

## Consultation on providing certainty and improving performance

### Q&A

#### 1. Why is budget management necessary?

The RHI is funded directly from Government spending and has been assigned annual budgets for the four years of this Spending Review period. Budgets were set based on the estimated trajectory of growth needed to achieve 12% of renewable heat coming from renewables in 2020.

Budgets are not flexible, spending less than the allocated budget in one year does not permit that underspend to be transferred to future years. It is therefore necessary that we manage budgets so as to prevent overspend.

Current application levels to the RHI are low relative to the available budget, however this is an immature market and it is still early in the scheme. There is therefore a high degree of uncertainty about how the market will respond over time so it is right to be cautious and be prepared for unexpected changes in uptake.

#### 2. What is degression of tariffs and how will it manage budgets?

We are proposing a system based on degression of tariffs which would reduce the tariff paid to new RHI recipients if deployment is higher than that required to achieve the heat proportion of the UK's 2020 renewable energy targets. Degression triggers would be set out in advance and progress towards triggers would be made available at least monthly.

#### 3. How much notice will there be of a degression and how will I know whether degression is likely?

If a trigger is hit we will make an announcement providing notice of the tariff reduction. In the consultation we propose a notice period of one month. This will ensure that the new tariff rate is in place prior to the next degression evaluation and include some time for the market to respond, which may help to avoid further reductions that are unnecessary.

We will continue to make deployment data available at least monthly on the DECC website and will present this in a way that will allow stakeholders to judge in advance of formal quarterly degression announcements whether any tariff reductions are likely.

#### **4. How large will depressions be and how will triggers be set?**

Trigger levels for each tariff and for the RHI overall will be set out in advance. The overall trigger would be based on the assumed cost of the overall deployment required to meet the 2020 renewables targets. The triggers for each tariff would be based upon the assumed cost of the deployment needed to meet the 2020 renewables targets for each technology.

If the trigger for a tariff is hit, that tariff would be reduced by a fixed percentage (in the consultation we proposing 5%) and then repeated in the next quarter if the reduction was not been sufficient to bring deployment rates back into line. A larger depression (such as 20%) may also needed to control growth if deployment does not respond to several depressions.

#### **5. How will other new non-domestic technologies fit into depression when they are introduced?**

Depression will apply to the technologies currently in the non-domestic scheme and will be extended to additional non-domestic technologies as they are brought into the scheme.

#### **6. What other proposals do you have for longer term budget management?**

We are proposing to carry out periodic reviews of the RHI, starting in 2014, to take stock of the evidence on the operation of the scheme and consider ways of improving it further. These reviews will provide an opportunity to recalibrate tariffs and if necessary, make changes to the tariff structure. Any changes to tariffs outside of the depression process will require legislative change and we will involve stakeholders in the review process.

#### **7. What is enhanced preliminary accreditation and what are the potential benefits and risks of this approach?**

Enhanced preliminary accreditation would provide a guarantee that the tariff at the time enhanced preliminary accreditation was granted would be paid once the installation was commissioned, provided there were no changes made to what had been set out in the application.

Being able to reserve a tariff rate would provide greater certainty as to the returns the project could expect and could help determine the type and cost of finance it was able to secure. It could also provide a better view of forthcoming projects and therefore greater certainty of future expenditure, improving the Department's ability to manage budgets.

Enhanced preliminary accreditation would, however, be complex and would increase the admin burden associated with running the scheme. There is also a risk that enhanced preliminary accreditation could be open to speculative applications and other strategic market behaviour by applicants.

#### **8. What is the link between the stand-by budget management mechanism and longer term budget management? When will the change from one to the other happen?**

To ensure the financial sustainability of the non-domestic RHI, we recently announced a stand-by budget management mechanism that would suspend the RHI to new entrants until the next financial year should estimated spending reach a level where the budget could be breached.

The longer term mechanism will allow for more sophisticated management of budgets, providing greater certainty for applicants to the RHI. We intend that it will be in place before the end of this

financial year. The longer term budget management mechanism will replace the stand-by budget management mechanism.

### **9. Why are you introducing biomass sustainability?**

It is important that the RHI is sustainable in the wider sense, so we are putting forward proposals for biomass sustainability criteria, consistent with the UK Bioenergy Strategy published in April. The intention is that, as far as possible, the RHI is consistent with the Renewable Obligation, the primary support mechanism for renewable electricity.

### **10. Why are you introducing air quality restrictions?**

As well as ensuring that biomass fuel is sustainable, we want to ensure that the by-products of its combustion are controlled. Good air quality is vital to human health and the Government is committed to controlling emissions throughout the UK. In the March 2011 RHI policy document we committed to introducing limits on the emissions of particulate matter (PM) and oxides of nitrogen (NOx) from biomass installations up to 20MWth capacity. This consultation proposes what the compliance regime should be for those emissions limits.

### **11. What are the biomass sustainability criteria that you are proposing?**

For biomass other than wood-fuel, the RHI sustainability criteria would consist of a greenhouse gas (GHG) lifecycle emissions target and land criteria. We propose requiring 60% GHG savings compared to the EU fossil heat average; this equates to lifecycle emissions of 125.28 kg CO<sub>2</sub>eq per MWh of biomass heat generated or below. The lifecycle assessment would take account of emissions from cultivation, processing and transport of the biomass, and reflect the conversion efficiency of the boiler plant.

For wood-fuel, we propose that the land criteria correspond to meeting the UK public procurement policy on wood and wood products<sup>1</sup>. This approach requires that suppliers should have available documentary evidence demonstrating the wood supplied is from legal and sustainable sources. This evidence should include full chain of custody from the forest source(s) to the end user.

For all other biomass feedstocks, we propose that the land criteria should correspond to those set under the EU Renewable Energy Directive for transport biofuels and bioliquids. These criteria would consist of general restrictions on the use of biomass sourced from land with high biodiversity or high carbon stock value such as primary forest, peatland or wetland.

### **12. Why are you making changes to the existing scheme requirements?**

As a first of its kind scheme, we have gained invaluable experience since the launch of the non-domestic strand in November 2011. We have learned from the first wave of applications and have therefore also included in this consultation proposals to improve the scheme, making the regulations clearer, more practical and, in some cases, reducing the administrative burden on applicants. We are also now in a position to introduce proposals to meet earlier commitments on biomass sustainability and air quality.

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<sup>1</sup> <http://www.cpet.org.uk/uk-government-timber-procurement-policy>