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Mr Malachy McKernan
Sustainable Energy
Department of Enterprise Trade and Investment
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Proposed Changes to the Northern Ireland Renewables Obligation

Dear Malachy,

The Ulster Farmers' Union (UFU) is the largest farming organisation in Northern Ireland representing over 12,500 farming families. The farming community is the main stakeholder in land-based renewable energy sector and therefore the UFU welcomes the opportunity to respond to the Proposed Changes to the Northern Ireland Renewables Obligation (NIRO).

Within the last 12 months, the UFU has responded to the following related consultations;

- Proposed Reform of the Northern Ireland Renewables Obligation (DETI)
- Strategic Energy Framework Directive (DETI)
- Bio-energy Action Plan (DETI)
- Financial Incentives for Renewable Electricity (DECC)

1. Introduction

Renewable Obligations Certificates (ROCs) are one of the measures to encourage society towards a more sustainable future and motivate and encourage the production and generation of renewable electricity and consequentially a lessened reliance upon fossil fuels. NIROCs were designed to open up the closely protected electricity market and as such they can only be commended by the UFU.

2. Recap on UFU position

The UFU have highlighted that the Northern Ireland energy market is unique within UK and Ireland. "Availability Charges" play a crucial role in NI, but they are largely irrelevant in GB. This is mainly due to the levels of flexibility in grid infrastructures which exist in GB compared to here. When we responded to the Strategic Energy Framework (SEF) and Bio-energy Action Plan (BAP) consultations in September and October, we highlighted the need for expenditure on an alternative grid in order to transform our grid network to one of the most modern, efficient, cost effective green and open networks in the world. We urged the Government to investigate intelligent grid alternatives in order to overcome the inefficiencies which exist in the current system which maintain our over reliance upon imported fossil fuels.

Action – the UFU are calling for a review of the grid infrastructure, without this any further policies which are implemented will be simply “papering over the cracks”.

After reading the Proposed Changes to the Northern Ireland Renewables Obligations, the UFU’s policy comments are as follows;

3. Legislative Concerns

The fact that DETI consultation mirrors the DECC proposals, is in itself a subject for concern. In other words, the Northern Ireland decisions are reliant upon the legislation being implemented in GB, where to date they have not as yet been implemented as it is still at the consultation stage. DECC have declared that the new arrangements in GB will be implemented on 1 April 2010, which is only 4 months away and their consultation only closed on 15 October. GB has the relevant primary legislation in place (the 2008 Energy Act), which means they are further advanced in the legislative process than what we are in Northern Ireland.

Action – the UFU are concerned about the pending deadline and the consequences of it being missed. In Northern Ireland we are already falling behind other regions and any further delays could have major consequences for the future of the Renewables sector.

4. Support for Small Scale Generation in Northern Ireland through Short Term/Interim Measures

Currently all existing micro-generation projects receive two NIROCs. With the introduction of FITs into GB, DETI have attempted to match tariff incentive rates between the two areas for micro-generation. Without the relevant primary legislation in NI, DETI identified 3 technologies to receive 4 NIROC’s, by way of an incentive to enhance uptake.

These are detailed in Table One below;

Table One - Comparison of “NIRO” Small Scale Proposals with GB Comparison Tariff Rates

	NIROC	GB (pence per kWh)
Wind up to 250 k/W	4 NIROCS	18-30.5
Hydro up to 100 k/W	4 NIROCS	12-17
PV up to 50 k/W	4 NIROCS	28-31

The first comment the UFU would like to make is that DETI have omitted two technologies, which happen to be the two of the main “land-based” technologies, they remain at 2 NIROCs;

	NIROC	GB (pence per kWh)
Biomass	2 NIROCS	9
Anaerobic Digestion (AD)	2 NIROCS	9

By earmarking the three technologies to receive 4 NIROC's in this manner, it demonstrates what is a knee-jerk reaction by DETI to DECCs introduction of FITs.

Anaerobic Digestion (AD) is ideally suited to NI, as it can provide renewable energy, electricity and heat. But it also has a number of other benefits which are more difficult to attach a value to.

Here in NI farming we face legislation which impact upon our day-to-day operations;

- Nitrates Directive
- Water Framework Directive
- Climate Change
- Low Carbon obligations

AD allows farmers to manage manure and the potential risks associated with it. Not only does the digestion process capture the methane but also it mitigates against CO₂ production. The AD process treats manure which means that when it's spread on the land, it has enhanced qualities; more effectively at eradicating weeds, decreasing the need for pesticides and also it is largely odour free. This allows farmers to grow grass to a better quality and this grass has the potential to be an energy source. The process creates an energy which can be stored. And possibly most importantly, it is a dispatchable source of energy, it can be turned on (or off) on demand.

The potential of AD has not been realised here in NI, especially if you look at how it has taken off in GB. In Kent for example, were AD is used in food production in conjunction with poly tunnels.

AD has much to offer the NI economy but its biggest drawback is its cost and in particular the level of upfront capital commitment needed for it to go ahead. Two ROCs will not be enough to stimulate the technology as much as is required. There is still a very limited uptake here in Northern Ireland. The announcement of 4 ROC's for small-scale wind in Northern Ireland has already seen a rush of interest, the same definitely cannot be said for AD under 2 ROC's, despite the merits mentioned above.

On the back of this, there is a ground swell of opinion that the financial institutions are not interested in funding renewable projects in Northern Ireland. The main reason for this is the difference between the two sectors here in NI and across the water in GB. In GB, the banks see the renewable projects as being more certain in terms of future financial returns. This is mainly due to the more advanced and established technologies, which have come about due to positive market mechanisms.

Action – Anaerobic Digestion (up to 500 kw) and Biomass should receive equal support in NI to that in GB. Already in NI we are lagging behind our competitors in GB. Should Biomass and in particular AD be a more favorable option in GB compared to here, investors will obviously opt for the country whose technology has the more inviting incentives.

On 25 November, DETI made it clear that the incentives in NI (NIROCs) would match (but not better) those in GB, and vice versa. This means that in monetary terms, the data in the two columns in Table One will match. However, the final figures are still to be finalized by both Departments and the UFU are concerned about the time lag between the publication of the final data, with the NI figures expected in mid January and the GB data at the end of the same month.

Action – The UFU are seeking confirmation that the two sets of figures will match each other. Failure to do so will leave Northern Ireland lagging further behind not just across the water but globally in terms of competitiveness. Already there is a disparity in the consultation, DETI assume that NIROCs are worth around £50, which they say is worth 5p per kWh. This is an inaccurate figure. Industry sources would indicate that this figure is closer to 4p per kWh and falling (as of 11 December 2009).

If DETI's final figures are to be confirmed in mid January and DECCs to be finalized 2 weeks later, there is a real danger that if there is no communication between the two departments, any "matching" will not happen. For example, DETI might decide that 2 NIROCs will match 11p per kWh for AD, but then DECC publish that rather than 11p, the FIT is worth 20p. In which case, NI will be considerably worse off.

Therefore the UFU are stress that the publication should be synchronised in order to ensure they do in fact match.

5. Eligibility criteria for 4 NIROCs

The cut-off for eligibility to the 4 ROCs is 30 June 2008. Should you have installed technology before this date according to DETI, a producer would not be eligible for the extra support. The UFU strongly believes that existing projects should benefit from the increased ROCs. It should be noted that in April 2009, domestic wind turbines, unlike large scale wind projects, received double NIROCs. DETI pointed out that unlike large scale installations, the double ROCs would apply to all existing generators as well as new installations. In line with this logic, why should existing installations not benefit from the 4 ROCs?

Action – The UFU believe that if the proposals in NI is to mirror that in GB, producers in should have "the right to choose", as is the case in GB. The UFU are calling on DETI/Regulator/OFGEM to apply the 4 ROCs to all micro-generation projects regardless of when they were installed. Higher ROC level support coupled to finance support such as interest free loans would be the most efficient and constructive methods of achieving a green energy supply.

6. How long will the "interim" period last?

The UFU is unclear as to how long these interim measures for micro-generation will last. Whilst NIROCs are to be extended to 2033, there is no indication as to how long 4 ROC's will be applied to the Micro-generation projects. Should the Government introduce FITs, what will happen to ROCs? One criticism which has been directed at ROCs in the past is the element of

uncertainty. By introducing 4 NIROC's to mirror FITs in GB this in itself is creating uncertainty for the future of ROCs and their tradable value.

Action – The UFU are seeking confirmation that the ROC will be continue to be worth a tradable value, easy to work with and be of an incentive to parties concerned.

7. Working with NIROCs

Further disadvantages associated with ROCs have been well documented and many of our members regularly bring these to our attention. A recurring criticism is that ROCs in their current form are difficult to work with, and hence, many financiers are often reluctant to commit credit as a result.

Action – the UFU are asking DETI what is being done to make the remaining NIROCs easier to work with, especially by non-professional energy providers such as our own farming members.

Money paid into the buy-out fund is currently collected by OFGEM and redistributed to suppliers who did meet their RO. In other words this is an incentive for suppliers who buy certificates rather than simply pay the buy-out fee.

Action – DETI should make it clear how this money will be distributed as the overall picture has changed with small scale micro-generation projects still receiving NIROCs. The UFU wishes to know how this will work for micro-generation projects under the new measures in Northern Ireland?

8. What impact will FITs have upon NIROCs?

As we know, FITs will only apply to micro-generation in GB, ROCs will continue to be utilized by larger scale generators. The UFU are concerned about the impact upon the NIROC system during the interim period.

Action – Is there any intention to introduce primary legislation in Northern Ireland which could pave the way for the introduction of an Energy Act?

9. ROC Stabilisation

Headroom to be applied to ROCs for stabilization purposes – we read with interest in the consultation that there will be an opportunity to comment on a further consultation on this, the UFU will welcome this opportunity and look forward to offering our views. By way of forward notice, the UFU Rural Enterprise Committee when discussing this made it clear that they would not be in favour of headroom being applied to ROCs calculations in this manner.

10. Future Policy

It is the UFU's view that despite "mirroring" the legislation in GB, for as long as Northern Ireland does not have an Energy Act we will continue to be steps behind our counterparts across the water and overseas. This does not mean that the UFU are calling for the immediate introduction of FITs, rather we need to have a closer look at the primary legislation on the one hand and decide whether its omission is still the best policy in terms of progressing our own Renewable policy in Northern Ireland. There is feeling in our sector that Government Policy is more disjointed than ever and this consultation document is further evidence of this.

Action – The UFU will be seeking a commitment from DETI that the ASFRE report will be incorporated into any policy on ROs and that this is reflected in any resulted revisions to the Renewable Energy Action Plan.

In line with the comments, we go through each question as set out in the consultation;

- 1. Should NIRO be extended to 2033 pending the outcome of work being undertaken in relation to the future renewable support mechanisms?**

The UFU would ask why the NIRO is being extended to 2033 and not 2037? Surely if the NI consultation is "mirroring" that in GB, the NIRO would be extended to 2037?

The length of the extension is overshadowed by more pressing detail. Namely, the UFU are seeking for the NIROC to be flexible to work with and easy to understand. In addition, longevity should enhance guaranteed payments and parity with GB would go a long way to achieving this.

- 2. Do you agree that the criterion for treating projects under either the old 2027 end date or the new 2033 end date should be accreditation before or after 26 June 2008 in line with GB? If not, what should the criterion be and why?**

In terms of accreditation date, please refer to our comments on the application of 4 NIROCs to older projects.

- 3. Do you agree that additional capacity or plant that is refurbished or replaced should be entitled to 20 years of support, regardless of when the original capacity started to receive support?**

In line with our view that early investors or pioneers should not be at a disadvantage in terms of continued support within micro-generation we would answer yes, they should receive support.

- 4. Do you agree that the 20% ceiling on the NIRO level should be removed and that no new level should be imposed?**

UFU agree with the proposal that the ceiling to be removed to ensure that the higher target of 40% by 2020 and no targets should be put in its place.

- 5. Do you agree that headroom should be used to determine the level of the NIRO after 2015/16 with regional apportionment based at present on any agreed relative fixed target levels?**

No, We believe that there is little evidence that fixed targets have done what they intended, namely create a scarcity signal which would drive up the ROC price and therefore accelerate investment. For as long as they remain, there is a danger of creating excessive profits for larger generators. In addition, "GB Fixed targets" influence decision making in Northern Ireland.

Concessionary NIRO levels are in place until 2012/2013, whereas DECC are working to retain fixed targets until 2015/2016. Again we have an uneven playing field.

- 6. Do you agree with the proposal to increase headroom to 10% by 2014?**

See above

- 7. Do you agree that the proposed series of 0.5% annual increases in headroom over the time period set out is the best approach to implementing any increase?**

See above

- 8. Do you have a view on how we should predict expected electricity use in a subsequent obligation period? What are the advantages/disadvantages of any suggested methods of predicting expected electricity use?**

The UFU have consistently advocated a smart distributed grid, which would have the capacity to grow organically, therefore automatically adapting itself to supply. A fixed government budget would be diluted by an increasing proportion of renewable fuels; this would give the all important early path finders greater support than those who follow. Unfortunately the present series of ROC initiatives does the opposite by penalizing early adopters by baring them from the higher support rates given to those who hold out and do nothing. This is the case in not allowing existing micro-generation projects to avail of the 4 NIROC incentive.

- 9. Do you have a view on how the expected level of ROCs generated from existing generating stations in Northern Ireland in a subsequent obligation period should be predicted? What are the advantages/disadvantages of any suggested method?**

By removing Headroom as stated above, there is no need for prediction as only the historic percentage of green fuels versus fossil fuel is relevant, in other words a SMART target.

- 10. Do you agree with the proposal for accounting for banked ROCs?**

Yes

- 11. Do you agree with the proposal for predicting new generation capacity for the subsequent obligation period? What are the advantages/disadvantages of this method of predicting this new capacity?**

The UFU have no strong opinion

- 12. Do you agree that the proposal to offset redeemed ROCs against a generator's future output presents a proportionate approach?**

This might become a major issue if the UK or Europe realise the true and practical implications of the Single Electricity Market (SEM). That is, if they realise that the only real outlet for green power out of Northern Ireland is to export it across the border into ROI.

- 13. Do you agree that the proposal to extend the measurement period for AD feedstock to 3 months rather than 1 month as at present?**

Yes

- 14. Do you agree that we should not impose a restriction on the use of tallow in the NIRO until clarity of the new marketplace has been established?**

Yes.

- 15. Do you consider the cap be retained at 12.5% going forward?**

Yes, but only for electrical generation. For our views on heat, see below.

The inefficiency of NI Fossil fuel-supplied power generation must not be encouraged. Large quantities of electricity generated at off peak or electricity displaced by renewable fuel which has already had ROCs paid upon it **must be exported** because of the restrictions of our existing grid. (highlighted in previous consultations by the UFU as well as this current one).

Almost all co-fired electricity will in part be exported and much of it across a European border and therefore be subject to double funding by government. Co-fired electricity must partially sit as backup for our non-dispatchable renewable sources, and therefore another scenario for double funding.

As far as Heat Generation is concerned, the UFU would answer No

- 16. If you think the cap should be changed, when should this happen and at what level should the cap be set? Please provide evidence supporting your answer.**

No, hopefully this type of inefficiency will be phased out within time, please refer to question above.

17. Are there any issues that are specific to Northern Ireland and require separate treatment in this regard?

Yes. The gross inefficiency of our power stations, which comes about on account of our particularly uneven load demand curve. Also in light of ROCs double funding, which we already mentioned, renewable energy production and renewable co fired backup for non dispatchable renewable production.

18. Do you believe a Feed-In Tariff form of assistance should be introduced in Northern Ireland? Please provide an explanation for your view.

The UFU believe that FITs cannot be considered until such time that the current grid structure is reviewed, otherwise it would be a pointless exercise.

19. If a FIT were to be introduced, should it apply to;

- Micro-generators only (i.e. up to 50kW capacity)
- small scale generators (up to what size?)
- other generators?

It should apply to ALL Micro-generators.

20. Do you agree that enhanced support form 2010 should meet the above criteria?

Enhanced support should be available to those systems that fulfill the following criteria;

- Efficiency in reducing and replacing imported fossil fuels.
- Enhanced support should be given to dispatchable sources.
- Systems that better suits Northern Ireland's specific energy needs which are very different from those of either the UK or of the broader SEM.

21. Are there any other criteria that need to be taken into account?

Yes, see above.

22. Does the support proposed in Table 3.1 represent an appropriate interim level for Northern Ireland in the event of a FIT being introduced in GB from April 2010?

See the UFU position statement and response above.

23. What, if any, other changes would you propose if this form of support is to be implemented?

See the UFU position statement and response above.

- 24. Does retention of a support mechanism based on the current offering of 2 NIROCs and availability of capital support (Option 2) represent an appropriate support measure for NI if a FIT introduced in GB from 2010? Please provide a rationale for your response.**

See the UFU position statement and response above.

Furthermore those individuals that supported the early adoption of renewable technology should not be penalized by continuing to offer them reduced ROCs compared to newcomers into the market. This gives all wrong signals when trying to accomplish the RO goals.

- 25. Does it represent a better longer term solution than the interim proposal at 3.17 above?**

Higher ROC level support coupled to finance support such as interest free loans would be the most efficient and constructive methods of achieving a green energy supply.

- 26. What do you think is the most appropriate way to support micro-generation in the longer term in Northern Ireland? Please give a rationale for your answer.**

Please see responses above.

- 27. Do you agree that any projects being supported under the proposed new interim arrangements (if implemented) should be grandfathered in the event of a new support mechanism being introduced?**

Early investors and promoters of micro-generation renewable energy should not be penalized and therefore it is essential that confidence in the future and going forward be supported by guaranteeing that any changes to the support structure continue to support these early pioneers. See above.

- 28. Do you believe that a wholesale price stabilisation mechanism would bring benefits to renewable generators by providing a predictable and adequate level of compensation?**

The operation of ROCs is unnecessarily complicated and should be simplified to that proposed in the main text above.

- 29. Do you believe that a wholesale price stabilisation mechanism would bring benefits to customers? In particular, during periods of high fossil fuel prices, could it reduce any over compensation to generators. Would suppliers pass this on to consumers?**

See the UFU position statement and response above.

- 30. Do you believe that a revenue stabilisation mechanism could help us meet our renewables target by encouraging more deployment?**

See the UFU position statement and response above.

- 31. Do you believe that a revenue stabilisation mechanism should be introduced in Northern Ireland? Please provide reasons for your answer.**

See the UFU position statement and response above.

- 32. Do you agree that the above approach would minimise undesirable effects on market confidence whilst the introduction of revenue stabilisation is being considered? If not, what further steps need to be taken to maintain confidence in the market?**

See the UFU position statement and response above.

- 33. Do you agree that a Contract for Difference option would be the best choice of wholesale price stabilisation mechanism? If not, what would you recommend as the best option and why?**

The UFU again repeat our view that NIROC should be simple to understand and practical to work with.

- 34. Do you have any initial views on whether a stabilisation mechanism should remove wholesale price risk from generators altogether or leave them with some degree of risk, via a “cap and collar” mechanism?**

See above.

- 35. Do you have any initial views on whether a stabilisation mechanism after 1 April 2013 should be optional or mandatory for generators under the NIRO?**

See above.

- 36. What, if any, additional complications or considerations do you see being involved because of the operation of the NIRO within the SEM as opposed to the GB wholesale market.**

See above.

- 37. Do you agree that biomass and generation involving co-firing should be excluded from any new stabilisation mechanism? If not, why not?**

See above.

38. Overall, considering the balance between the benefits and the implementation challenges, do you think a wholesale price revenue stabilisation mechanism is appropriate for Northern Ireland and should, as such, be implemented?

See above.

39. If you believe that a price stabilisation mechanism should be introduced for the wholesale power price, do you think that it should be applied to the ROC price as well?

See above.