

From: [Private Office DETI](#)
To: [Mills, John \(DETI\)](#)
Cc: [Dolaghan, Paul](#); [Neth, Energy](#); [Aiken, Glynis](#); [Hegarty, Damien](#); [McLaughlin, Christine \(DETI\)](#); [Stevenson, Valerie \(DETI Private Office\)](#)
Subject: FW: GOVERNMENT RESPONSE TO THE BIOMETHANE TO GRID TARIFF REVIEW IN THE NON-DOMESTIC RENEWABLE HEAT INCENTIVE
Date: 24 October 2014 16:31:49
Attachments: [image001.png](#)
[EDWARD DAVEY TO ARLENE FOSTER 24 OCOTBER 2014.pdf](#)
[image003.png](#)

John

Please see attached correspondence from Ed Davey MP. Grateful if you can consider and advise if this requires a Ministerial response.

Many thanks

Damien

From: Cabinet Committees (DECC) [mailto:cabinetcommittees@decc.gsi.gov.uk]
Sent: 24 October 2014 14:57
To: private.office@detini.gsi.gov.uk; 'sos@nio.x.gsi.gov.uk'
Cc: Irrelevant information redacted by the RHI Inquiry

Subject: RE: GOVERNMENT RESPONSE TO THE BIOMETHANE TO GRID TARIFF REVIEW IN THE NON-DOMESTIC RENEWABLE HEAT INCENTIVE

Good afternoon

Please see attached letter from Edward Davey

Lead official – Irrelevant information redacted by the RHI Inquiry

All the best

Jack

Irrelevant information redacted by the RHI Inquiry

Cabinet Committees

✉ email: cabinetcommittees@decc.gsi.gov.uk

☎ telephone: 0300 068 5993

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24 October 2014

Dear Arlene,

UPDATE ON THE BIOMETHANE TO GRID TARIFF REVIEW IN THE NON-DOMESTIC RENEWABLE HEAT INCENTIVE

I am writing to you to update you on my department's proposals on the implementation of revised biomethane to grid tariffs and other related policy changes identified in this letter.

The Renewable Heat Incentive (RHI) remains the Government's principal mechanism for driving the transition to renewable heat over this decade.

When the scheme was first launched in 2011, the biomethane to grid support was a 'one size fits all' tariff based on a relatively small scale 1MW waste feedstock biomethane plant. It was recognised that over time, this level of support might need adjusting.

On 28 February, we announced a review of the biomethane to grid tariff in response to market intelligence, stakeholder representations and updated evidence indicating that plants of much higher capacities than 1 MW are planned or in the pipeline; and that the costs of those plant (that could achieve significant economies of scale) may not justify the current level of RHI support.

The RHI Biomethane Injection to Grid Tariff Review was announced in February 2014 in order to address a potential risk of overcompensation through the biomethane tariff, which poses a value for money risk and risks breaching the RHI state aid approval. A consultation was run from 30 May to 27 June and sought views on our proposed approach to introduce a well-managed adjustment to the tariff (i.e. to better align the tariff to the size of plant), which will enable the market to continue to grow sustainably. We received 65 responses; many of them heavy with detailed evidence and information that has helped inform our final tariff setting.

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We have now completed our analysis of the consultation responses and detailed evidence and have finalised the tariffs and other related policy changes set out below. Our analysis suggests that if the revised tariff identified below was implemented it would deliver budget savings of up to approximately £5-10m in 2015/16 (or approximately £55-£145m savings over the corresponding plants' lifetimes in 2015/16 prices, discounted), though this assumes no degression if the current tariff were to be maintained¹.

Tiered tariffs

We are proposing to implement a tiered tariff approach using three tiers. There was overwhelming support from the consultation responses for tiering where tariffs are paid out for different amounts of generation. Tiering appeared to be the solution that ran the least risk of gaming, can respond to seasonal fluctuations in amounts of gas injected and is straight forward to administer because it pays on actual amounts of gas injected. Consultation responses also favoured a three tier approach over anything else to accommodate small, medium and large installations.

We are proposing to pay the current tariff of 7.5 p/kWh for the first 40,000 MWhs injected into the grid (tier 1). We then propose to pay 4.4 p/kWh for the next 40,000 MWhs injected (tier 2), and 3.4 p/kWh for any subsequent biomethane injected (tier 3).

	Tariff p/kWh (FY 2014/15)	Tier Break (Output at which tariff changes)	Tier Break Threshold - Equivalent Plant Capacity
Tier 1	7.5	40k MWh p.a.	6 MW
Tier 2	4.4	80k MWh p.a.	12 MW
Tier 3	3.4	> 80k MWh p.a.	> 12 MW

Feedstock mix

The tariffs have been modelled based on a 70% packaged food waste/30% energy crop feedstock mix. Feedback from the consultation indicated it is necessary for waste plants to allow for some energy crop in the feedstock mix to improve the efficiency of the plant and enhance investor confidence to hedge against the risk inherent in short term waste contracts. We share Defra's concerns about the potential to impact on land used for food production and want to ensure this is managed appropriately within the RHI. We expect the reduction in the biomethane tariff and introduction of RHI sustainability criteria next year to limit the deployment of energy crop only plant. We also propose to further develop policy on biomethane sustainability to ensure we are incentivising plant design and operation which yields increasingly cost-effective greenhouse gas savings. The Government response will signal this work and set out a direction of travel.

¹ The figures in this paragraph assume that introducing the new tiered tariffs does not impact biomethane deployment i.e. it only removes overcompensation and further, are relative to a counterfactual in which the existing tariff is not degressed in 2015/16.

Gate fees

Feedback from the consultation illustrated there is a broad consensus that gate fees presented in the consultation (£25-41 per tonne) are too high, and contracts offering that level of income are no longer available. There is also agreement that there is limited opportunity to secure the long-term contracts which have been available in the past. In a number of cases plant operators are required to pay for their feedstock, rather than receive an income from it. The tariffs have been modelled based on gate fees of £15 per tonne for commercial/industrial unpackaged waste. Evidence from the consultation showed that crop feedstock costs of £35/t have not changed.

Degression

In order to control RHI expenditure to agreed limits we operate a budget management mechanism known as 'deggression'. Deggression reduces the tariffs for the individual technologies when overall scheme deployment, or deployment for an individual technology, presents a risk to scheme affordability, as defined by expenditure thresholds ('triggers'). Deggression assessments are made quarterly and when a trigger is met for a particular technology, tariffs are reduced by 5% in the first instance.

We recognise that by adopting a tiered tariff we are potentially introducing more complexity into the scheme, at a time when it is important to provide clarity to industry in order to enable the market to continue to grow. For this reason we believe that the best solution is to continue to have a single biomethane trigger on total RHI expenditure for plants registered under both the old tariff and new tariffs and that deggression is applied equally to all tariffs so that the relative levels of the tariffs are maintained.

Concerns raised by industry and our own analysis indicate the possibility of multiple deggressions to the biomethane tariff in 2015 given the likely registration onto the RHI of a number of new plant. We are conscious of the impact of changes to tariffs on investor confidence and scheme uptake. We have carefully considered how to manage the risk of multiple changes to the tariff, maintain investor confidence and ensure the sustainability of the biomethane market. In this particular case we propose that the new tariffs will not be deggressed on 1 April 2015, even if the outcome of the deggression assessment for 1 April 2015 indicates a deggression to the tariff should be applied. However, this needs to be balanced against the fact that the deggression mechanism controls RHI technology expenditure to agreed budgets. As such, the application of (any) deggressions to the new tariffs will resume from 1 July 2015 onwards.

Additional Capacity

Currently, biomethane plants can apply to have additional capacity supported under the RHI after the original plant has been registered and is receiving RHI payments. Given that biomethane to grid is a key RHI technology, we consider it is important that additional capacity can continue to be supported under the tiered tariff.

Consequently we are proposing any additional capacity added to existing plant will receive the prevailing tariff at the time the additional capacity is registered e.g. if additional capacity is registered after the tiered tariffs have been introduced, it will receive the tiered tariff. We consider this approach balances maintaining incentives for expansion whilst allowing us to manage the budget within agreed limits and avoid overcompensation.

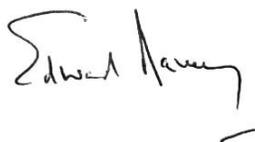
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Devolved Administrations

I will also be writing to Ministers in the Scottish Government and the Welsh Government.

Next steps

My officials will share the Government Response with your officials ahead of publication which is planned for 20 November.

A handwritten signature in black ink, appearing to read 'Edward Davey', with a horizontal line underneath.

EDWARD DAVEY

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