

Addendum to Domestic RHI Consultation

Application of the value for money cap on tariffs.

The purpose of this addendum is to provide updated information about the proposed policy in the domestic RHI consultation document to enable potential respondents to make as full and informed a response as possible.

Chapter 4 of the current consultation on a domestic RHI sets out our proposed approach to designing tariffs. This includes a proposal that tariffs should be calibrated against the cost of offshore wind¹ and expresses that as a subsidy cap of 17.3p per kWh for tariffs of all technologies. This was calculated on the basis of converting the cost of offshore wind paid through the Renewable Obligation into the same type of subsidy structure proposed for the RHI i.e. a subsidy paid over 7 years for 20 years' of heat. However, this does not take into account the fact that not all of the heat generated by heat pumps counts as renewable under Annex VII in the Renewable Energy Directive. We have identified this error through our continued work on the policy and evidence base and stakeholders have also commented on this at engagement events.

Recalculating the tariff cap to account for the fact that not all of the heat from heat pumps is renewable would result in a lower cap, although how much lower depends on the efficiency assumed. An alternative approach would be to pay only for renewable heat generated (i.e. net of any electrical input required to generate the heat) rather than all heat (as proposed in the consultation document). This would mean RHI payments were higher for installations with a higher Seasonal Performance Factor (SPF).

If, in finalising the policy, DECC decides to apply the concept of a value for money cap based on the cost of offshore wind, this would be likely to affect the tariff offered for ground-source heat pumps and may affect the tariff offered for air-source heat pumps or the deeming methodology. All of this depends on the assumptions made about efficiency and on the evidence base when calibrating tariffs which, as set out in the consultation document and the impact assessment, is currently being updated.

The consultation document is very clear throughout that tariff levels are likely to change as a result of the consultation including potential changes to underpinning assumptions. We also set out the requirement to balance value for money and developing the market, and introduce options such as partially or fully removing the cap, introducing tariffs below the level of the cap because of changes to the evidence base, or changing the cap to include a factor for relative carbon savings or other benefits of the technology.²

¹ Page 52

² Page 55

Additionally, in chapter 5, we set out options for raising the performance of renewable heat technologies, including by paying a greater subsidy for more efficient technologies and a lower subsidy for less efficient technologies.

Although the consultation document already makes clear that tariff levels are likely to change (including by virtue of the application of a value for money cap), we are keen to ensure that consultees recognise the fact that not all heat generated by heat pumps is “renewable” within the meaning of the Directive and that this may influence the way in which we set tariffs for heat pumps including for example the actual tariff levels, the level and the calibration or application of any value for money cap, and the way in which we determine the heat for which a tariff should be paid.

The consultation is still open and we ask a number of questions about the tariff ranges indicated for each of the technologies. The evidence that is provided by stakeholders on these will help us to make the decision as to how we set the final tariffs. We would urge all respondents to consider whether the additional information provided here about the calibration of tariffs affects their response and to ensure that they provide their views and any supporting evidence accordingly. We would also welcome consultees’ views on whether there are any other ways in which this issue might be addressed within the domestic RHI.

The impact assessment does take into account the electricity required to generate heat via heat pumps. The total projections of renewable energy generated and total costs of the scheme set out in the Impact Assessment therefore reflect the correct accounting of renewable heat.

Although this issue affects heat pumps primarily, it may be appropriate to take a similar approach to efficiency of solar thermal and biomass technologies. As is apparent from Chapter 5 of the consultation document, we are interested in raising the performance of all renewable installations – which might include incentivising more efficient installations by taking efficiency into account when setting tariff levels.

DECC is continuing to consult on this and the full range of issues within the consultation document until December 7th. We will be engaging with all major trade associations as well as individual companies and organisations throughout that period. However, if you would like to attend one of these industry sessions to understand this issue further please contact Nicola Martin (Nicola.martin@decc.gsi.gov.uk).