



Briefing 13/28 June 2013

New tariffs for Renewable Heat Incentive scheme proposed

To: All contacts

Key issues

- New tariffs proposed
- Potential impacts on public sector building schemes
- Tariff reduction on medium commercial biomass

1. Background

DECC is consulting on increasing the tariff levels for heat generated by ground source heat pumps, large biomass and solar thermal kit accredited under the Government’s Renewable Heat Incentive scheme (RHI).

2. Current and Proposed Tariffs

Technology		Current tariffs ¹	Reviewed tariffs (proposed for 2014/15)
Biomass Boilers	Small (up to 200kW)	Tier 1: 8.6, Tier 2: 2.2	NO CHANGE
	Medium (200kW to 1MW)	Tier 1: 5.3, Tier 2: 2.2	
	Large (1MW and above)	1.0	2.0
GSHPs	Small (up to 100kW)	4.8	7.2 ² – 8.2 ³
	Large (100kW and above)	3.5	
Solar Thermal (up to 200kW)		9.2	10.0 ⁴ – 11.3

- For comparison purposes please note that these tariffs will be updated for any RPI increase. An estimate of these tariffs in nominal terms for 2014/15 can be found in the technical annex, available at the following link <https://www.gov.uk/government/consultations/non-domestic-rhi-early-tariff-review>
- Equivalent to 10.0p/kWh of renewable heat
- Equivalent to 11.3p/kWh of renewable heat
- This is the projected value of the current solar thermal tariff in 2014/14 taking into account an increase for RPI

The RHI is a world first and was designed to revolutionise the way homes and businesses across the nation are heated, cut carbon emissions and help meet renewables targets. The scheme was launched for the non domestic sector in November 2011. These tariffs relate to the non domestic sector only. Systems for building

such as office blocks, factories and leisure centres will be among those to benefit from more cash for renewable heat under the proposals.

The proposed levels follow on from a review of the evidence base used to set tariffs earlier this year. DECC states that they are designed to increase uptake of heat pumps, large biomass and solar thermal technologies by increasing the tariff on offer. DECC is not proposing to increase the tariffs for small and medium biomass as part of this review, as it claims there is already a current high level of demand for these technologies. Biomethane and biogas combustion have been deemed outside the scope of this review.

The announcement states that RHI has been running for eighteen months so now is an appropriate time to take a fresh look at tariff levels. It claims the levels need to be such that they continue to bring forward investment and growth and at the same time keep costs to the taxpayer to a minimum.

3. Tariff reduction

DECC has stated that as part of a wider approach to ensuring the RHI scheme stays within its budget and continues to provide value for money, the medium commercial biomass tariffs will be reduced by 5%. The revised rates, available to new applicants from 1 July 2013 are:

Current rates	New rates (from 1 July 2013)
Tier 1: 5.3p/Kwh	Tier 1: 5.0p/Kwh
Tier 2: 2.2p/Kwh	Tier 2: 2.1p/Kwh

4. Future tariff reviews

As set out in February this year, DECC has introduced a degression based approach similar to the regime adopted for the Feed-in Tariffs scheme, reducing tariffs available to new applicants if uptake of the technologies supported under the scheme is greater than forecast. All technologies supported under the RHI are subject to this budget management regime.

This announcement is the first to be made under the new budget management approach. Future announcements on potential tariff reductions under this regime will be made online by the 1st of September 2013, December 2013 and March 2014. Uptake data will be published online on a monthly basis so progress towards the pre-determined trigger points can be assessed.

The consultation will run for four weeks and will close on 28 June 2013.

5. Consultation questions

The consultation will run for four weeks and will close on 28 June 2013.

1.	Do you support the approach to updating the VfM cap applied to RHI tariffs? Do you agree that the tariff for GSHP should be increased to the level of support provided to offshore wind? If not please state why.
2	Do you agree that the assumption of an average SPF of 3.6 is correct for non domestic GSHP? Please provide any evidence you may have to support your answer.
3	Do you agree that a 12% rate of return on the additional capital investment on the median cost installations (i.e. those installations at the upper end of the 50th percentile of the cost curve) is the right rate of return to stimulate investment in renewable heat?
4	Of the broader range of evidence used to identify tariff levels, as described above, are there any factors that should be excluded?
5	Are there other material factors we should consider in making judgements about the tariff levels needed?

6	Do you agree that the small biomass tariff should not change from its current levels through this tariff review?
7	If not, why should the small biomass tariff be revised and what would be an appropriate tariff? Please provide any evidence you may have to support this view.
8	Do you agree that the medium biomass tariff should not change from its current level through this tariff review?
9	If not, why should the medium biomass tariff be revised and what would be an appropriate tariff? Please provide any evidence you may have to support this view.
10	Do you think that the current approach of banding and tiering of tariffs may be incentivising the installation of inefficient systems? If so, what evidence do you have, and do you have any suggestions for how this could be deterred?
11	Do you support our rationale for proposing a tariff of 2.0p to incentivise significant deployment of large biomass (specifically 50% of the heat potential) whilst avoiding overcompensation? Are there other factors we should consider? Please provide any evidence you may have to support your answer
12	Do you support our rationale for proposing a tariff of between 7.2 and 8.2p/kWh to incentivise significant deployment of GSHPs? Are there other factors we should consider? Please provide any evidence you may have to support your answer.
13	How much more deployment would you expect to see from a tariff of 8.2p/kWh as opposed to 7.2p/kWh?
14	How much greater would the potential for cost reduction be from a tariff of 8.2p/kWh as opposed to 7.2p/kWh?
15	Do you agree that a ground source heat pump tariff should be between around 3 or 4 times higher than a tariff for air to water heat pumps?
16	Do you agree that the tiering methodology is the correct approach for GSHPs? If not, please provide evidence on: a. what the minimum reasonable usage should be; and b. what the tier 2 tariff, i.e. operating cost should be set at.
17	Do you support an increase to the solar thermal tariff to within the range set out in paragraph 39? If yes, please provide reasons.
18	Will increasing the tariff to within this range bring forward projects that would otherwise not have received investment? If yes, please provide evidence.
19	Is a tariff in this range likely to stimulate cost reduction in solar thermal technology?
20	What do you perceive as the main opportunities and risks of the industry's proposal for a seven year tariff option?
21	Do you agree with our intention that any changes to tariffs following this consultation should only affect those installations accredited from 21 January 2013? If not, please state why.

6. APSE Comment

The projects taken forward to date by public service providers have been successful in helping them to manage energy requirements, to enable investments and to move on as innovators. They will be interested in changes to the rate of tariffs as they are a vital element in financing such schemes and will impact significantly upon those currently planning to implement new renewable heat schemes. Increases in the tariffs are welcomed by APSE.

7. Response details

If you wish your comments to be included in the APSE response to this consultation paper please send them to Phil Brennan at pbrennan@apse.org.uk. They should reach him by 21 June 2013. Alternatively, consultation responses can be submitted directly by email via [DECC's consultation hub](#).. The closing date for responses is 28 June 2013.

Phil Brennan
Principal Advisor