ofgem E-Serve

Biogas combustion plants,
biomethane producers, RHI
applicants and other interested
parties

Promoting choice and value for all gas and electricity customers

Our Ref: 81/12
Direct Dial: 020 7901 7218
Email: Matthew.harnack@ofgem.gov.uk

Date: 20 September 2012

Dear Stakeholder,

Summary of responses to Ofgem's consultation on amendments to Ofgem's administration of the Renewable Heat Incentive scheme

This letter summarises the key issues raised in response to Ofgem's consultation on amendments to our administration of the Renewable Heat Incentive (RHI) scheme, and explains how we have taken these into account in deciding whether and how to implement these proposals.

We would like to thank all responders for their feedback, which was considered and helpful.

Consultation process

On 27th June 2012 we published a letter outlining key areas of the existing RHI guidance that we felt required refinement or review in light of early experiences. Interested parties were invited to comment on these proposed amendments over an 8 week consultation period. The consultation closed on 23rd August 2012 and we are publishing the revised guidance documents alongside this consultation response letter. This consultation response letter summarises the responses we received to the consultation and explains where and why we have chosen to amend or retain sections of the guidance document.

We received 12 responses to the consultation. Responses were received from 8 companies and 4 industry associations. A full list of consultation respondents can be found at Annex 2. We remain committed to working with stakeholders to ensure that the administration of the RHI is successful. As always we will look to inform, and whenever possible, consult stakeholders when making significant changes to the administration and guidance concerning the scheme.

Responses to the amendments proposed in the consultation

All of the amendments discussed in this letter relate to Volume One of the RHI Guidance and are detailed in Annex 1 below.

Many responses we received included a critique of aspects of the RHI policy and regulations that underpin the scheme. DECC are responsible for the RHI policy and Regulations. Although as scheme administrators these matters are outside of our control, we have made DECC aware of these responses.

An overview of the main policy areas that were of concern to stakeholders is as follows:

- Treatment of biomethane as an 'eligible installation' – several stakeholders noted that DECC's consultation "Providing certainty, improving performance" included a proposal to change the approach with respect to biomethane from registering producers to accrediting installations. Please note that DECC will have the opportunity to clarify how biomethane is to be treated in the revised regulations.

- Heat meters – One respondent requested defining one heat meter classification that focuses on accuracy and promotes complete heat meters.

- Eligibility date – one respondent highlighted the impact of the 15th July 2009 date on the ability to claim the RHI using existing anaerobic digestion plants.

Another issue raised concerned the standards required for measuring glycol and other liquids. One respondent highlighted the absence of approved standards for the use of glycol in heat meters and recommended further investigation into the measurement of energy when glycol or similar inhibitors are used. We appreciate this concern, though as it is outside the scope of this consultation it will be taken forward separately.

The remainder of this letter relates to responses received concerning the proposals in our consultation letter on amendments to our administration of the RHI scheme.

Biogas Production Plants

Our proposal to amend our treatment of biogas production plants under the scheme to consider them to constitute part of the 'eligible installation' and 'equipment required to convert raw biogas into biomethane' was the most significant proposal of this consultation and received several responses.

Of the responses, a main concern was that this proposed change has been introduced soon after the start of the scheme. Respondents were concerned that this would generate uncertainty within what is a relatively young industry. We understand these concerns, but consider that it is essential that the State aid considerations that have driven this revision are reflected in our administration of the scheme. We will amend our treatment of biogas production plants as intended.

We welcome any stakeholders who feel they are impacted by this change to contact us directly to work through the consequences of this revision.

Several respondents also requested further clarity around the impact of this amendment. Clarification on the impact on our administration is as follows:

- We are only changing our treatment of biogas production plants under the scheme. We are not changing our treatment of the feedstock treatment equipment and pre-processing equipment or digestate/char treatment equipment. These still form part of the "equipment which is usually not included in definition of 'eligible installation definition of 'eligible installation'". We have also provided further detail around the equipment that comprise each of these categories.

- Where equipment is now part of the 'eligible installation' or 'equipment used to produce biomethane' the requirements with respect to grants apply in the same way as for all other equipment that forms part of the 'eligible installation' or 'equipment used to produce biomethane'.

- There is not a requirement under the current Regulations for 'equipment used to produce biomethane' to be new. As such, where the biogas production plant (including a sewage treatment anaerobic digester) forms part of the 'equipment used to produce biomethane', it is not required to be 'new'.

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

- Where the biogas production plant forms part of the 'eligible installation' for a biogas combustion plant, it will be required to be new (along with all the other parts of the 'eligible installation').

Additional changes to the Guidance document

Reporting

We proposed removing paragraph 1.16 (page 12) where it states that further information may be published if requested by the Secretary of State. All of the respondents who commented on this proposal agreed with the proposal. We will remove this paragraph as intended.

Early applications for 1MW or larger installations

All of the respondents who commented on our proposed amendment to this section agreed with our proposal. We will amend this section as intended.

"Associated infrastructure"

All of the respondents who commented on our proposed amendment to this section agreed with our proposal. We will amend the title as intended.

Heat pumps

Several respondents were critical of our proposal to remove paragraph 5.10 which currently states that inter-seasonal heat storage is an eligible source of heat (when heating a 'building'). This proposal was based on our interpretation of Regulation 8 which states that that the eligible heat sources for a heat pump are "naturally occurring energy" from the ground (up to 500m depth) or "surface water".

Having considered the responses, we still consider our interpretation of Regulation 8 to be correct. We have however decided to replace the current text at paragraph 5.10 with two further paragraphs that explain our operational position in greater detail.

Heat loss and external pipework; and metering heat where there are multiple buildings

Respondents to these last two proposed areas for amendment considered them together, and so they are addressed collectively here.

Several respondents agreed with our proposed amendments to the Guidance to help clarify for applicants the distinction between 'simple' and 'complex' installations for metering purposes, as well as clarity on our revision to our approach to calculating heat losses between buildings, which is available on our website.

Of those who raised concerns in this area, a revised approach under the Regulations to heat meter requirements and the calculation of heat losses between buildings was requested. While we are aware of industry concerns in this area, this is an area where the legislative requirements are quite clear. It is nonetheless an area where DECC have consulted on changing the legislation.

We will amend these sections as intended.

Please contact the team if you have any further questions about any of the content of this letter at RHI.Enquiry@ofgem.gov.uk, or by phone on 0845 200 2122.

Yours faithfully

d Electricity Markets
000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Matthew Harnack

Associate Director, Commercial

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Annex 1

List of published guidance sections with significant changes

Chapter	Paragraph(s)
Chapter One **Additional Information**	Removed paragraph 1.16: "We may also publish further information which we hold in relation to the performance of our functions under the Regulations if requested to do so by the Secretary of State."
Chapter Two **Early applications for 1MW or larger installations**	Amended paragraphs 2.25 and 2.26 to state: "Applicants preparing to submit applications for large installations (particularly those over 1MW) would be advised to contact Ofgem prior to commencing their application to confirm their intention to apply and to discuss any opportunity to provide information in advance of commissioning".
Chapter Four **Table 3**	Amended title in last column to state: "Equipment which is usually not included in definition of 'eligible installation'".
Chapter Four **Table 3**	1) Amended the "Biogas heat generation" and "Biomethane" sections of Table 3 so that the "biogas production plant" (and associated components) is moved from the third column 'Associated infrastructure' to the second column 'Examples of integral equipment usually included in definition of 'eligible installation''. 2) Clarified what **is** usually included in the definition of eligible installation for Biogas heat generation and Biomethane in Table 3 under 'biogas production plant' to state: • Biogas production plants (e.g. anaerobic digesters, gasifiers, pyrolysers, and equipment to increase the gas yield from these chambers). 3) Clarified what **is not** usually included in the definition of eligible installation for Biogas heat generation and Biomethane in Table 3 under Feedstock treatment equipment and Digestate/char treatment equipment to state: • Feedstock treatment equipment and pre-processing equipment (e.g. pasteurisation equipment, materials separation equipment, silage clamps, storage buildings, and slurry tanks). • Digestate/char treatment equipment (e.g. post-digestion pasteurisation equipment and materials separation equipment).
Chapter Five **Heat Pumps** General eligibility	Amended paragraph 5.10 to state: 5.10a We understand certain heating systems may utilise heat storage, where heat is collected and transferred to a ground based thermal store, for use at a later time. For example, systems may utilise *inter-seasonal* heat storage, where excess naturally occurring summer heat is collected and transferred to a ground based thermal

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

	store for use in winter. Ground source heat pumps then extract this heat during winter months, which may increase ground source heat pump coefficient of performance as the ground has been pre-warmed. Examples of other operating modes include diurnal or simultaneous operation, where heat is stored and extracted on a daily or synchronous basis. Where such inter-seasonal, diurnal or simultaneous operating modes apply to a heat pump, or where for any other reason some fraction of the heat provided to the heat pump does not occur naturally within the ground or surface water, potential applicants should consider the impacts on their eligibility for RHI payments, as set out in the following paragraph. 5.10b One requirement for heat pumps, in order to be eligible for the RHI, is that they must extract heat that is naturally occurring within the ground or surface water [Reg 8(a)]. We are aware that there are situations in which the source to a heat pump may also include a contribution from heat that was not naturally occurring within the ground or surface water. For example, this would be the case for a heat pump system which, having injected waste heat into the ground during a cooling cycle, subsequently extracted some of this heat during a heating cycle. In such situations, any incentives under the scheme would only be payable based on that fraction of the total extracted heat that was naturally occurring within the ground or surface water. For example, the heat injected during a cooling cycle would not be eligible for payment under the RHI, as the heat would not be naturally occurring within the ground or surface water. In satisfying this requirement, we would consider on its merits any case presented outlining the methodology by which the RHI-relevant fraction of heat could be reliably deduced, such that accurate payments could be made. We continue to welcome views on how this might be most readily achieved in practice.
Chapter Six **Ineligible Heat Uses**	Added the following sentence to paragraph 6.22 to state: "Heat loss through external heat distribution pipework e.g. to transport heat between buildings, or between a standalone boiler and a building, is also not serving an eligible use and as such RHI payments cannot be made in respect of the heat lost".
Chapter Seven **Meter Placement: Simple and Complex Installations**	1) Re-worded the final bullet at paragraph 7.39 (page 75) to state: "Is the heat generated by the plant used or generated in more than one building? (For avoidance of doubt, if heat is generated in one building and used in one or more different buildings, the answer to this question would be 'Yes'. In this case, the answer would be 'Yes' even if the heat is transported only a short distance, and/or is transported underground)" 2) Corrected the final box of Figure 4 (page 76) to read: "Is the heat generated by the plant used or generated in more than one building? (For avoidance of doubt, if heat is generated in one building and used in one or more different buildings, the

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

	answer to this question would be 'Yes'. In this case, the answer would be 'Yes' even if the heat is transported only a short distance, and/or is transported underground)" 3) Added a paragraph under Figure 4 (page 76) to state: "In order for the metering associated with the heat generating plant for which you are making an RHI application to be "simple", the plant must be located in the same building as all the uses of the heat produced. If this does not apply i.e. heat is transported via external heat distribution pipework for use in another building, the system will be classed as 'complex' for metering purposes. Note that 'building' is defined by Regulation 2 of the Renewable Heat Incentive Scheme Regulations[1]."
Chapter Seven **Meter placement for 'complex' installations where the heat transfer medium is a liquid (i.e. not steam)**	Amended paragraph 7.58 to read: "Where an applicant does not wish to meter buildings separately, we may instead be able to accept an approach where an agreed heat loss figure is deducted from the eligible heat use figure to represent heat lost between buildings. We provide further information on possible methodologies via our website."
Glossary	Amended the definition of a "simple installation" in the glossary to state: "A simple installation is an installation which is not a CHP system, does not deliver heat by steam, does not supply heat to an ineligible purpose, and where all the uses of the heat produced are in the same building as the heat generating plant."

[1] http://www.legislation.gov.uk/uksi/2011/2860/pdfs/uksi_20112860_en.pdf

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**

Annex 2

List of consultation respondents

1. Anaerobic Digestion and Biogas Association
2. Anglian Water
3. Earthtest Energy
4. Electrical Contractors Association
5. Ground Source Heat Pump Association
6. Icax
7. Itron
8. National Grid
9. Renewable Energy Association
10. SSE and Scotia Gas Networks
11. Summerleaze Limited
12. Vollmer Engineering Ltd

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk**