britain to meet their obligations. **This results in a net positive transfer to the economy – estimated by NIAO to be around £190 million in 2017/18.**

Rates of Return for Generators

12. Approximately 85% of renewable electricity generation in Northern Ireland comes from wind, and the NIAO estimate that 87% of this is from large-scale wind (i.e. turbines and wind farms over 250kW). The majority of the cost to consumers and value of ROCs traded across the UK are therefore from large-scale wind. The level of support for large-scale wind has been the same across the UK for the duration of the ROs, and the NIAO report does not suggest any issues around rates of returns for this technology. The factual position is that **the majority of the support available under the NIRO during its lifetime has been the same across the UK.**
13. Until 2009, all technologies received 1 ROC per megawatt hour (MWh) of generation. Banding was then introduced across the UK, meaning different technologies and sizes within these were eligible for different ROC levels

depending on what was deemed necessary to bring forward investment. In 2010, Great Britain then introduced an additional support mechanism – the Feed-in Tariff (FIT) – focused on support for small scale renewable technologies up to 5MW. Northern Ireland did not join the FIT, and the NIRO remained the only support scheme for small scale renewables available. This meant that different support regimes were in place in Northern Ireland and Great Britain for small scale renewables from 2010 onwards.

14. The NIAO report does not cover all small scale technologies; it focuses specifically on two – onshore wind and Anaerobic Digestion (AD) fuelled generators. The NIAO finds that **there have been periods where the financial support from NIRO for these specific technologies has been both higher and lower than the comparable support available in GB.** This reflects the fact that support was offered by two separate schemes in each jurisdiction, both of which operated differently and had separate targets and policy objectives. The comparison will therefore depend on the time period chosen.

Small-Scale Onshore Wind

15. Small-scale onshore wind had been eligible for 1 ROC MWh, providing returns around one-quarter of that available under the FIT from 1 April 2010. This was increased to 4 ROCs from 1 April 2010 onwards which, at the time, still meant that estimated returns under the FIT were higher than the NIRO. This position remained the same – with the FIT being more generous than the NIRO – up to 2014/15 when the FIT began to cut its tariffs for small-scale wind. **At no point did the NIRO support increase to be more generous than Great Britain.** With falling FIT tariffs and NIRO support unchanged, the NIRO then provided higher levels of returns than the FIT up to the closure for small-scale onshore wind in 2016. The accurate position is therefore that support for small-scale onshore wind in GB was more generous than in Northern Ireland for four years from 2010/11 to 2013/14, with the NIRO then more generous from 2014/15 for two years until closure.
16. NIAO modelling has suggested that returns for some small-scale wind generators could potentially be more than 20%. Rates of returns for generators are based on a number of factors and, due to the market-based nature of the ROs, the uncertainty over wind availability and the lack of actual information on costs, will be hugely variable between stations. **The NIAO findings are based on a specific set of modelling assumptions and it is not clear the extent to which these are representative.** They have therefore recommended that further information is gathered on rates of return, which the Department has accepted.

Anaerobic Digestion

17. Stations fuelled by biogas produced by AD plants play a valuable role in electricity generation, as they are fuelled by farm waste and can generate renewable electricity at periods when the wind is not blowing and the sun is not shining. This enhances security of supply and also takes advantage of the significant rural and agricultural resources available in Northern Ireland.
18. When banding was introduced, small scale generating stations fuelled by biogas produced by AD plants were eligible for 2 ROCs MWh. This was substantially below the level of support available under the FIT from April 2010 for the same technology at the time, and the industry strongly stated that this would not be sufficient to deliver investment in Northern Ireland. **A public call for evidence therefore took place to inform the consideration of banding levels.** This exercise was required as AD was a relatively new technology and there were no commercial AD-fuelled stations in Northern Ireland to base ROC levels on.
19. Based on the information gathered through the call for evidence, which was provided by a range of public and private sector respondents with experience in AD and drawing from international best practice, DETI carried out a modelling exercise which suggested that 4 ROCs for AD-fuelled stations up to and including 500kW and 3 ROCs for stations above 500kW would be appropriate. This was consulted on implemented from 2011/12 onwards. A small-scale banding review was then carried out in 2014, which **found that the costs of AD were largely unchanged from 2010, and therefore ROC levels remained at the same level** until closure in 2017. During this review, the support available for solar PV was reduced as, unlike for AD, evidence did show that costs had fallen.
20. The NIAO has not made an estimate on the potential rates of returns of AD-fuelled stations, although it has suggested that returns could be higher than originally envisaged. This again will be explored further through the recommendation to gather further information on rates of return.

Planning & Waste Management

21. The NIAO report highlights issues regarding planning permissions and waste management licenses for a small number of generating stations. It recognises that **responsibility for these issues sit with local councils (for planning) and the NI Environment Agency (for waste management),** which have the enforcement powers to fine, suspend or terminate operations at non-compliant generating stations.
22. The report correctly highlights that the NIRO legislation does not include provision to revoke accreditation or withhold ROCs from generating stations

which do not meet planning or environmental requirements, which already sit with other organisations to enforce. **This is the same for all the UK ROs, and reflects the consistent legislation in place across the UK.** In order to assist these agencies with their enforcement activities, DfE established a task and finish group and shared information with them.

Summary

23. The NIAO recognises that the NIRO has been a successful scheme and delivered a wide range of benefits for Northern Ireland. It has achieved the Executives renewables targets in a cost-effective way for local consumers, reduced carbon emissions, lowered the price of wholesale electricity and delivered economic benefits to Northern Ireland.

24. The NIAO report focus specifically on small-scale onshore wind and Anaerobic Digestion fuelled generators over a limited period of time, and raises certain issues around the support provide to these. The NIAO report makes six recommendations, of which three are directly for DfE. The Department has accepted these recommendations.

25. Departmental officials are happy to provide a further update to the Committee and provide any further information as required.

Department for the Economy, 20 October 2020