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Update Paper on the RHI reforms: 5th September 2017

The Government describes the RHI as *'the key policy mechanism that has been put in place for heat's contribution towards the EU Renewable Energy Directive Target'*[1]. Biomass installations dominate the RHI and 92.9% of all installations under the Non-Domestic RHI are biomass boilers.[2]

Government consulted on proposed reforms to the RHI in December 2016, which were in part designed to spend more on heat pumps and less on biomass and at the same time focus on large (rather than small or medium) biomass. After delay caused by the General Election and Brexit, Government laid new RHI legislation before Parliament on 29th August 2017, and these will come into effect on the 20th September 2017.

The regulations are different to the draft regulations laid earlier this year, and only contain some of the changes announced in the RHI reform in December 2016. It is our understanding that the Government has decided to split up the implementation into two, depending on whether they required an affirmative or negative resolution parliamentary procedure. The key changes implemented now are:

- A new single non-domestic biomass tariff of 2.96p/kWh applied to all biomass installations above 45kW in size to be paid to 3,066 full load hours (tier 1) and 2.08p/kWh paid in tier 2. This compared to 1,314 full load hours and tariffs structured around boiler sizes.[3]
- New degression triggers until July 2018.
- Domestic demand limits for domestic biomass, ASHP, and GSHP.
- Provisions for plants whose tariff start date is on or after 14th December 2016 but before 1st April 2017 to be able to receive the higher tariffs. Domestic demand limits for domestic biomass, ASHP, and GSHP.
- New tariffs for the domestic RHI at:
    - Biomass plants: 6.54p/kWh
    - Air source heat pumps: 10.18p/kWh
    - Ground source heat pumps: 19.86p/kWh
    - Solar thermal plants: 20.06p/kWh

A full copy of the Renewable Heat Incentive Scheme and Domestic Renewable Heat Incentive Scheme (Amendment) (No. 2) Regulations 2017 accompanies this briefing paper and can be found on the usewoodfuel website.

From a commercial biomass perspective the changes in tariff payments are very positive for all larger installations, especially where there is a high and stable heat load to meet. Most 1MW and above projects will secure higher RHI income and some 1MW below should still benefit.

[1] DECC, The Renewable Heat Incentive: A reformed and refocused scheme, Impact Assessment, March 2016, p7

[2] Ofgem, Non-Domestic RHI, Public reports and data, accessed 11 August 2016

[3] Small commercial biomass (less than 200kWh =Tier 1: 2.71p/kWh/Tier 2: .71p/kWh
Medium commercial biomass (200kWth and above & less than 1MWth) = Tier 1: 4.79/Tier 2: 2.08p/kWh
Large commercial biomass (1MWth and above) = All heat: 2.08p/kWh

UK energy policy context

The UK is legally bound[4] to provide for 15% of its energy needs (under the Renewable Energy Directive of 2009)—including 30% of its electricity, 12% of its heat, and 10% of its transport fuel—from renewable sources by 2020.

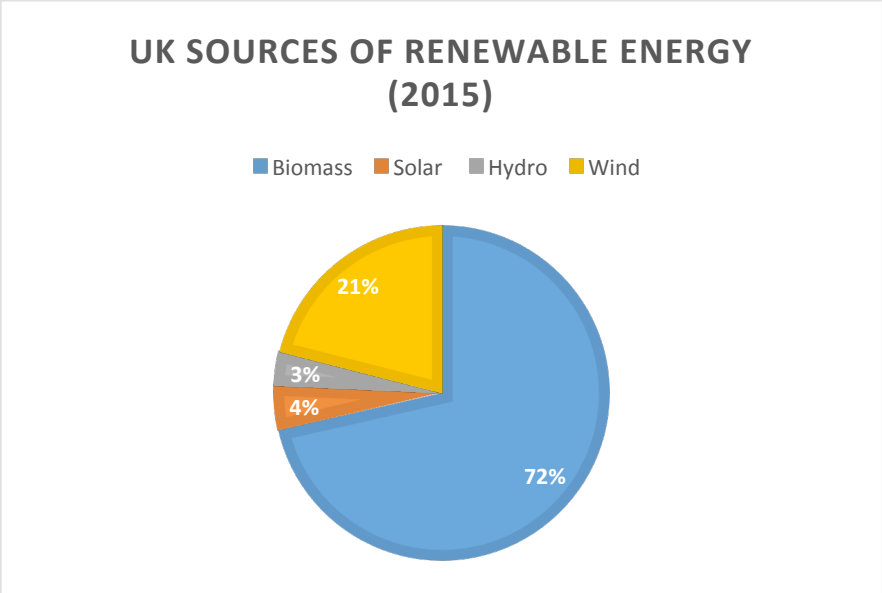
Most industry experts believe the Government will meet the electricity sub-target, but success in this sector will not compensate for underperformance in heat and transport. It is not yet halfway towards 12% in heat[5] (and the proportion of renewable energy used in transport fell in 2016).

As the House of Commons Energy and Climate Change Committee (second report of session 2016/17) recently put it:

'The UK will fail to achieve its 2020 renewable energy targets… our overarching concern is that the UK is failing to meet the targets not because they are impossible, but because Government departments have not cooperated effectively. Creating the new Department for Business, Energy and Industrial Strategy may enable more joined-up thinking: to achieve renewables and decarbonisation targets'.

By 2015: 22.31% of electricity, 5.64% of heat, and 4.23% of transport fuel consumption was met by renewable sources: this equates to 8.31% of all energy[6]. Given the 15% target (which itself is low compared to all other EU countries) is now only 3 years away, the Government has a major challenge.

Biomass[7] dominates the supply of UK renewable energy, as shown in the pie chart: (source: BEIS, DUKES 2015, Renewable sources of energy).



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[4] Under the 2009 EU Renewable Energy Directive
[5] And heat is about 50% of total UK energy use, with electricity less than 25%.
[6] Source: BEIS, Digest of UK Energy Statistics; Renewable sources of energy (DUKES 6.7), July 2016
[7] Municipal solid waste, industrial waste, agricultural crops and residues, oil bearing plants (oilseed rape for example) and animal products are all feed stocks variously used to generate renewable heat and power, but by far the most important source of biomass is wood. Wood fuels account for 61.2% of the EUs renewable energy supply.