Department of
Enterprise, Trade and Investment
www.detini.gov.uk

THE NORTHERN IRELAND RENEWABLES OBLIGATION

An Outline of its Operation

Introduction

The Northern Ireland Renewables Obligation (NIRO) is the Department of Enterprise, Trade and Investment's (DETI) main policy instrument for encouraging the development of new renewables capacity. The cost of the NIRO is borne by electricity consumers: it does not involve DETI paying grant assistance but instead provides a revenue support for electricity generated in the form of Renewables Obligation Certificates (ROCs).

The NIRO

The NIRO places a legal requirement on all Northern Ireland licensed electricity suppliers, from 1 April 2005, to provide Ofgem[1] (on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR[2])) with evidence that a specified quantity of the electricity supplied to final consumers can be accounted for by generation from renewable sources. This specified quantity is set at an increasing percentage of the total electricity supplied by each supplier in an Obligation period (one year) and is measured in megawatt-hours (MWh). Evidence of compliance with the Obligation is in the form of Northern Ireland Renewables Obligation Certificates (NIROCs) which are issued free of charge by Ofgem to electricity generators for each MWh of eligible renewables generation.

The NIRO also provides for Renewables Obligation Certificates issued under similar Renewables Obligations in GB (GBROCs) to be used as evidence of compliance and for NIROCs and GBROCs to be mutually tradeable across the UK.

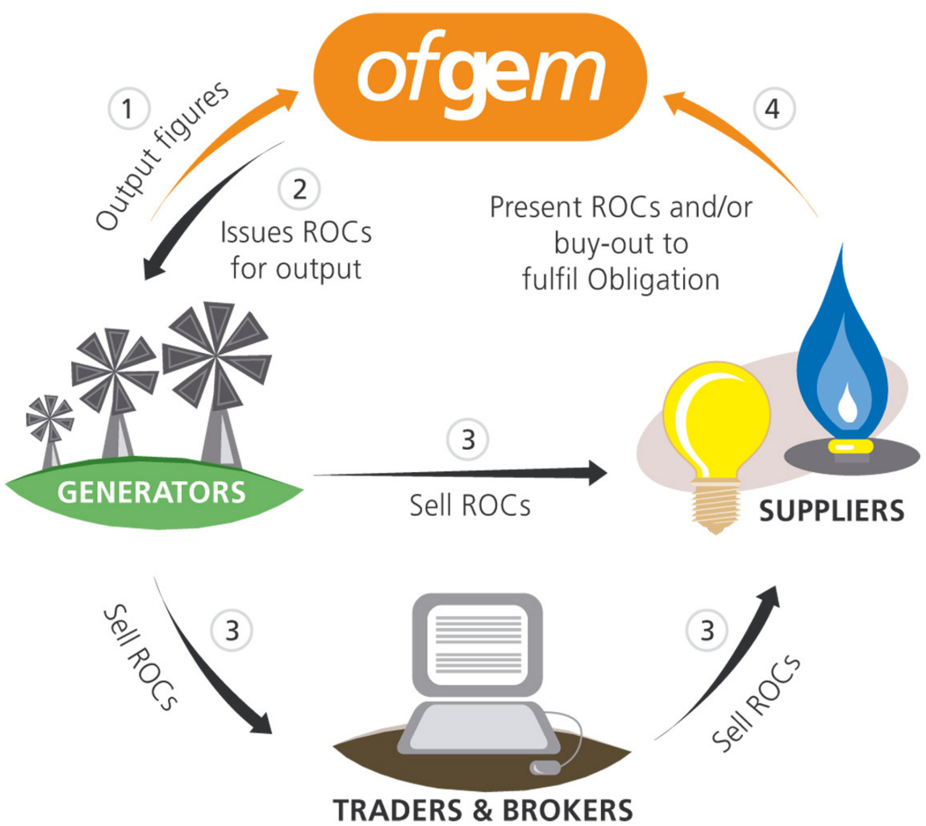
As an alternative to presenting NIROCs or GBROCs (collectively known as "ROCs"), suppliers may pay a 'buy-out' fee to Ofgem for each MWh of the specified quantity of electricity that is not covered by presenting ROCs. Suppliers can therefore comply by either presenting ROCs, or paying the buy-out (or a combination of the two). The 'buy-out' price for 2011/12 is £38.69 (linked to RPI) per each MWh of the obligation not met by a ROC.

At the end of each Obligation period the proceeds from buy-out payments are redistributed among suppliers in proportion to the number of ROCs they produced in satisfaction of their Obligation. Suppliers that do not present ROCs pay into the buy-out fund at the buy-out price, but do not receive any portion of the recycled fund.

[1] http://www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Pages/RenewablObl.aspx
[2] http://www.uregni.gov.uk/

With the Obligation being set at a level higher than the current level of eligible renewables generation, 'buy-out' fees will always be payable in each Obligation period. This gives ROCs a value and it is this value that provides developers with the financial incentive to invest in renewables capacity. The market value of ROCs to a supplier can be expected to be at least the 'buy-out' price (£38.69) plus the anticipated Buy-Out Fund redistribution proceeds per ROC presented.

How the NIRO Works



Source: Ofgem

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