

28 May 2010

RFI Team
Renewables Directorate
DECC
4th Floor
Area A/B
3-8 Whitehall Place
London
SW1A 2HH

Dear Sirs,

Grandfathering policy for the support of Biomass and Anaerobic Digestion

Overview - The need for Grandfathering of ROCs is even more relevant in Northern Ireland in the absence of Feed-In Tariffs (FITs). Would-be investors are attracted to renewable projects which are able to avail of FITs, as the fixed levels of received income is assured for the duration of the FIT, as opposed to ROCs where the value is dependant upon the market value and therefore flexible and more uncertain. The primary legislation does not exist in NI to allow for FITs, hence the stabilising impact of Grandfathering of ROCs is even more relevant.

Background - The UFU are encouraged by the fact that on page 3 of the Executive Summary, DECC acknowledge the dispatchable nature of biomass electricity generation and the UFU welcome this. This is the one of the many constraint of both existing fossil-fuelled energy as well as renewables.

In order to grandfather the full support levels, grandfathering needs to take full account of BOTH capital and fuel costs. According to DECC, what this means is that any attempt to grandfather support for the next 20 years could result in market distortions in the event of news entrants. This is the reason DECC gave for not grandfathering biomass support back in April 2009 when they last reviewed the banding of ROCs.

Question - With this in mind, the UFU wish to question whether the same market distortion would happen if grandfathering was to be introduced for existing generators as well as new entrants?

Dedicated Biomass - Non-fuel costs can be fixed for the up-front build of a project, and it is for this reason that DECC are proposing to Grandfather the proportion which is associated with non-fuel costs for dedicated biomass. However, no grandfathering will take place for support which would go towards on-going fuel costs.

AD - DECC propose to bring RO in line with FIT support with a policy to grandfather AD plants accredited before 31 March 2013 at the current ROC level, which is currently 2 ROCs per MWh.

Financial Incentives for AD – responding the DETI’s consultation “Proposed changes to NIROC’s” we highlighted our concerns that the financial incentives for Anaerobic Digestion were not adequate for the enhancing the uptake in the technology. DETI have since invited the UFU to present evidence on why AD should receive enhanced support in NI. We based our evidence on seven case studies and this will be submitted to DETI on 28 May 2010. The UFU called for at least 4 NIROCs to be made available for AD.

The DECC consultation then sets out four options for comment;

1. **Grandfathering at band received on accreditation**
2. **Grandfathering at current levels with potential to upband**
3. **Grandfathering a minimum level (with the rest free floating)**
4. **Do nothing**

1. **Grandfathering at band received on accreditation**

This is the proposal where Biomass Generators will be Grandfathered at current ROC levels. This will be in line with grandfathering of other technologies. Aim is to provide certainty for investors. Option would grandfather ALL support (including ongoing fuel cost).

The UFU favours Option One. Currently, ROC's do not have the same financial certainty in the eyes of would-be creditors unlike FITs. Consequently, with FITs unlikely to be introduced in NI for quite a few years yet, this might create an opportunity to improve the longevity in the eyes of potential investors.

If you have any queries do not hesitate to contact me.

Yours faithfully,

Chris Osborne
UFU Policy Officer