



Department for
Business, Energy
& Industrial Strategy

NON-DOMESTIC RENEWABLE HEAT INCENTIVE: ELIGIBLE HEAT USES

Changes to eligible heat uses:

Government Response to Chapter 2 of
consultation

January 2018

RENEWABLE HEAT INCENTIVE: ELIGIBLE HEAT USES

Changes to Eligible Heat Uses

The consultation can be found on the BEIS section of GOV.UK:
<https://www.gov.uk/government/consultations/the-non-domestic-renewable-heat-incentive-further-proposed-amendments>

Acknowledgements

BEIS would like to thank all stakeholders who took the time to respond to the consultation.

Renewable Heat Incentive

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Any enquiries regarding this publication should be sent to us at rhi.consultations@beis.gov.uk.

General information

Purpose of this document

This document sets out the Government's decisions on eligible heat use reforms following consultation in Chapter 2 of the consultation "[The Non-domestic Renewable Heat Incentive: further proposed amendments](#)". It also sets out how these decisions will be implemented.

Government decisions on the other proposals made in the September 2017 consultation will be published later this year.

Issued: 29 January 2018

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Quality assurance

This consultation has been carried out in accordance with the [Government's Consultation Principles](#).

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

Email: beis.bru@beis.gov.uk

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Introduction

The Industrial Strategy set out four Grand Challenges to put the UK at the forefront of the industries of the future¹. One of these Grand Challenges is maximising the advantages for UK industry from the global shift to clean growth. The framework for achieving clean growth and affordable energy for businesses and households was set out in the recent Clean Growth Strategy² and sits at the heart of the Industrial Strategy.

Through the Renewable Heat Incentive (RHI), we are spending £4.5 billion between 2016 and 2021 to support innovative low carbon heat technologies in homes and businesses, such as heat pumps, biomass boilers and solar water heaters. We are also reforming the RHI to focus the scheme towards long-term decarbonisation through greater uptake of technologies such as heat pumps and bio methane (biogas to grid).

In September 2017 the Government published a consultation “[The Non-domestic Renewable Heat Incentive: further proposed amendments](#)”. This consultation made a range of proposals for changes to the Non-domestic RHI scheme rules. These included changes to rules relating to eligible heat uses, very large plant, multiple installations, environmental permitting, replacement plant and the use of estimated data together with some proposals relating to biomethane plants in particular.

Responses to the questions on eligible heat uses were requested by 3 October 2017 in order to allow the Government to consider implementing eligible heat use reforms alongside implementation of the remainder of the RHI reforms announced in December 2016. Responses on other issues covered by the September 2017 consultation (very large plant, multiple installations, biomethane proposals and other cross-cutting issues) were requested for the end of October 2017. The Government will respond separately on these issues.

¹ <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

² <https://www.gov.uk/government/publications/clean-growth-strategy>

Background on Eligible Heat Use Proposals

In the Non-domestic RHI scheme payments can only be made for renewable heat used for eligible purposes. The specified eligible purposes are:

- heating a space, heating water, carrying out a process within a building; or
- carrying out commercial cleaning or drying processes outside of a building.

The Non-domestic RHI regulations also set out a number of ineligible heat uses where RHI payments may not be made³ and state that participants must not generate heat for the predominant purpose of increasing their periodic support payments.

In the September 2017 consultation, "[The Non-domestic Renewable Heat Incentive: further proposed amendments](#)", the Government made a number of proposals to tighten the rules relating to various heat uses on the Non-domestic RHI, including removing all drying practices as an eligible heat use for new participants. The Government also suggested removing particular categories of eligible heat use, asking for evidence on removing practices such as wood drying, waste drying, crop drying and aquaculture.

Alongside the questions on drying, the Government asked for evidence on restricting the eligibility of domestic swimming pools on the Non-domestic RHI and limiting Non-domestic RHI support where heat is being provided to a single domestic property as part of a Non-domestic RHI installation.

The Government also asked for views on the type of evidence that should be provided by applicants to demonstrate that they have a genuine heat demand.

The Government received 115 responses to its proposals relating to eligible heat use reforms. A summary of responses is at Annex A.

³ Ineligible heat uses include: cooling generated by heat pumps run in reverse; using renewable heat to generate electricity; process internal heat (sometimes referred to as parasitic loads), i.e. heat that is subsequently used in the generation of heat, is normally not eligible for RHI support; and heat rejected from a system and not subsequently used for eligible purposes, or vented directly to the atmosphere.

Government Response

A summary of the Government's decisions on the eligible heat use proposals is provided below, with more detail on the specific changes provided in the following sections. The Government intends to implement these eligible heat use changes alongside the implementation of the remainder of the RHI reforms announced in December 2016. This is currently anticipated for spring 2018.

Summary

- The Government does not intend to remove all drying practices as eligible heat uses.

However, the Government will:

- remove wood-fuel drying as an eligible heat use other than where the renewable heat installation is replacing a fossil fuel heat source. A transition period will be included to allow wood-fuel drying plant that are in development to be accredited;
- remove the drying, cleaning or processing of waste as an eligible heat use; and
- further tighten the eligibility of swimming pools so that only swimming pools that are used for a municipal or commercial purpose receive Non-domestic RHI support.

These changes will apply to new participants (or existing participants who add capacity on or after the date the reforms come into effect) or where a participant otherwise begins to use heat generated by the installation for an ineligible heat use on or after the date the reforms come into effect. New participants are those who apply for accreditation after the new rules come into force.

- Additionally, the Government will amend RHI scheme rules so that installations where heat is produced predominantly for a single domestic premises will no longer be eligible under the Non-domestic RHI.
- The Government will not, at this time, amend the eligible heat use criteria in relation to any other heat uses.

In response to the September 2017 consultation, the Government received a number of responses that supported the introduction of further evidence requirements to ensure that Non-domestic RHI applicants have a genuine, economically justifiable use for the heat they propose generating. The Government therefore intends to develop more options in this area with a view to introducing further changes in future.

Drying

The Government recognises that Non-domestic RHI support is used to decarbonise a wide variety of processes in which drying plays a legitimate and integral role. The introduction of a blanket ban on Non-domestic RHI support for all drying practices could therefore have unintended consequences and reduce the scheme's ability to assist with decarbonising non-domestic heat uses. In addition, the evidence of poor drying practices is much stronger in some sectors than others. For these reasons the Government has decided against introducing a blanket ban on Non-domestic RHI support for all drying practices.

Wood-fuel drying

The December 2016 Government response stated that there would be further work to assess whether wood fuel drying should remain as an eligible heat use, as concerns about the value for money of RHI support for this heat use were raised in a number of the responses to this consultation, including from industry organisations.

Further to this, the September 2017 consultation asked whether or not the Non-domestic RHI should continue to support the drying of wood fuel. The Government received a wide range of responses to this question. These are outlined at Annex A.

Responses to the consultation put forward several reasons for retaining wood-fuel drying as an eligible heat use. These are set out in more detail as part of Annex A. In summary, the two main arguments put forward for retaining wood-fuel drying were that:

- dried wood-fuel is necessary to ensure the efficient operation of biomass boilers; and
- growth in the production of wood-fuel, and particularly wood pellets, is dependent upon continued RHI support.

However, the Government remains concerned that supporting wood-fuel drying does not provide good value for money and intends to remove it as eligible heat use within the Non-domestic RHI.

The Government has considered the impact that this amendment to the scheme rules will have on the future growth of the wood-fuel market. However, the Non-domestic RHI was designed to bridge the difference in cost between fossil fuel heating and sources of renewable heat only. It is designed to support non-domestic heat uses that, without RHI support, would exist through using a fossil fuel heat source. It is not intended to provide a wider subsidy or, by itself, make a business economically viable. This would not represent value for money, nor would it contribute to carbon reduction. The Government also remains concerned that some wood fuel-drying would not be viable in the absence of RHI support.

The Government has therefore decided to retain wood-fuel drying as an eligible heat use where applicants can demonstrate that they are replacing a fossil fuel heat source of a similar capacity which has been used to dry wood-fuel **on a commercial basis** in two out of the three preceding years. This is in line with the scheme's objective to support a shift from fossil fuel use to the use of renewable sources of heating.

Where a renewable installation replaces a fossil fuel heat source, the applicant will have to provide evidence to satisfy Ofgem that the installation is replacing a fossil fuel heat source, with a similar heat output, which has been used to dry wood-fuel in two out of the three preceding years and of fossil fuel records covering the same period. Ofgem will publish guidance for applicants on this point.

The changes described here will apply to new participants (those who apply for accreditation after the new rules come into force), to existing participants who add capacity and to existing participants who inform Ofgem that they have amended their existing heat use to begin drying wood-fuel. These changes will apply from the date the reforms come into effect.

In recognition of the lead time associated with some plant, the Government will put in place a transition period for plant that are demonstrably already in development at the point the Government response is published. Where applicants can demonstrate to Ofgem that they had started development before the date of publication of this response, they will be given a six month period after the date the reforms come into effect to apply for accreditation to the RHI. Ofgem may request evidence from applicants including evidence of planning permission (where relevant), evidence of construction costs and evidence that equipment has been purchased.

The Government also notes that a range of other concerns were expressed in responses to the consultation. In particular that some producers of wood-fuel may have adopted inefficient drying processes, including over-drying wood-fuel, and that, while the wood-fuel drying receives RHI support, there is less incentive for the industry to develop more efficient processes. Although Ofgem can and will take action where participants are found to be attempting to maximise RHI payments through inefficient practices, the Government remains concerned that inefficient practice does not provide either good value for money or carbon reduction benefits.

Some of those who responded to the consultation also provided the view that the dried wood-fuel market has already reached the point of saturation and that the level of drying capacity now exceeds present, and future, demand.

The Government also received a number of responses highlighting that not only has the Non-domestic RHI supported wood-fuel drying to date, it has also been successful in creating a market into which dried wood-fuel can be sold. As a result, those who are drying wood-fuel for use in RHI boilers may effectively be receiving a double benefit from the

Non-domestic RHI, once at the point of production and again at the point of sale. In this case, both the producer of wood fuel, and the end user, may be receiving the benefit of RHI support.

Waste Drying

The consultation asked whether the drying of industrial or municipal waste should receive support under the Non-domestic RHI. The Government is aware of a small number of examples where waste is dried to reduce the weight and, therefore, gate fees at landfill sites. The Government has not seen evidence that this is a practice that would routinely take place in the absence of RHI support and therefore supporting this activity does not contribute to carbon savings, nor does it represent value for money.

Whilst a small number of consultation responses referenced emerging waste recovery processes that may benefit from support from the RHI scheme, the Government is concerned that, overall, there are few benefits to allowing waste to be dried by RHI supported installations and has therefore decided that waste drying should be ineligible for RHI support. The Government has decided to extend the exclusion of RHI support to practices that are described by applicants as cleaning or processing waste. This is to avoid scenarios where, for example, an applicant could claim that they are not drying waste but cleaning or processing it.

This change will apply to new participants (those who apply after the new rules come into force) and to existing participants who add capacity on or after the date the reforms come into effect. It will also apply to existing participants who inform Ofgem that they have amended their existing heat use to begin drying waste. The transition period provided for participants who intend to dry wood-fuel will not be extended to the drying, cleaning or processing of waste. This is because the Government considers that, on balance, the drying of waste does not offer good value for money for the Non-domestic RHI scheme.

Other drying: drying of crops, animal bedding and animal feed

The Government also set out proposals to restrict or remove the drying of other biomass (e.g. crops) as an eligible heat use. Around 70% of responses to this proposal argued that other drying uses, and particularly crop drying, should be retained as eligible heat uses on the Non-domestic RHI scheme.

As the consultation noted, there is much less evidence of inefficient and uneconomical drying in these areas, but the Government wanted to use this consultation to gather evidence on this point. The responses to the consultation did not suggest that there were systemic issues in these sectors and evidence was provided of the requirement to dry crops, including where renewable heat was replacing fossil fuel heating. On this basis the Government is content to retain the drying of other, non-woody, biomass as an eligible heat use.

Aquaculture

The Government also asked for evidence on removing aquaculture as an eligible heat use. Around 22% of respondents supported this position. However, strong evidence for removing aquaculture as an eligible heat use was not provided. In light of the low deployment in this area to date, the Government does not propose to remove aquaculture as an eligible heat use.

The Government will continue to monitor scheme data on all of these eligible heat uses and will work with Ofgem to take early action if evidence of scheme abuse emerges.

Swimming pools

Swimming pools only receive Non-domestic RHI support where they are enclosed and where they have either a Non-domestic purpose or form part of a system supplying heat to more than one domestic property. In the consultation, the Government proposed ending support for heating swimming pools on the Non-domestic RHI where the swimming pool is within a domestic premises. Over half of those who responded to this question supported the proposal to further tighten eligibility in this area. As a result, the Government intends to amend the regulations so that RHI support will only be provided where a swimming pool has a municipal or commercial use (for example, hotels, leisure centres, schools, commercial holiday lets, etc).

This will ensure that the Non-domestic RHI budget is being spent on non-domestic heat uses. It will also align the Non-domestic RHI rules on domestic swimming pools with those of the Domestic RHI scheme, where domestic swimming pools are not eligible for support.

Non-domestic RHI support for single domestic properties

The Non-domestic RHI excludes installations where the heat is being generated solely for the use of one domestic property. However, currently an installation is eligible for the Non-domestic scheme where it provides heat for an eligible non-domestic use as well as to a single domestic property. As set out in the consultation, the Government is concerned that this has allowed some installations to accredit onto the Non-domestic RHI where the minority of the heat generated is being used for an eligible non-domestic purpose, whilst the majority of heat is being used to heat a single domestic property. This is not in line with the policy intent. In addition, the Government is concerned that the introduction of heat demand limits may cause some applicants to attempt to avoid the heat demand limits on the Domestic RHI by accrediting to the Non-domestic RHI on the basis of a nominal non-domestic heat use.

In response to these issues, the Government proposed limiting the proportion of heat that may be provided to the single domestic property to between 30-50% of total eligible

metered heat produced in a single reporting year. Around 60% of those who answered this question agreed with this approach.

The Government has decided to amend the Non-domestic RHI rules to make clear that where an installation's heat is predominantly being produced for the purpose of heating a single domestic property (ie. over 50% of heat produced annually is for a single domestic property) that installation will no longer be eligible to be accredited on the Non-domestic RHI scheme. This change will only be applied to those who apply to be accredited to the scheme after the amending regulations come into force. It will not impact existing participants.

This approach recognises that some sites will necessarily need renewable heating for a single domestic property as well as for a non-domestic heat use, but ensures that the majority of heat must be for a non-domestic purpose to receive support under the Non-domestic RHI.

Installations where heat is provided to multiple domestic properties by a single source will continue to be eligible under the Non-domestic scheme. Where a separate heating source is being used only for domestic purposes, the participant may separately apply to the Domestic RHI scheme as at present.

Ofgem will continue to scrutinise accredited Non-domestic RHI installations heating a single domestic property and may take enforcement action where it has cause to believe an installation has been configured solely to maximise RHI payments.

Evidence requirements

Where Ofgem has reason to believe a heat use has been manufactured with the sole intent of maximising RHI payments it can, and does, seek evidence from applicants or participants to test whether the heat use is genuine. In addition, the consultation document asked whether RHI applicants should be required to provide further evidence that they have a genuine, economically justifiable use for the heat they propose generating.

Around 80% of those who answered this question agreed that such a check could usefully be added to the RHI application process. The Government therefore intends to develop more options in this area with a view to introducing further changes in future.

When will these changes take effect?

The Government intends to lay a set of regulations shortly that will implement the remainder of the reforms announced in December 2016 and implementing the decisions set out in this document. They will come into force once the parliamentary process is complete. This is currently anticipated for spring 2018.

What does this mean for me?

These changes will apply to new participants (those who apply after the new rules come into force), or existing participants who add capacity from the date the reforms come into effect. This is currently anticipated for spring 2018.

Assesment of Impacts

The changes outlined in this government response will be put before parliament as part of a wider set of RHI reforms. The government will publish an Impact Assessment to accompany the regulations that have been laid to reform the RHI scheme. This Impact Assessment takes into account the changes described within this government response.

Annex A: Analysis of consultation responses

Questions 1 to 4: Drying as an eligible heat use

Consultation Proposal

The Government made a number of proposals to tighten the eligibility of drying practices on the Non-domestic RHI, including removing all drying practices as an eligible heat use. The Government also suggested removing particular categories of eligible heat use, asking for evidence on removing practices such as wood drying, waste drying, crop drying and aquaculture.

Consultation Questions	
1.	Do you agree that all drying should be removed as an eligible heat use?
2.	Do you agree that wood fuel drying should no longer be eligible for RHI support? Wood fuel means a fuel which is wood or wholly derived from wood and includes wood chips, briquettes, pellets and logs.
3.	Do you think that biomass drying should no longer be eligible for RHI support? Biomass means material, other than fossil fuel or peat, which is, or is derived directly or indirectly from, plant matter, animal matter, fungi or algae and also includes wood fuel as defined under question 2 above.
4.	Do you think that support for other forms of drying should no longer be eligible for RHI support? In particular: <ul style="list-style-type: none"><i>i.</i> crop/grain drying<i>ii.</i> drying material for use as animal bedding<i>iii.</i> drying material for use as animal feed<i>iv.</i> any kind of waste drying.

Summary of responses

There were 115 responses to the Government's proposals in relation to reforms to drying as an eligible heat use.

Around 80% of those who responded disagreed with proposals to remove all drying as an eligible heat use (Q1), including because such a step would reduce the benefits of the RHI

scheme and adversely impact the desired outcome of the reforms announced in December 2016. Several responses to this question highlighted the importance of reducing the carbon impact of industrial heat uses, including where these processes involve drying, to the RHI scheme aims. Other respondents suggested that RHI support should only be provided where it can be demonstrated an existing fossil fuel heat use is being replaced.

Wood Drying

Almost 65% of respondents disagreed with the Government's proposal to remove all wood drying as an eligible heat use (Q2). Almost all those who responded to this question also provided comments on the proposal, presenting a range of different views.

Respondents consistently suggested that, as a minimum, wood drying should be permitted where the renewable heating installation is replacing a fossil fuel use.

A number of respondents articulated concerns that removing wood-fuel drying as an eligible heat use would be unfair on existing RHI participants who have already invested in drying equipment. However, as made clear elsewhere in this document, changes to eligibility will not be applied retrospectively, but only to new applicants, where additional capacity is being added or where existing participants intend to change an existing heat use to instead dry wood-fuel.

A number of respondents highlighted that it is important that those using biomass have access to fuel with a low moisture content.

Two respondents expressed a view that wood-fuel production is subject to the economic rule of supply and demand; that is, that the sector will only grow where there is demand for the product. However, a number of respondents expressed concern that as long as RHI payments are made to participants drying wood-fuel, the market will grow to beyond the point of demand. A small number of respondents argued that a distorted market, where the price of wood-fuel may effectively be subsidised by RHI payments, may cause the displacement of other forms of low carbon heating or to undermine other uses of wood.

On a similar theme, several respondents offered a view that not only has the Non-domestic RHI supported wood-fuel drying, it has also created a market, itself supported by the RHI, into which dried wood-fuel can be sold. Therefore, those who are drying wood-fuel for use in RHI boilers are effectively receiving a double benefit from the Non-domestic RHI, once at the point of production and again at the point of sale. In contrast, several wood pellet manufacturers indicated that future expansion is, in part, reliant upon RHI support to produce competitively-priced fuel.

Four respondents proposed that the dried wood-fuel market has already reached the point of saturation and that the level of drying capacity now exceeds present and future demand.

One respondent expressed a view that ongoing support to the wood-drying industry would not, in the long term, help the industry to become self-sustaining.

Finally, a number of those who responded to this question expressed a view that inefficient drying processes exist and that, while the wood-fuel drying receives RHI support, there is less incentive for the industry to develop more efficient processes.

Other Forms of Drying

Around 80% of respondents disagreed with proposals to remove other forms of drying, particularly crop drying, as an eligible heat use (Q3 and 4). In particular a number of respondents drew attention to the requirement that crops are dried to avoid damp and the key role of biomass boilers in this process. Respondents drew attention to parts of the country where, due to damp weather, this practice is of particular importance. Respondents also provided evidence of this practice being undertaken by fossil-fuel powered installations.

Detailed comments provided in response to the consultation expressed general support for the Government's proposal that waste drying should be removed as an eligible heat use. Responses suggested that there is no discernible environmental or social benefit from drying waste that would otherwise be destined for landfill. While a small number of respondents highlighted waste recovery processes that would benefit from RHI support, the majority of respondents indicated that supporting renewable heat in this sector may encourage the practice of drying waste to reduce landfill fees only.

Questions 5 to 7: other heat uses

Consultation Proposal

The Government proposed a number of further amendments to the Non-domestic RHI eligible heat use criteria. These included proposals on changing the eligibility of domestic swimming pools and aquaculture, as well as a proposal that the rules concerning support to single domestic properties are tightened.

Consultation Questions

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| 5. | Do you agree that swimming pools used for domestic purposes (as defined in Regulation 15 of the Renewable Heat Incentive Scheme Regulations 2011), or where the swimming pool is not used for a commercial purpose should no longer be eligible for RHI support? Under this proposal swimming pools open to the public (for example, at leisure centres, gyms, hospitals and health clubs) would |
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Consultation Questions

	still be eligible for support.
6.	Do you think that heat used for aquaculture should no longer be eligible for RHI support?
7.	<p>a) Do you agree that the Government should limit the proportion of heat that can be provided to a single domestic building by a single installation supported by Non-domestic RHI?</p> <p>b) Please provide any available evidence in support of your response including, where relevant, evidence of where this limit should be set (i.e. the proportion of heat that should be allowed to heat a single domestic property).</p>

Summary of responses

Around two thirds of those who answered the question on the eligibility of swimming pools agreed with the Government's proposal that Non-domestic RHI support should only be provided where the swimming pool is being used commercially.

Less than 30% of respondents agreed that the eligibility requirements should be tightened with regards to aquaculture. Very little evidence was provided in response to this question however respondents proposed that further work should be conducted in future to ensure that the Non-domestic RHI only supports aquaculture where there is an efficient use of heat.

Around two thirds of respondents agreed with the proposal to tighten the requirements where heat is being provided to a single domestic property as well as for a non-domestic purpose. No additional evidence was provided in response to this question.

Question 8: evidence requirements

The Government proposed that applicants to the Non-domestic RHI should be required to declare and evidence that proposed heat uses have a genuine and commercially viable purpose.

Consultation Questions

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| 8. | Do you agree with the Government's proposal that applicants to the RHI should be required to declare (and where requested by Ofgem, provide evidence) that proposed heat uses have a genuine and commercially viable purpose and/or provide evidence that the installation of their renewable heating system is displacing a form of fossil fuel heating? |
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Summary of responses

Around 80% of respondents agreed that there should be some tightening of evidence requirements. A number of suggestions were proposed including a requirement that applicants submit a business case to Ofgem and also that Ofgem develop a set of minimum industry standards for different drying processes, which set out the minimum expected efficiency of drying systems.

Other respondents expressed concerns that introducing an economic justification test may inadvertently lead to legitimate projects being refused accreditation.

