



ROC Market Guidance Document NI

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Renewable Obligation policy framework

Due to the legally binding carbon reduction targets, the Renewable Obligation framework was selected as an appropriate means of subsidising renewable energy investments and reducing carbon throughout the UK. Incentivising renewables is not only part of reducing greenhouse gases but ensuring energy security throughout the UK and ensuring it becomes more affordable. The Renewable Obligation (RO) scheme was therefore designed to meet nationwide targets while off-setting the costs to suppliers and investors, who in turn will receive enough returns to cover the initial investment. The cost to suppliers however is passed on to the end consumer and that is their means of fulfilling their extra costs year on year.

Renewable Obligation Certificates (ROCs) are awarded for the generation of renewable electricity through an accredited system. Sellers must upload their generation and wait to be issued with the ROCs; this usually takes 2.5 months. These ROCs then exist in their own market; tradable assets of which the value fluctuates. Suppliers will seek to purchase these ROCs based on the obligation set by Ofgem in each compliance (CP) year.

How can the market fluctuate?

The market was oversupplied with ROCs over the compliance periods thirteen (2014 – 2015) and fourteen (2015 – 2016). This was the result of the release of approximately four million CP14 ROCs from Drax Power; over production of ROCs coupled with a mild winter; and increased buyer banking during periods of lower ROC prices. The value of ROC's in the most recent compliance period has increased significantly. This is due to a higher obligation level applied on suppliers by Ofgem, low wind speeds, and approval by the European Commission for the Drax biomass power station to receive a CfD (Contract for Difference). These factors have influenced an increase in ROC value due to the belief that the market is undersupplied this year. Recycle payments will be announced in January 2018 for the CP15 period. This highlights the volatile nature of this market.

There is a firm expectation that the ROC market will strengthen into compliance period sixteen (2017-2018) and seventeen (2018 – 2019). This is because Ofgem will be aware of incoming grace period applications, and will have clearer visibility of the ROC generation entering the market after the closure of the ROC regime in April 2017. Following this, Ofgem can set the uplift in ROC obligation levels on suppliers to ensure an appropriate trading market and the return of healthy recycle payments. Note, however that wind speeds and winter weather will continue to influence ROC values in the market place.