

Renewable Heat Incentive: Biomethane Injection to Grid Tariff Review



In May this year, I published a formal consultation setting out our proposals to review the biomethane injection to grid tariff under the Renewable Heat Incentive (RHI). Since then DECC has engaged extensively with stakeholders on our proposals and received over 60 responses to the consultation.

Today, I am pleased to announce the publication of the formal Government response to our consultation which sets out how we will revise the biomethane injection to grid tariff. Biomethane is set to be an important contributor to renewable heat under the RHI and I want to ensure the scheme allows the burgeoning biomethane injection to grid market to grow sustainably and offer good value for money to the taxpayer. Copies of the response will be placed in the libraries of the House.

New tariffs

DECC intends to implement a tiered tariff structure to the biomethane injection to grid tariff based around three tiers. We intend to pay 7.5p for the first 40,000 Megawatt hours (MWh) injected into the grid (the 'tier 1' tariff), 4.4p for the next 40,000 MWh (the 'tier 2 tariff) and 3.4p for any subsequent biomethane injected over a period of 12 months from the date of registration. The tariff will be paid up to the maximum volume of biomethane the producer is entitled to inject under the Network Entry Agreement (NEA). Tiering was overwhelmingly popular amongst consultation respondents, particularly a three tier approach. Tiering is less prone to unintended consequences such as gaming, as opposed to the alternative option we consulted on, a banding solution which encourages clustering around band thresholds which could lead to inefficient sizing of plants. Tiering the tariff also means there is no longer a requirement to accurately determine the system capacity of the plant. This is because the meter readings relating to volume of gas injected can be used to determine the 'tiered' payments.

The tariffs have been modelled based on a feedstock mix of 70% unpackaged food waste and 30% energy crop. Feedback from the responses indicated that it is necessary to include some energy crop in the feedstock mix to hedge against the risk inherent in short term waste contracts.

Feedback from the consultation revealed a broad consensus that the gate fees presented in the consultation document were too high, that contracts offering that level of income are no longer available, and there is limited opportunity to secure the long-term contracts for food waste which have been available in the past. The tariffs have been modelled based on gate fees of £15 per tonne for unpackaged food waste based upon evidence received during the consultation. Evidence from the consultation supported a crop feedstock cost of £35 per tonne.

Degression

RHI expenditure is controlled within agreed limits through a budget management mechanism known as degression. When the new tiered tariffs are introduced, the biomethane degression triggers will remain unchanged and committed expenditure (for the purposes of assessing degenerations) will be based upon expenditure for plants registered under both the old tariff and new tariffs; and that if a degeneration for the biomethane tariffs is triggered, it will be applied to all tiers equally e.g. for a 5% tariff degeneration, the tariff in each tier would be reduced by 5%. This means that the relative levels of the tiers will be maintained. We consider this approach avoids introducing further complexity into the scheme and creating uncertainty for industry.

In order to avoid the new tariff being degressed soon after its introduction, which would be destabilising for investor certainty, the new biomethane tariff will have temporary protection from degeneration between the introduction of the tariff and the end of June 2015. However, there is a balance to be struck between providing tariff stability and enforcing budget control. As such, the new tariff, once introduced, will be eligible for degeneration from 1 July 2015 inclusive. The outcome of the degeneration assessment for both 1 January and 1 April 2015 will still apply for the purposes of assessing the level of any degeneration to be applied on 1 July 2015. The new tariffs will also be subject to any Retail Price Index uplift on 1 April 2015.

Additional capacity

Any additional capacity added to existing plant will receive the prevailing tariff at the time the additional capacity is registered i.e. if additional capacity is registered after the tiered tariffs have been introduced, it will receive the tiered tariff, or a degressed tiered tariff.

Consistent with the announcement we made this Summer, that any new tariff will not be introduced before 1 December 2014, we plan that the implementing regulations will come into force in February 2015 subject to Parliamentary approval and will apply to all new installations and additional capacity only.

I will lay the necessary Statutory Instruments to implement these changes before the House as soon as possible.