

The Non-Domestic Renewable Heat Incentive (RHI)

BEIS RHI Consultation Results - December 2016

Following on from the 'first stage' reform that was implemented at the end of March 2016 the Government has been consulting on the second stage of **'a reformed and refocused scheme'** for the RHI since March of this year. The response to this consultation was published by BEIS last week.

In her ministerial foreword to the response Baroness Neville-Rolfe DBE CMG reminds us that **'producing heat accounts for almost half of UK energy use and a third of UK carbon emissions,'** a statement that impressively sets the scene for the importance of this release. It's no secret this response had been expected for some weeks. We are also reminded in the foreword that it is **'vital that the scheme delivers value for money for taxpayers and supports the development of technologies that will be important for the long term.'**

BEIS' response to this consultation has delivered some positive results for the sector and focuses on the long-term decarbonisation of the UK through supporting supply chain growth and challenging the market to deliver, however this is tempered with the need to ensure value for money and consumer protection.

Below we have summarised the key points of for the Non-Domestic Scheme taken from the BEIS document:

BIOMASS

The three current biomass tariff bands will be replaced with a single tariff, which will be subject to tiering. The Tier 1 tariff will be set at 2.91p/kWh and the Tier 2 tariff at 2.05p/kWh. Each plant will have a tier threshold equivalent to a 35% load factor shown below:

	Current Arrangements			Reformed Scheme		
	Tier 1 tariff (p/kWh)	Tier 2 tariff (p/kWh)	Tier Threshold	Tier 1 tariff (p/kWh)	Tier 2 tariff (p/kWh)	Tier Threshold
Small Biomass	3.10	0.82	15%	2.91	2.05	35%
Medium Biomass	5.24	2.27	15%			
Large Biomass	2.05 - The large biomass tariff is not currently tiered.					

The Government will be doing further detailed work to assess whether wood fuel drying should remain an eligible heat use, due to concerns about the value for money of RHI support in this area.

BIOMASS CHP

- The government **decided not to introduce the 35% tiering threshold** that was proposed in the consultation in case it discouraged investment in plant use for industrial processes or elsewhere where high heat loads are legitimately needed.
- This was also decided in light of the recent change on 1 August 2016 which requires biomass-CHP to now have a power efficiency of 20% or above. **'The amount of heat eligible for the biomass-CHP plant will be in proportion to the plant's power efficiency versus the power efficiency requirement of 20%. For example, a plant with a power efficiency of 15% will be eligible to receive the biomass-CHP tariff for 75% of its heat, with the remaining 25% eligible for payment under the relevant biomass heat only tariff.'**
- However, the Government also recognises the impact of the change on a number of projects under development. The Government therefore announced that amending legislation would be laid as soon as is practicable to reduce the 20% power threshold to 10% for a transition period. **The Government has now laid the amending regulations to reduce the power efficiency requirement to 10%.** The Government will also hold a short consultation on the question of returning to a 20% power efficiency requirement. This will be published early next year.

BIOGAS AND BIOMETHANE

- The reforms will **reset the tariffs** available in support of **biomethane** production to the levels available between April and June 2016. **The Tier 1 tariff (which applies to the first 40,000MWh of eligible biomethane injection by a plant each year) will be set at 5.35p/kWh; The Tier 2 tariff (which applies to eligible biomethane injection between 40,000 and 80,000MWh each year) will be 3.14p/kWh; and the Tier 3 tariff (which applies to all eligible biomethane injection in excess of 80,000MWh each year) will be 2.42p/kWh.**
- For **biogas**, the tariff level will be maintained at the current levels (4.43p/kWh for small scale; 3.47p/kWh for medium and 1.30p/kWh for large). Degressions which impact on the biogas tariffs between now and the date the regulations come into force will be reversed on that date.
- New biogas / biomethane plant will only receive support for all biomethane produced or heat generated from biogas if **at least 50% of the biogas or biomethane is derived from feedstocks that are wastes or residues.** The proportions of biogas derived from waste and residue will be confirmed as part of the annual sustainability audit for plants over 1MW. Furthermore, new participants will no longer be able to claim support for heat used to dry digestate.
- Plants commissioning between 14 December 2016 and the date the new regulations come into force will be able to choose of which set of rules they fall under.
- Consultation responses suggest that some payments may be resulting in **drying digestate** that does not lead to the best use of that digestate, and may be resulting in potential overcompensation. As such the reforms will make **the use of heat to dry digestate an ineligible heat use.** New participants (or existing participants who add capacity on or after the date the reforms come into effect) will not be able to claim support for heat used in this way.

HEAT PUMPS

- The tariff for ASHPs will remain at **2.57p/kWh**. The tariff for GSHPs will remain at **8.95p/kWh** for Tier 1 and **2.67p/kWh** for Tier 2 with no change to the tier threshold.
- GSHPs sharing a ground loop will continue to be eligible for support through the non-domestic RHI. However, for domestic properties **sharing a ground loop payment will be made on the basis of deemed heat use, as in the domestic scheme**. Electricity metering will be required for GSHPs sharing a ground loop where they are installed in domestic properties. On the basis of feedback received from housing and heat pump stakeholders, the Government considers that, up to now, the potential for variable payments based on metered heat use and the burden of meter readings in domestic properties has acted as a barrier to deployment of shared ground loops providing heat to domestic properties. The **reforms are intended to provide investors with greater certainty** over the RHI payments, aiding financial clarity and decision-making.
- The Government will **require electricity metering of GSHPs in domestic properties**, to measure the electrical input to the heat pump, any secondary heating system/s that are controlled by the heat pump unit (i.e. boost or immersion systems), and the ground loop circulation pump. The requirement mirrors that for new heat pumps in the domestic scheme and can be met through stand-alone electricity meters or on-board electricity meters.

SOLAR THERMAL

- Solar thermal systems will remain eligible for support under the scheme and the capacity limit of 200kW will continue to apply.
- The tariff will remain at the current level of 10.28p/kWh.

DEEP GEOTHERMAL

- Deep geothermal plant of all sizes will continue to be eligible for the scheme with a tariff of 5.14p/kWh. All plant will be eligible for tariff guarantees.

TARIFF GUARANTEES

‘The reforms will also improve certainty for investors in larger projects. So far, the scheme has been dominated by spending in relation to smaller scale systems. “Tariff guarantees” will help address this imbalance by providing certainty to investors regarding the tariff they will receive earlier in the project lifecycle. Without this reform, the risk is large-scale projects will continue to be relatively rare or will require significantly higher tariffs.’

- Tariff guarantees will be introduced in the non-domestic RHI scheme for: large biomass boilers (above 1MW in capacity); large biogas plant (> 600kWth); GSHPs (> 100kW including shared ground loop systems with a total installed capacity above 100kW); and all capacities of biomethane, biomass-CHP and deep geothermal plant.
- The reforms will extend preliminary accreditation to ASHPs larger than 45kW and to GSHPs larger than 100kW in line with the consultation proposal.
- The Government will limit the amount of heat that will be covered by a single tariff guarantee to 250GWh per annum.
- There will be three stages for tariff guarantee plant applying to the RHI scheme:
 - Stage 1: Provisional approval for a tariff guarantee
 - Stage 2: Application for a full tariff guarantee
 - Stage 3: Application for full accreditation or registration

The Tariff Guarantee Process

Stage One: Provisional approval for a tariff guarantee

Application should only be made once plants are sufficiently advanced and a declaration that can be provided. The bulk of the application data will be requested at this point. The scheme administrator will consider the application 'properly made' where the application data is provided in full. If approved, the scheme administrator will award provisional approval.

Stage Two: Application for a full tariff guarantee

Applicants awarded provisional approval will have up to 3 weeks to submit proof that full financial close has been reached on the project. If approved, the scheme administrator will award the tariff guarantee. The tariff that is guaranteed will be the tariff that prevailed on the date the properly made Stage One application was received by the scheme administrator.

Stage Three: Application for full accreditation or registration

Once their plant has been commissioned, applicants will be required to apply for full accreditation or registration onto the RHI scheme, meeting the scheme eligibility requirements in place at the point of full application. If approved, the applicant will receive the tariff confirmed at stage two on all metered heat/eligible injected biomethane output up to an annual maximum of 250GWh.

BUDGET MANAGEMENT

Growth triggers will be added to the mechanisms for depression.

- Where estimated spend in relation to a specific technology is above the relevant 'technology trigger' and growth in estimated spend is 50% or more of the growth trigger, but less than 150%, there will be a 10% depression.
- Where estimated spend in relation to a specific technology is above the relevant 'technology trigger' and growth in estimated spend is 150% or more of the growth trigger, the depression will be either:
 - 10% if there was no depression to the tariff in the previous quarter.
 - 20% if there was a depression to the tariff in the previous quarter.
- Where estimated spend across the scheme exceeds the 'total anticipated expenditure', any technology that is already receiving a depression in line with the rules above, will receive an extra 5% tariff reduction.
- In all other circumstances there will be no depression. This means, for example, that if estimated spend for a specific technology is above the technology trigger, but the growth in estimated spend is less than 50% of the growth trigger, there will be no depression.

The reforms will make changes to the way technologies are grouped together in the Non-Domestic RHI for the purpose of budget allocation and depression. These changes will help the budget to be allocated in a way that promotes deployment of the right technologies for the right uses to support decarbonisation in the long-term:

Current Grouping	New Grouping
Small Biomass	Biomass below 1MW Biomass 1MW and above Biomass CHP
Medium Biomass	
Large Biomass	
Biomass CHP	
All Biogas	Small and Medium Biogas (below 600kW)
Biomethane	Biomethane Large Biogas (600kW and above)
Air Source Heat Pumps	Air Source Heat Pumps Small Ground Source Heat Pumps including shared ground loop systems (below 100kW)
Ground Source Heat Pumps	Large GSHP including shared ground loop systems (100kW and above)
Deep Geothermal	Deep Geothermal
Solar Thermal	Solar Thermal