



Department for
Business, Energy
& Industrial Strategy

Non-domestic Renewable Heat Incentive (NDRHI) Factsheet – Degression Mechanism

Summary

As annual budgets for the Renewable Heat Incentive (RHI)¹ are fixed, the government needs to ensure that the scheme stays within budget and that it offers value for money to taxpayers who funds the scheme. At the same time, those who are considering installing renewable heat need to know what support is available to them.

Since April 2014, the primary means of controlling the budget for the Non-domestic RHI has been through a system of automatic tariff reductions known as degression. Any tariff reduced following a degression is only applicable to new applicants.

As of 22 May 2018, the degression methodology has changed and new degression rules were introduced for each scheme. We have reformed the RHI's budget management rules to take into account projects with tariff guarantees (TGs) and to simplify degression rules. These changes have taken place following the [consultation response](#) published in December 2016.

The starting points for setting degression thresholds are projected growth trajectories for each technology, expressed in terms of spend committed for each technology or technology group. Technologies deploying along or below their expected growth trajectory should not be degressed (i.e. they will deploy from 2018 to 2021 at the same tariff²). For technologies not eligible for a tariff guarantee, thresholds will follow expected growth trajectories. For TG technologies, the profile of their thresholds are front-loaded to take into account the fact that spend committed through TGs will be counted in full when each TG is awarded.

Degression is subject to a quarterly cycle of assessments, as follows:

Process	Date			
	Quarterly expenditure forecast statements	1 March	1 June,	1 September
Assessment based on scheme deployment to:	31 January	30 April	31 July	31 October
Any tariff changes would take effect from:	1 April	1 July	1 October	1 January

¹ <https://www.gov.uk/non-domestic-renewable-heat-incentive>

² Changing only by the annual increase for inflation

Applicants who are accredited or registered onto the scheme after the notice period ends will receive new (reduced) tariffs. Those who have been granted a Tariff Guarantee are protected from degeneration and will receive their agreed tariff rate despite any reductions to the prevailing tariff.

Monthly updates of how the scheme is performing, and progress towards expenditure thresholds will be published on the BEIS section of the [GOV.UK website](https://www.gov.uk).

Changes to tariff categories

As part of the RHI reforms, BEIS have changed the groupings of technology categories from April 2018 to account for the introduction of tariff guarantees.

There will now be one pot for all sizes of biomass and a separate pot for CHP. Biogas will be split between small and medium biogas (below 600kW) and large biogas (600kW and above) which will now be grouped together with biomethane. Whilst the categorisation for air source heat pumps remains the same, small ground source heat pumps will now be split into small ground source heat pumps (below 100kW) and large ground source heat pumps (100kW and above). There are no changes to the categorisation of deep geothermal and solar thermal technologies.

Of these technologies, biomass 1MWth and above, biogas 600kWth and above, biomass CHP, deep geothermal, biomethane and ground source heat pumps 100kWth and above (including shared ground loop systems 100kWth and above) are eligible for tariff guarantees. These are shown in **bold text** below.

Old	New
Small biomass	Biomass below 1MW Biomass 1MW and above
Medium biomass	
Large biomass	
Biomass CHP	CHP
All biogas	Small and medium biogas (below 600kW)
	Large biogas (600kW and above) Biomethane
Biomethane	
Air source heat pumps	Air source heat pumps
Ground source heat pumps	Small GSHP (below 100kW)
	Large GSHP (100kW and above)
Deep geothermal	Deep geothermal
Solar thermal	Solar thermal

Where technologies are pooled into pots for degression, their expenditure will be combined for the purposes of expenditure assessment. Any degression will be applied to all technologies within a pot, although their starting tariffs may or may not be different.

How degressions occur

The Renewable Heat Incentive Scheme Regulations 2018 (the “RHI Regulations”) set out the circumstances under which reductions to tariff can be made, their frequency and levels. Where the conditions are met to trigger a tariff reduction, a low-level reduction will initially apply, starting at 10%. The level of reduction can increase, but only if uptake under the scheme remains higher than is affordable.

The level of tariff reduction will depend on:

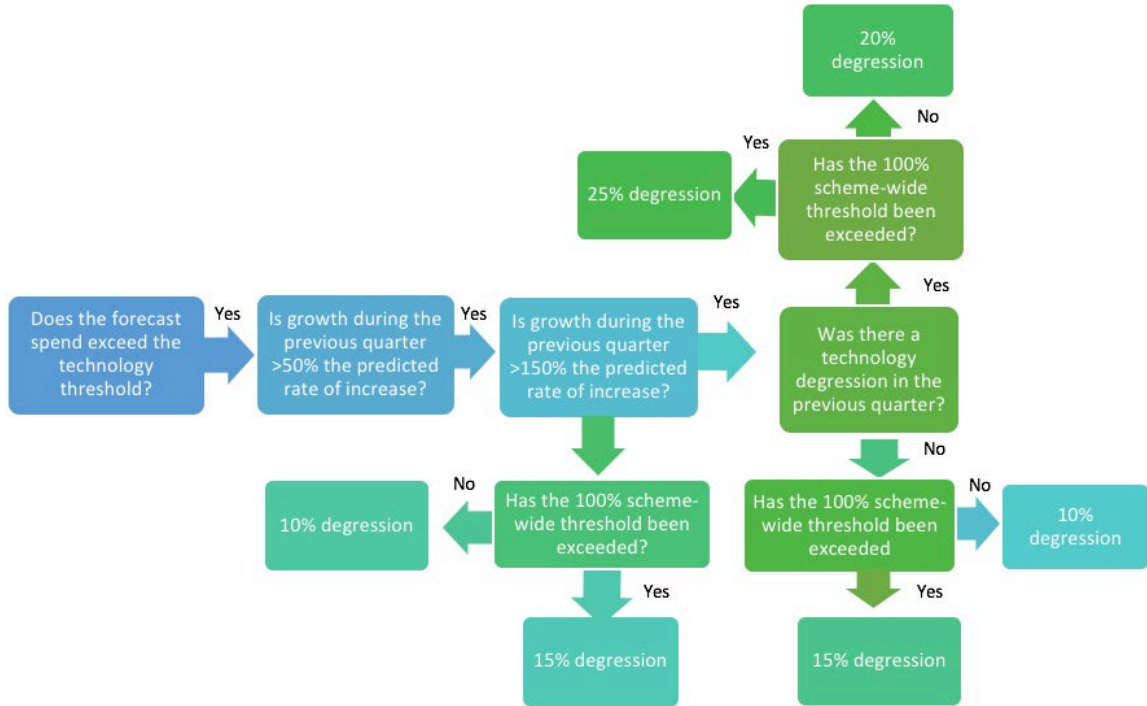
- Overall scheme deployment (there are two total scheme thresholds; at 50% and 100% of expected spend);,
- Levels of expected expenditure for each technology against the relevant expenditure threshold;
- A degression in the previous quarter.

The higher the expenditure that is forecast for the scheme as a whole, the more likely it is that one or more tariffs will be reduced. Conversely, where the overall scheme expenditure forecast is low (less than 50% of what was expected) there will be no reduction to any tariffs, even if an individual technology has exceeded its thresholds.

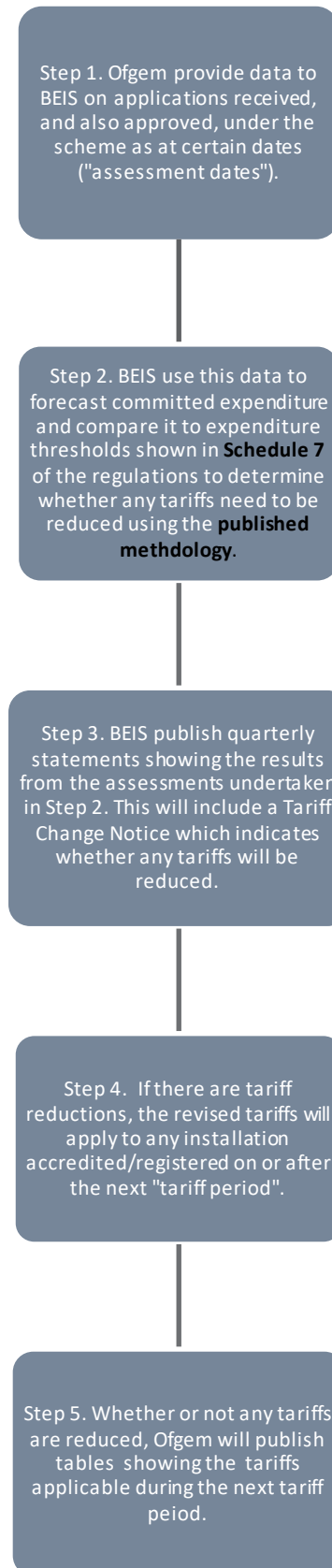
In high-levels terms:

- Where the earlier reductions have had a significant impact there is unlikely to be any further tariff reduction.
- Where the earlier reduction has had a moderate impact then it is possible that a further relatively small reduction will be again be made to the tariff.
- Where the earlier reduction has had little or no impact then there is likely to be a larger reduction made.

Flowchart – Non-domestic RHI degradation



- **A simplified overview of the assessment process**



Timings of announcements by BEIS

The first quarterly forecast statement was published on 31 May 2013 and every year quarterly publications will be made by 1 March, 1 June, 1 September and 1 December. In practice, wherever possible publications take place, at the latest, on the nearest working day prior to the above dates. Announcements will be made on the RHI page of the [GOV.UK website](#).

BEIS will publish monthly forecasts when there is no quarterly publication. These are intended to enable industry to monitor ongoing committed expenditure levels under the scheme and to self-assess whether any reduction of tariffs is likely to be made at the next quarterly announcement, and plan ahead accordingly.

What data is included in the publications?

The quarterly publications will be made up of:

1. A **Tariff Change Notice** which will advise whether any tariffs will be reduced, the level of reduction, what the new tariff(s) will be, and when they will take effect.
2. An **Expenditure Forecast Statement** which identifies the expenditure forecasts for the scheme as a whole and for each tariff category, and how these compare to the [relevant thresholds](#) set out in the regulations.













Monthly reports, which BEIS publishes, follow a similar format to the quarterly expenditure forecast statement.

How will BEIS forecast spend?



In forecasting expenditure, BEIS looks ahead and forecasts how much it is committed to spend over the coming 12 months, for example from 1 May 2018 to 30 April 2019. This will be based upon applications made to Ofgem for preliminary accreditation, applications for accreditation and pre-registrations, and applications which have been granted registration or accreditation. Tariff guarantees are also included. The 12 month period rolls forwards every quarter, running from the last assessment date. As BEIS receives more applications, over time the amount of committed spend naturally increases.

The forecasting methodology is set out in the Renewable Heat Incentive Scheme Regulations and BEIS has published an explanation of that [methodology](#) (last updated for the spring 2014 changes) which is available on GOV.UK. Ofgem publishes separate data on actual payments they have made in their '[RHI Public Report](#)'. This data however does not identify the likely cost of future payments over the coming year. Therefore the numbers BEIS publishes will inevitably always be higher than the figures Ofgem publishes.

Quarterly degression dates for 2019-20

2019	April		
	May		BEIS analyse data - have tariff reductions been triggered? Announcement made at end of month.
	June		One month notice period applies.
2019	July		
	August		BEIS analyse data - have tariff reductions been triggered? Announcement made at end of month.
	Sept		One month notice period applies.
2019	Oct		
	Nov		BEIS analyse data - have tariff reductions been triggered? Announcement made at end of month.
	Dec		One month notice period applies.
2020	January		
	February		BEIS analyse data - have tariff reductions been triggered? Announcement made at end of month.
	March		One month notice period applies.
2020	April		

Key:

-  Scheme data provided to BEIS as at last day of the month each quarter; e.g. 30 April 2018, 31 July 2018 etc.
-  Reduced tariffs come into effect; e.g. 1 July 2018, 1 October 2018 etc.

Disclaimer

This document is intended as guide only. For a definitive source of information on the rules applying to degeneration under the RHI you must refer to the [RHI scheme regulations](#).