

## Renewable Heat Incentive consultation overview

4<sup>th</sup> March 2016

On the 3<sup>rd</sup> March 2016, the Government launched a consultation to reform the Renewable Heat Incentive. In the consultation, DECC is proposing changes to be implemented now (in April, for the financial year 2016/17), and changes to be implemented in 2017.

Below is an overview of the proposed changes for both April 2016 (most of which are not subject to change) and Spring 2017 (which could be subject to change).

### Indicative annual deployment as result of proposed changes

The Government has outlined the expected deployment for the four technology categories by 2021, under the reformed RHI as a result of the policy proposals set out in this consultation:

Technology	Domestic Scheme	Non-Domestic Scheme
	Indicative annual deployment by 2021	Indicative annual deployment by 2021
Biomass	1,000 Domestic biomass	60 large biomass 5 biomass CHP
Biogas/Biomethane		20 biomethane 95 biogas
Heat Pumps	13,700 ASHP 2,500 GSHP	1,000 ASHP 2,200 GSHP
Deep Geothermal		1 per year

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## Changes proposed to take effect April 2016

### Budget Cap

A budget cap with the ability to stop any new deployment as a backstop will be introduced from April 2016, based on the annual budgets assigned to the RHI. DECC believe they can introduce a cap without the need to consult on the principle of doing so, they are only consulting on how it might be operated in future.

Degression will continue to operate as the key budget management mechanism, with the budget cap providing an ultimate backstop and protection of budget limits.

**Budget caps for years 2016/17 to 2020/21 are set out below.**

Financial Year (April - March)	15/16	16/17	17/18	18/19	19/20	20/21
Budget (£m)	430	640	780	900	1,010	1,150

This will be one single budget cap across the domestic and non-domestic schemes (although from 2017/18 onwards, DECC propose extending Ministers' discretion to include implementing scheme closure to only the Non-Domestic Scheme).

Closure to new deployment would only be implemented if and when DECC assesses that keeping the scheme open for new deployment would risk breaching the budget cap in the current or future financial years.

The calculation methodology for progress towards the budget cap will not be set out in regulations, so that Government can take into account up to date market intelligence information and use risk-based judgement to enable the most accurate assessment possible of whether it would be necessary to implement closure.

DECC will provide monthly public updates of their assessment of progress towards the budget but the ultimate assessment of whether the budget cap is likely to be hit and the scheme needs to be closed will be made based on market intelligence and pipeline data.

Ministers will decide if the assessment means the cap is likely to be hit and that closure should be triggered; and regulations would then be laid before Parliament for approval to prevent new deployment from being accredited onto the scheme. The regulations would set a closure date such that any installation commissioned after the closure date would not be accredited onto the scheme. DECC proposes the commissioning date as the most appropriate point at which to restrict eligibility for the scheme, as this can be readily identified and evidenced through a commissioning certificate.

There will be a notice period prior to the laying of the regulations, 21 days before they come into force to provide a short window for plants on the verge of commissioning to finalise commission procedures following the announcement of the cap (except for urgent circumstances, where DECC say the notice period may be waived).

#### **Further Cap Conditions:**

Being granted preliminary accreditation on the Non-Domestic scheme would not mean protection from the budget cap.

Once a cap had been reached, the scheme would be suspended to new applications, with the intention of re-opening at the start of the next financial year, although the scheme would not reopen automatically and would be subject to further DECC agreement.

#### **Degression triggers**

The triggers will be extended from the final trigger points currently set out in regulations across all technologies and both schemes, and will increase with the same amount as the triggers set for assessment date of 31st January 2016 (i.e. small biomass trigger will increase by £11m each quarter, medium biomass £7.6m, biomethane £15.2m, etc).

### **Inflation adjustment**

For future installations (those with a tariff start date on or after 1 April 2016) DECC will switch future annual tariff inflation adjustments (beginning on 1 April 2017) from the RPI to the CPI index.

### **Further Domestic RHI Changes**

- Removing the requirement for a Green Deal Assessment
- Exempting new self-build properties from the 183 days occupancy declaration
- Giving Ofgem specific powers to request a new EPC and amend RHI payments accordingly should they discover an error in the EPC originally submitted
- Ensuring consistency in rounding of tariffs
- Changing the detailed wording of the requirements for equivalent schemes to the Microgeneration Certification Scheme (MCS) to ensure that the regulatory requirements are fair for any scheme wishing to be considered as equivalent to MCS for the purposes of both RHI schemes.

### **Minor changes to the Non-domestic RHI**

- Updating the references to Microgeneration Certification Scheme (MCS) standards
- Updating the references to the Renewable Obligation (RO) Order and aligning the sustainability requirements of the two schemes
- Allowing biogas plants over 1MW to comply with RO greenhouse gas and land criteria in order for these plant to be deemed to meet the RHI's sustainable biogas criteria.

## Changes being consulted on to take effect from Spring 2017

### Domestic RHI:

#### **Introducing heat demand limits**

Limit the level of annual heat demand on which Domestic RHI payments will be made. Homes with annual heat demand above the limit (whether deemed or metered) would be eligible for the RHI, but their payments would be capped. The proposed annual heat demand limits in the Domestic RHI:

- Biomass and GSHP: 25,000 kWh
- Air to Water Heat pumps (AWHP): 20,000 kWh

#### **Assignment of rights**

Allowing householders to assign their right to RHI payments to a company that has financed their renewable heating technology. Householders would still own the system. This would be to help householders overcome the barrier of the initial capital cost of a renewable heating system.

#### **Increase of heat pump tariffs**

Proposing to review the tariffs for both AWHP and GSHP; the AWHP tariff will be set in the range of 7.42-10.0p/kWh and GSHP could be adjusted, with the maximum possible tariff of 19.51p/kWh.

#### **Biomass**

No changes to the domestic biomass tariff.

#### **Removing support for further solar thermal deployment**

Proposal to remove support, meaning that this technology would no longer be eligible for the Domestic RHI when scheme changes come into force in 2017. Existing participants will continue to receive support.

#### **Degression mechanism**

No proposed changes to the degression mechanism proposed.

#### **Possible changes to support for GSHP systems with shared ground loops**

## Non-Domestic RHI:

### Single tariff for biomass

Introducing a single tariff for all biomass systems, thereby eliminating the bands between small, medium, and large biomass. However, a significant lower tariff:

	Current tariffs, p/kWh (as at launch of consultation)		Tariff proposals p/kWh	
	Tier 1	Tier 2	Tier 1	Tier 2
Small biomass (<200kW)	3.76	1.00	2.03 – 2.90	1.80 - 2.03
Medium biomass (200 – 999kW)	5.18	2.24		
Large biomass (1MW+)	2.03			

### Biomass tariff and tiering

Set a threshold equivalent to a heat load factor of 35%. This means a system could run at full capacity for 35% of the hours in a year, before moving to the lower Tier 2 tariff for any further generation in that year.

### Single budget for biomass

Proposal that there should be a single budget for supporting all new biomass boilers, with a single set of budget management triggers, which includes the budget for new biomass-CHP.

### Tiering of biomass CHP

Proposal to introduce tiering to the biomass-CHP tariff to mitigate against any risk of overcompensation for plants with very high heat load factors. The tier 1 threshold which the 4.17p/kWh tariff will apply will be set at a level equivalent to a 35% annual load factor, and beyond this level, any additional heat generated in the year would receive the lower 'tier 2' tariff, which is proposed to be set between 1.80 and 2.03 p/kWh. DECC also plan to revise the CHPQA criteria.

### **Deep Geothermal**

Proposal to continue offering support at the current tariff level and will retain existing scheme eligibility requirements.

### **Solar thermal**

Proposal to end support for new solar thermal systems through the Non-Domestic RHI

### **Tariff guarantees**

DECC proposes to offer tariff guarantees to deep geothermal, biomethane, large biogas plants (> 600 kWth), large biomass (> 2 MW), biomass CHP and ground and water source heat pumps (>100 kW). Tariff guarantees will provide certainty of the tariff these plants will receive ahead of commissioning the plant.

The point at which the plant will receive a tariff guarantee is when it reaches financial close. Applications for tariff guarantees and pre-accreditation will not be obligatory. DECC will count the estimated expenditure towards degression decisions at the point the tariff guarantee is granted. It is proposed that plants which have been granted a tariff guarantee would be protected from any subsequent closure.

### **Additional capacity**

Remove the ability to receive a non-degressed tariff for additional capacity. The combined capacity will be used to determine the tariff for the new plant only, but the original plant will always retain its existing tariff. The additional capacity will receive the prevailing tariff for the relevant technology tariff banding at the date it is accredited/registered, based on the total combined capacity.

### **Eligible heat uses**

Proposal is to end support to new installations for heat used to dry digestate, and considering updating eligible heat use criteria, such as outdoor heat uses or heat uses which see heat quickly lost to the external environment.

### **Planning permission**

Proposal to make it an explicit requirement of eligibility for the Non-Domestic RHI that a plant or associated site or development of which it forms part must have all the relevant planning permissions before being eligible for the scheme

**Ground source heat pump systems with shared ground loops**

Proposal to allow residential landlords installing GSHP systems with shared ground loops to be either eligible to apply to the Domestic RHI or remain eligible for the Non-Domestic RHI, but with payments based on deemed rather than metered heat demand.