



Department
of Energy &
Climate Change

Non-Domestic Renewable Heat Incentive Tariff Guarantees

Providing certainty for future investment

9th December 2014

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URN: 14D/451

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The document can be found on DECC's website:
<https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/renewable-heat-incentive-rhi>

Published by the Department of Energy and Climate Change

General information

Purpose of this position paper:

This position paper sets out our latest thinking on how a tariff guarantee could work, should it be decided to make a guarantee available from April 2016. It sets out draft proposals around eligibility and timeframes for tariff guarantees, application requirements and how we could manage the budget associated with tariff guarantees. It also sets out some potential changes to preliminary accreditation and asks some questions to further develop our evidence.

Issued: 9th December 2014

Respond by: 20th January 2015

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Reference: URN 14D/451 – Non-domestic RHI Tariff Guarantees: Providing certainty for future investment

Territorial extent:

This position paper applies to England, Scotland and Wales

How to respond:

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Responses are welcomed via email to rhi@decc.gsi.gov.uk. If you are unable to respond electronically, please post to the address above.

Additional copies:

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Confidentiality and data protection:

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If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the position paper. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Executive Summary

Certainty and tariff guarantees

In this document we set out our latest thinking on how a tariff guarantee could work, should Government decide to make a guarantee available from April 2016. At this point in time we cannot confirm how a policy will look in the next Parliament; however your views on the proposed policy design will enable us to advise Ministers in spring / summer 2015 and will feed into the Spending Review process.

The aim of a tariff guarantee is to provide greater clarity on the level of subsidy a project will receive, making the RHI more bankable for projects with long lead-in times and encouraging deployment of larger renewable heat projects.

Eligibility

We propose that there should be three additional eligibility criteria for applications for tariff guarantees beyond the standard non-domestic RHI eligibility criteria: installation capacity, time limit for commissioning, and achieving financial close.

We propose that tariff guarantees should focus on projects that most need additional certainty to go ahead and projects that will generate the most heat towards the renewable target, this means they should only be available to larger installations. We therefore propose they should be available for all combined heat and power, deep geothermal and biomethane installations as these projects are generally very large and tend to have long lead-in times.

For other technologies where we expect a wider range of sizes of installation in the scheme, we propose using the existing tariff bands where these exist, as this will enable better integration with the budget management mechanism. We therefore propose that large biomass (i.e. over 1MWth) and large biogas (over 600kWth) should also be eligible for tariff guarantees. The tariffs for heat pump are not banded; we are therefore interested in stakeholder views as to whether a limit of 500kWth is appropriate or whether this should be higher.

Time limits for commissioning would be set for each project individually, rather than being based on the technology or tariff. Applicants would be required to estimate the earliest commissioning date for their plant and would not be allowed to enter the scheme ahead of that date. The minimum length would be 6 months. Once the earliest commissioning date was reached they would then have a 6 month window beyond their earliest commissioning date to commission and still receive their guaranteed tariff. Assigning project specific time limits would allow for flexibility and reflects the fact that different projects have very different timescales.

As budgets for the RHI are assigned at Spending Reviews, and we have a target to achieve a level of renewable deployment by 2020, all projects would have to set an earliest commissioning date to be no later than the end of the Spending Review period. We do not, however, want to limit deployment of the very long lead-in time projects or cause deployment

levels to slow as we approach the end of the Spending Review. We therefore propose that projects should be able for their 6 month window to extend into the next Spending Review period. Where projects commission in the next Spending Review period (but within their window) their 20 year tariff lifetime would begin counting down from the last day of the previous Spending Review.

To ensure that the scheme as a whole does not overspend, we would have to commit budget for tariff guarantees in advance of spending it. This could mean that, if projects awarded tariff guarantees did not go ahead, that budget would be unused or degressions of tariffs could be triggered by estimated spend that does not take place. To be able to make this commitment we would therefore need to have as much assurance as possible that the project will go ahead. We therefore propose that the tariff should only be guaranteed once the project reaches financial close, as once finance has been committed the project is highly likely to go ahead.

Application requirements

Efficient and cost effective delivery of tariff guarantees is essential. This could require three clear routes of application to the scheme: application once the installation is installed and commissioned, preliminary accreditation and tariff guarantee, reflecting the different types of application that are made. All three routes would be based on the same standard RHI application with additional requirements for preliminary accreditation and tariff guarantees built in to those specific routes. We would develop any changes to the application process in partnership with Ofgem and industry groups.

It should be noted that any application that was made for either preliminary accreditation / registration or a tariff guarantee would still be required to meet all the requirements for accreditation to the scheme that apply at the point of accreditation or registration.

Changes to preliminary accreditation

At the same time as introducing a tariff guarantee for larger installations, we may also improve certainty for smaller installations by making some heat pump projects eligible for preliminary accreditation. Preliminary accreditation allows applicants to apply in advance of installation and provides assurance that a project will be eligible if completed as specified; it provides no assurance about the level of tariff that will apply, meaning that installations that have been awarded a tariff guarantee are subject to degressions or tariff reviews that take place between award of the preliminary accreditation and accreditation.

Budget management

The RHI has fixed annual budgets. Tariff guarantees would represent a commitment to spend the budget which has to be managed to ensure that we do not overspend. If the policy was introduced, it would therefore be essential that any tariff guarantees are included within any budget management mechanism.

Ahead of the next Spending Review (and ahead of knowing the RHI budget from 2016) we cannot finalise how to manage any budget that is provided for tariff guarantees. However, some of our current ideas are set out in this document for discussion.

Responding to this paper

Responses are welcomed to the proposals set out in this position paper, preferably via email to rhi@decc.gsi.gov.uk. We will be able to make more effective use of the evidence you provide if you specify the type of project, technology and size of the projects you are referring to in your responses.

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Introduction

In the Government Response “Improving Support, Increasing Uptake”, published in December 2013, the Government reiterated our intention to introduce a tariff guarantee for the largest installations in the non-domestic Renewable Heat Incentive (RHI), subject to successful demonstration that a tariff guarantee is affordable and good value for money, and securing State Aid and Parliamentary approval. In this position paper we set out our latest thinking on how a tariff guarantee might operate and seek your views on that design.

1. At present, applications for accreditation to the non-domestic RHI can only be made once the renewable heat technology has been commissioned. The degression mechanism used to manage budgets in the RHI reduces tariffs as certain levels of deployment are reached, which means that tariff rates can reduce between an investment decision being made and the project claiming the RHI. The RHI is funded directly from Government spending and is assigned annual budgets by the Treasury at each Spending Review. This means that budgets for new applications for each year beyond a current Spending Review period will not be known until the next Spending Review. This uncertainty of the future tariff and budget can affect those developing projects with long lead-in times.
2. In the July 2012 consultation, “Providing Certainty, Improving Performance,”¹ we sought views on a policy option that might reduce tariff uncertainty, that is to allow applications for an enhanced form of preliminary accreditation (EPA). Preliminary accreditation (as currently operated for medium and large biomass, deep geothermal and biomethane) allows applicants to apply in advance of installation and provides assurance that a project will be eligible if completed as specified. It provides no assurance about the level of tariff that will apply. The proposed EPA would have been available to a wider range of technologies and would have enabled applicants involved in larger projects to apply earlier in the development of their project and fix their tariff.
3. In the response to the consultation, in February 2013², we confirmed that there remained significant challenges to overcome with the design of the policy and therefore that we were not able to implement a tariff guarantee at that time. During 2013 we worked with

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43165/5883-rhi-certainty-performance-cons.pdf

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/128679/Gov_response_to_non_domestic_July_2012_consultation_-_26_02_2013.pdf

stakeholders to develop our evidence base. The evidence collected supported the view that uncertainty of tariffs due to degeneration, and uncertainty as to future RHI budgets created investor uncertainty. The uncertainty means that investors require greater rates of return (only achievable at higher cost to the tax payer) or that there is substantially lower deployment of larger renewable heat projects with longer lead-in times. These larger projects can contribute significantly towards the 2020 renewables target, often at better value for money tariffs.

4. In the December 2013 Government Response, “Improving Support, Increasing Uptake”³ we reiterated our intention to introduce a form of tariff guarantee for the largest installations, subject to successful demonstration that a tariff guarantee is affordable and good value for money, and securing State Aid and Parliamentary approval. We stated that we would aim for this measure to initially be in place from April 2015 to March 2016 and thereafter factored into the next Spending Review discussions on the RHI so that it could be available from Spring 2016 for plant due to commission in that Spending Review period.
5. Since December we have been working with stakeholders to develop the policy and have concluded, following further stakeholder discussions, that a tariff guarantee available for only one year will have very limited impact. With support from the RHI Industry Advisory Group we have decided to concentrate on the future design of the policy.
6. This position paper sets out our latest thinking on how a tariff guarantee could work, should it be decided to make a guarantee available from April 2016. It sets out proposals around eligibility and timeframes for tariff guarantees, application requirements and how we could manage the budget associated with tariff guarantees. It also considers extending the current preliminary accreditation to some heat pump projects and asks some questions to further develop our evidence around project timescales and financing so that we can ensure the final policy design is appropriate.
7. Decisions on the tariff guarantee policy will need to be finalised after the election, alongside the next Spending Review. Recognising the potential for tariff guarantees to provide greater value-for-money, our intention is to progress the policy development as far as possible in the intervening period so that, if appropriate, it could be introduced into the scheme’s rules at the earliest ideal opportunity in the next Spending Review period.

³ [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265855/Non-Domestic Renewable Heat Incentive - Improving Support Increasing Uptake - PUBLISHED.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265855/Non-Domestic_Renewable_Heat_Incentive_-_Improving_Support_Increasing_Uptake_-_PUBLISHED.pdf)

Tariff Guarantees

8. Applications for accreditation can only be made to the RHI once the renewable heat technology has been commissioned. The degression mechanism used to manage budgets in the RHI reduces tariffs as certain levels of deployment (and therefore spend) are reached, which means that tariff rates can reduce between an investment decision being made and the project claiming the RHI. It is therefore not certain when a project is seeking finance what tariff it will receive and therefore what the level of return from the project will be. The longer the lead-in time from planning to construction to commissioning the more this uncertainty grows.
9. We are aware that this is a particular problem for Combined Heat and Power (CHP) projects. Apart from their very long lead-in times, from April 2015 these projects will be covered by two government incentive schemes, being able to claim support for power generation under Contracts for Difference (CfD) and for heat generation under the RHI. It is therefore important that conditions under both schemes are right to enable investment in these projects.
10. Introduction of a tariff guarantee would provide additional certainty for investors in renewable heat projects of the level of tariff they would receive. We expect that this would enable progress on projects that under current RHI conditions would be difficult to get to financial close. Of course, there are other causes of uncertainty that may prevent projects from achieving financial close, for example feed stock risks or heat offtake risks; it is often a combination of factors that prevents projects from getting to financial close. However it is likely that a tariff guarantee would provide sufficient additional certainty to help in a number of cases.
11. There is an argument for being able to offer that level of certainty to all renewable heat projects, as tariff uncertainty impacts on all projects to a certain extent, however there is an administrative cost associated with that, which would not be worth the deployment benefits the policy could bring. We therefore propose to offer a tariff guarantee to those projects that have the most uncertainty (i.e. those with the longest lead-in times), those that represent the greatest financial commitment (i.e. the largest projects) and those that have most impact towards the renewables target at cost effective tariffs.
12. The proposals set out below build on those set out in our 2012 consultation, “Providing Certainty Improving Performance”¹ (referred to below as the 2012 consultation) and the additional evidence and views gathered during 2013.

Eligibility

13. In the 2012 consultation we proposed specific time and size limits for each eligible technology. Respondents suggested a wide range of alternative limits, with only a small number of respondents supporting our proposals (12 out of 54 respondents agreed with our proposals on time limits and 9 out of 55 agreed with our proposals on size limits). We have therefore developed a more flexible proposal for eligibility criteria.
14. We propose that there should be three additional eligibility criteria beyond the standard non-domestic RHI eligibility criteria. Any installation that receives a tariff guarantee will still be required to meet all the requirements for accreditation to the scheme at the point of accreditation or registration. The additional requirements are: installation capacity, time limit for commissioning, and achieving financial close. Further details about these criteria are set out below.

Capacity

15. In the 2012 consultation we set out a range of capacity limits for different technologies. These are set out in Table 1. Stakeholder feedback on these limits led to a wide and varied range of alternative suggestions but no consistent limits were provided.

Table 1: Size limits proposed in the 2012 consultation

Technology	Minimum capacity limit
Solar thermal	>45kWth
Biomass	200kWth
Heat pumps	100kWth
Biomethane	No minimum limit

16. The aim of tariff guarantees is to provide certainty to those projects that most need it, enabling projects that would otherwise be unable to go ahead due to tariff uncertainty to proceed.
17. We appreciate that an argument could be made that all or most projects are affected by tariff uncertainty to some degree, however, providing tariff guarantees to all projects would add to the administrative burden of the scheme to an extent that may not be worth the additional deployment it would bring, which would not provide good value for money. We therefore propose that tariff guarantees should focus on projects that most need additional

certainty to go ahead, those that represent the greatest financial commitment and those that have most impact towards the renewables target at cost effective tariffs.

18. With these factors in mind and based on additional engagement with stakeholders we propose that all RHI eligible CHP, deep geothermal and biomethane projects should be eligible for a tariff guarantee. Based on current deployment in the non-domestic RHI and the pipeline we are aware of, most projects using these technologies will be above (or significantly above) 1MWth and will tend to have long lead-in times.
19. For other technologies where we expect a wider range of sizes of installation in the scheme, we propose using the existing tariff bands where these exist, as this will enable better interaction with the budget management mechanism. We therefore propose that large biomass (ie over 1MWth) and large biogas (over 600kWth) should also be eligible for tariff guarantees.

Question

- | | |
|----|---|
| 1. | <p>Do you agree that:</p> <ul style="list-style-type: none"> - All biomass CHP, deep geothermal and biomethane installations; - Biomass installations over 1MWth; - Biogas installations over 600kWth; <p>should be eligible for tariff guarantees in the non-domestic RHI? If you do not agree, do you have any evidence, such the relationship between lead-in times, size and cost, to support any other size limits?</p> |
|----|---|

20. Heat pumps have strategic importance in terms of preparation for the mass roll out of renewable heat and meeting carbon targets. The heat pump tariff is not banded; based on stakeholder engagement and the current market we therefore propose that heat pumps with capacity above 500kWth should be eligible for tariff guarantees. We are interested in stakeholder views and evidence as to whether a limit of 500kWth is appropriate or whether this should be higher.

Question

- | | |
|----|---|
| 2. | <p>Should heat pumps of 500kWth and above be eligible for tariff guarantees or do you think there should be another minimum capacity? Do you have any evidence to support any particular size limits?</p> |
|----|---|

Timings

21. In the 2012 consultation we proposed a range of different tariff guarantee time limits by technology, with different time limits for new build and retrofit installations. These are set out in Table 2 below. The responses we received made it clear that all projects are different and that a one size fits all approach by technology would not be appropriate.

Table 2: Maximum time limits proposed in the 2012 consultation

Technology	New build	Retrofit
Solar thermal	6 months	18 months
Biomass	12 months	18 months
Heat pumps	12 months	18 months
Biomethane/Biogas	24 months	24 months

22. We therefore propose to increase the flexibility compared to our original proposals by setting the time limits on commissioning for each project individually, rather than using a predetermined time frame based on the technology that may not be relevant to the proposed installation. In order to reduce administrative burden and ensure applications are only made by those projects that are in need of a guarantee, we propose a minimum period of 6 months for all tariff guarantees, i.e. the earliest commissioning date would have to be at least 6 months after the tariff guarantee is confirmed.

23. It is important that the earliest commissioning date should be estimated as accurately as possible as this will be used both to set the time limit for the tariff guarantee and to forecast spend on the project for budget management purposes. We therefore propose that each project would have a 6 month window beyond their earliest commissioning date to retain their tariff guarantee to allow for delays to projects that mean they do not meet their earliest commissioning date. It is also important from the point of view of the applicant as the installation will not be able to join the scheme before this date (to allow for better compatibility with budget management) and the tariff guarantee will only be valid if the project is commissioned within the 6 month window. If the project exceeds the 6 month window and loses their tariff guarantee they will be eligible for the scheme tariff available at the time the plant is commissioned, which would be lower if depression has occurred.

Question	
3.	What factors affect the commission of large scale projects? What level of accuracy would you expect when estimating an earliest commissioning date? Do you have any evidence of tariff guarantee eligible project over runs?
4.	Do you agree with timescales for tariff guarantees being determined on a case by case basis, based on the earliest commissioning date provided by applicants, followed by a 6 month window? If not, what would you propose instead? Do you have any views on the potential benefits and risks of this approach?

24. The nature of the RHI budget settlement means we cannot offer tariff guarantees during one Spending Review period to projects that will commission during a future Spending Review period. However we do not want to limit deployment of the very long lead-in time projects (particularly CHP projects) that have the most need of additional certainty and the potential to deliver significant amounts of renewable heat energy that would make a notable contribution to the renewable targets. We also do not want to deployment levels to slow towards the end of the Spending Review as investors become concerned that projects may not commission in time.
25. We therefore propose that if projects take longer than the Spending Review period to build and commission, their tariff life time should start to count down from the end of the Spending Review. This would result in the project receiving the tariff for a shorter period of time (e.g. 19 years and 6 months of payments if they do not commission until 6 months into the following Spending Review period) but would mean they could retain their guaranteed RHI tariff. Our proposal is for the 6 month window beyond the earliest commissioning date to extend to a maximum of 6 months after the end of the Spending Review period.
26. In a tariff guarantee policy we would work with colleagues developing and implementing CfDs to ensure our work on policy development and application process is consistent and does not add unnecessary complexity for applicants to both schemes without providing them with additional benefits.

Question

- | | |
|----|---|
| 5. | Would allowing projects to keep their tariff guarantee beyond the Spending Review period, by allowing their 20 year tariff period to begin before the project is commissioned (meaning they receive payments for fewer than 20 years), enable very long lead-in time projects to go ahead and avoid slowing deployment levels at the end of the Spending Review period? |
|----|---|

27. As proposed in the 2012 consultation and agreed by the majority of respondents, once a tariff guarantee is awarded it would not be possible to sell or transfer it to another plant. A tariff guarantee would only be valid against the original plant it was awarded against and could only transfer to a new owner with the sale or transfer of that plant.

Financial Close

28. Providing projects with tariff guarantees would involve DECC committing the non-domestic RHI budget in advance. To be able to make this commitment we need to have as much assurance as possible that the project will go ahead. Given that tariffs and degression triggers have to be set out in regulations, if projects that are awarded tariff guarantees do not go ahead it will not be possible to use that budget allocation for other types of new project, resulting in a smaller amount of renewable heat generated by the scheme.
29. Through engagement with stakeholders we have established that most projects that fail will do so before achieving (or because they cannot achieve) financial close. After this point drop out rate is significantly reduced as financial commitment has been made. Therefore, we propose to require evidence that financial close has been achieved before a tariff guarantee is awarded.

Question	
6.	What factors, other than tariff certainty, might cause a project to fail after achieving financial close?
7.	Do you have any evidence for the proportion of projects which may not commission even after financial close? How does this compare to drop-out rates before financial close?

30. We propose that applicants would be able to start the application process prior to financial close. This would enable them to know that their proposed system is eligible and that, once financial close is achieved and demonstrated, their tariff will be guaranteed at the rate available on the date of financial close. The tariff guarantee would then be confirmed once proof of financial close is provided to Ofgem by the applicant.

31. This process would provide reassurance to DECC that guaranteed projects are likely to go ahead and also provide reassurance to applicants that a tariff guarantee is available and can be confirmed at the earliest opportunity.

32. Under this proposal, monthly scheme deployment data would continue to be published and notice of depressions would continue to be given so applicants could make a judgement as to how likely a depression would be between their application and financial close. This would also encourage applicants to pursue financial close following the application processes, as significant delay could result in a reduced tariff if a depression occurs.

33. Evidence of financial close is already used for applications to the Renewable Obligation (RO) within the biomass cap. Under that scheme, financial close is treated as being:

“When the developer has agreement from:

- Their Board (or from the Chief Executive, Director, Partners, Departmental Head etc if there is not a Board); and
- Each investor (if applicable);

which covers 100% of the financing expected to be needed for the construction of the project.”

34. We would anticipate applying a similar approach to financial close for the tariff guarantee and, as under the RO, could provide declaration forms to be signed by the developer and investors. Further detail on the process and forms used under the RO can be found on the gov.uk website: <https://www.gov.uk/government/publications/applying-for-a-place-within-the-400mw-cap-on-new-build-dedicated-biomass-projects-renewables-obligation>.

Question	
8.	Do you agree that a declaration similar to that used for applications under biomass cap to the RO would provide clear evidence that a project has achieved financial close? Do you have any alternative suggestions?

Application Process

35. As part of the consideration of tariff guarantees policy it is important that we explore how a tariff guarantee could be efficiently delivered. This could include three clear routes of application to the scheme: accreditation once the installation has been commissioned, preliminary accreditation and tariff guarantee, reflecting the different types of application that are made. All three routes would be based on the same standard RHI application with additional requirements for preliminary accreditation and tariff guarantees built in to those specific routes. We would develop any changes to the application process in partnership with Ofgem. Any application that was made for either preliminary accreditation/registration or a tariff guarantee would be required to meet all the requirements for accreditation to the scheme at the point of accreditation or registration.
36. An applicant for a tariff guarantee would be expected to provide as much of the full application for accreditation as possible at that early stage in development, along with :
- Expected annual eligible heat output;
 - Earliest commissioning date (as set out in the section on time limits).
37. Knowing the expected annual eligible heat output would enable DECC to predict the cost of the plant to the scheme and include it in a budget management mechanism. The proposal is not that this would be used as a limit on actual heat generation or for payment, but we would monitor the relationship between predicted and actual heat generation since it is important forecast estimates are made as accurately as possible.
38. Under the proposal, the earliest commissioning date would be the earliest point at which the plant could become accredited to the scheme and start receiving payments. This would be used to indicate when a plant will be counted against the budget for depression purposes.
39. Once all the necessary information (both these additional requirements and that required through the standard application process) has been provided to Ofgem's satisfaction, Ofgem could provide applicants with a statement that if their project is completed according to the plans provided, it will be eligible for the RHI; and that once they provide evidence of financial close it will be eligible for a tariff guarantee. Once evidence of financial close was provided to Ofgem the tariff guarantee would be awarded.
40. Any applications that could be awarded a tariff guarantee would be required to meet all the requirements for accreditation to the scheme at the point of accreditation or registration guarantee.

41. As set out above, the evidence applicants would need to require to demonstrate financial close is likely to be a similar declaration to that used by applications under the biomass cap to the RO. Having a standardised mechanism for demonstrating tariff guarantees would help the application and award for tariff guarantee to be a smooth process.

Question	
9.	How accurately can annual eligible heat output be predicted during project development?
10.	How long are the timescales to move from financial close to producing heat in projects you are involved in?
11.	What are the risks of anticompetitive behaviour, for example people underestimating the earliest commission date or over estimating the eligible heat output with the aim of triggering a depression for other participants?

42. In order to keep track of any developments in the project following the award of a tariff guarantee, we propose that applicants could be required to provide regular updates to Ofgem in the form of a declaration to confirm:

- That the project is still going ahead
- The earliest commissioning date of the plant is still up to date
- The expected eligible heat output

43. It could also provide an opportunity for the applicant to update any areas of the application that have changed during project development/build/commissioning (eg metering). We would expect declarations to be required at regular intervals during the lifetime of the tariff guarantee. The declaration could be provided on a standard, electronic format developed by DECC and Ofgem ensuring consistency for all applicants. We propose that declarations should be completed every 3 months. This would enable DECC to revise our forecasts if the eligible heat output or timescales of the project have altered, reducing the possibility of incorrect data being fed into the budget management mechanism for more than one quarter.

Question	
12.	Do you agree that a short declaration should be required from those with tariff guarantees every 3 months? If not, why not? What alternative period would you suggest and why?

Preliminary Accreditation

Current Policy

44. Preliminary accreditation (or preliminary registration in the case of biomethane projects) is currently available to medium and large biomass, deep geothermal and biomethane projects. It allows applicants to apply in advance of installation and provides assurance that a project will be eligible if completed as specified. It provides no assurance about the level of tariff that will apply.

Proposal for New Policy

45. As set out above, whilst we propose to only offer tariff guarantees to the largest, longest lead-in time projects that have most impact towards the 2020 target, we do accept that there could be an argument for providing additional certainty for other projects. We therefore propose to extend the current preliminary accreditation to heat pumps. We would however apply a lower limit on eligibility as there is a point at which the administrative burden becomes excessive compared to the benefits brought by additional certainty. An example lower limit would be the Microgeneration Certification Scheme (MCS) limit (currently 45 kWth).
46. We propose that preliminary accreditation would only be available to projects not eligible for tariff guarantees as this would reduce the level of complexity and cost associated with managing the different types of application and reflect the different levels of uncertainty inherent in different types of installation. CHP, deep geothermal, biomethane, biomass over 1MWth, biogas over 600kWth and heat pumps over 500kWth would be expected to apply via the tariff guarantee route or, alternatively, to not apply in advance and apply for accreditation once the project has commissioned.
47. We do not propose that application for tariff guarantee of preliminary accreditation would be obligatory and application for accreditation once the technology has been commissioned would still be available to all applicants.

Question	
13.	Do you agree that we should extend preliminary accreditation to heat pumps in the non-domestic RHI?
14.	Do you have any evidence that smaller non-domestic installations (heat pumps below the MCS Limit), biomass below 200kW (ie small biomass) and solar thermal could require preliminary accreditation?

Budget Management of Tariff Guarantees

Budget management in the non-domestic RHI

48. The non-domestic RHI is funded directly from government spending and is assigned annual budgets through Government Spending Reviews for each Spending Review period. The budgets are set so that spending less than the allocated budget in one year does not permit that underspend to be transferred to future years.
49. The budget for the non-domestic RHI is managed through degression; that is, reductions in the level of tariff for new applicants are made when pre-set levels of forecast spend (known as triggers) are reached or exceeded. Tests of whether triggers have been reached occur quarterly and one month's notice is provided before any reductions take effect. Forecast spend on the scheme is published monthly to allow participants to track deployment and estimate the likelihood of future degressions.
50. Triggers are set for each individual technology in the scheme and there is also an overall trigger for the entire non-domestic scheme. Degression is a flexible budget control mechanism and the level of any reduction applied depends on a number of factors, including: what combination of triggers is hit; whether a degression occurred last quarter (and what size that degression was); and growth in estimated spend over the last quarter. Further detail about the degression mechanism is set out in the following fact sheet, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209671/Degression_Factsheet.pdf.
51. Degression is, in general, an effective means of managing the budget in a demand led scheme like the RHI. It provides an effective balance between controlling spend and providing certainty of when changes to the tariff can happen. It controls spend as a degression results in new installations costing less and, over time, will impact on demand for the scheme. It also provides value for money to the taxpayer by reducing tariffs as the cost of installations becomes cheaper and the level of the incentive needed to encourage take up can be lowered. It provides greater certainty than, for example, a cap as the mechanism is set out in regulations and the regular publication of deployment levels mean that changes to the tariff should not be unexpected.
52. Any budget for the RHI from April 2016 will be determined as part of the Spending Review and there is currently no guarantee about the level of funding or that any budget will definitely be provided. How the budget for tariff guarantees should be managed will be affected by the total budget available. Some of the options and our preferred way forward at this time are set out below.

Counting applications for tariff guarantees towards the degression mechanism if integrated into the current mechanism

53. Providing projects with tariff guarantees involves DECC committing in advance that we will pay for those projects. If the policy was introduced, it would therefore be essential that any tariff guarantees are included within the budget management mechanism. Based on the current degression mechanism, there are three points in time at which we could start counting an application for a tariff guarantee in the forecast of spend used to determine whether degression triggers have been hit:

- When they apply for the tariff guarantee – this could result in over-aggressive degression, as we would be assessing against triggers set at dates before the plant has deployed and payments are being made;
- When they are commissioned and start generating heat (i.e. when they are accredited to the scheme) – this would be reflective of when they actually start impacting the budget but, given the long lead-in time for these projects, would mean that we did not send the signal to the market when deployment levels are higher than we are willing to fund. This could result in a long pipeline developing which could be likely to result in overspend in the long term;
- A forward interaction, in which we consider the impact of the tariff guarantee applications on future triggers and degress at the application if they would take us over future triggers.

54. The more sensible option in terms of balancing affordability and deployment, would seem to be the final option, however to calculate this forecast within the current degression mechanism could be very complex. In effect we would be comparing a future trajectory at each quarterly degression test rather than a specific point of forecast deployment. Whilst this is conceivable for tariff triggers, it would be challenging to also take account of growth triggers and the overall scheme trigger using this methodology.

An alternative approach

55. We are aware that degression has limitations when applied to very large projects and projects with very long lead-in times. A single large project being accredited onto the RHI scheme could result in forecast spend going significantly over the trigger and a single small degression does not have the same effect on projects with long lead-in times as on other projects. This means that, even after a degression, there is a risk that spend will continue well above the trigger and then flat line once the tariff degrades so far as to prevent projects from being cost effective, rather than deployment levels gradually tapering off as we would expect for smaller and shorter lead time projects.

56. As an alternative to the current degression mechanism, in the context of a tariff guarantee policy we could manage the budget for those installations eligible for a tariff guarantee separately. There are a number of potential ways this could be done. We have set out one example in Box 1, but would appreciate any alternative suggestions you may have.

57. If the budget for projects eligible for tariff guarantees was managed separately from other technologies, any depressions due to tariff guarantees would only apply to new applications for tariff guarantees. This means the tariffs applied to projects eligible for tariff guarantees and projects not eligible (eg in the heat pump tariff) could gradually diverge as the levels of larger and smaller deployment, and therefore the results of their different depression mechanisms, diverge.
58. This approach to budget management would mean that, once depression triggers and budget lines had been set in the regulations, it would not be possible to move budget between the different pots (i.e. from non-tariff guarantee installations to tariff guarantee installations or vice versa) without changing the regulations.

Box 1 – Option for an alternative budget management mechanism for tariff guarantees

- Tariff guarantees would be managed separately; forecast expenditure from tariff guarantees would not trigger a depression for other types of new applications and forecast expenditure from other applications would not trigger a depression for new applications for tariff guarantees.
- We could set out future depression points for a particular tariff or group of tariffs as a line, the “trigger line”.
- Above that line would be another line associated with that tariff or group of tariffs, the “max spend line”.
- Spend would be forecast for the entire Spending Review period based on all applications for tariff guarantees that had been received.
- Each quarter we would recalculate the forecast spend and compare to the two lines.
- If the calculated forecast was above the trigger line at any point along the trajectory, the tariff would be degressed.
- If the calculated forecast was above the upper line we would stop accepting applications for tariff guarantees from projects due to commission in the period where the forecast is above the upper line.
- We would continue to accept applications for tariff guarantees for projects due to commission in periods where forecast spend was not above the upper line, but at a degressed tariff.
- There would be regular publications of data so that those involved in projects could track the likelihood of a depression occurring.
- A variant on this might be to split the trigger line into a series of lower lines and use these as triggers for smaller depressions, increasing to a larger depression at the trigger line. This would provide warning for projects approaching financial close ahead of reaching the max spend line, however it would result in the tariff decreasing sooner and more frequently.

Question	
15.	<p>Do you agree that tariff guaranteed applications should be treated in a different way to other applications for budget management?</p> <ul style="list-style-type: none">- If so, do you have any comments about the alternative approach set out?- If not, how do you think tariff guaranteed applications should be integrated with degression and why?
16	<p>Do you have any alternative suggestions for budget management of tariff guarantees?</p>

Understanding the impact of tariff guarantees on availability of finance

59. As referenced above, we have engaged extensively with stakeholders since the 2012 consultation and are very grateful for the advice and evidence provided. We are always keen to continue to build our evidence on certainty.

60. One of the key measures by which we can judge effectiveness of the tariff guarantee is the financing mechanism used for renewable heating projects and the impact a tariff guarantee would have on the availability of those mechanisms. Your evidence and answers to the question below will help us improve our understanding of this important measure of the impact of tariff guarantees.

Question	
17.	Thinking about the period up to 2020, what financing mechanisms do you expect to be used for different technology types? How is the choice of financing mechanism for renewable heat projects determined? (for example the riskiness of the project, achievable rate of return etc)
18.	How do the different investors through the financing mechanisms outlined in Q.17 treat potential income from RHI and heat in general?
19.	What proportion of revenues from a renewable heating project come from the RHI tariff compared to other income sources for the project?

61. We wish to understand more clearly the timelines for large projects of different technologies, size and heat use. This will help us best design the tariff guarantee policy and help inform future policy development.

Question	
20.	<p>Could you set out a typical journey for a project from inception to completion, highlighting the key stages and milestones (eg financial close, start construction)? How long does each step take and what happens during it?</p> <p>Please use 'Table 3 – Milestones and stages in a project' as a guide.</p>

62. The table below shows the kind of key milestones in a project that we are interested in knowing more about. It is not an exhaustive list, but designed to demonstrate the types of milestones we would be interested in. All projects are different and there may be other milestones which are important to your project, for example a deep geothermal project will have an exploratory drilling phase, a CHP project may also apply for other government support schemes such as CfDs, a biomethane injection project will have a network entry agreement; please include these where necessary.

63. It would help us to understand project timelines and development better if you could detail indicative timings for each tranche and the various milestones.

Table 3 – Milestones and stages in a project

Tranches	Project Inception	Financing	Construction	Commissioning	Producing Eligible Heat
Suggested Milestones	Planning permission	Find finance	Buildings	Grid connection	Claiming the RHI
	Public consultation	Financial close	Install renewable heat source	Connect to heating network	
	Project viability		Heat infrastructure		
	Establish heat customer				

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