

RHI Degression analysis for Biomethane and Biogas

RHI Degression

Introduction

Every quarter, BEIS assesses the current number of RHI registrations and preliminary registrations that are likely to receive payments for the next 12 months and compares it to the assigned RHI budget for the coming year. Should one technology or technology band go over its budget, BEIS will announce if and how much its tariff will be reduced. Should you want further explanation and details than given in this analysis, please contact [Kiara Zennaro](#).

The next quarterly assessment is due to be published by 1st March 2019.

This analysis is based on the last monthly [forecast](#) (as at 31st December 2018) which was published by BEIS on 1st February 2019. It outlines possible degression scenarios for the next quarters.

New degression methodology and vital steps

In the [consultation response issued in December 2016](#), BEIS outlined the new degression methodology, which is set out in Schedule 7 of the [Non-domestic RHI regulations 2018](#) which have come into effect on 22nd May 2018.

"Where estimated spend in relation to a specific technology is above the relevant 'technology trigger' and growth in estimated spend is 50% or more of the growth trigger, but less than 150%, there will be a 10% degression.

Where estimated spend in relation to a specific technology is above the relevant 'technology trigger' and growth in estimated spend is 150% or more of the growth trigger, the degression will be either:

- 10% if there was no degression to the tariff in the previous quarter.
- 20% if there was a degression to the tariff in the previous quarter.

Where estimated spend across the scheme exceeds the 'total anticipated expenditure', any technology that is already receiving a degression in line with the rules above, will receive an extra 5% tariff reduction.

In all other circumstances there will be no degression. This means, for example, that if estimated spend for a specific technology is above the technology trigger, but the growth in estimated spend is less than 50% of the growth trigger, there will be no degression."

Page 40, RHI Reform response 14 December 2016

This has a few consequences:

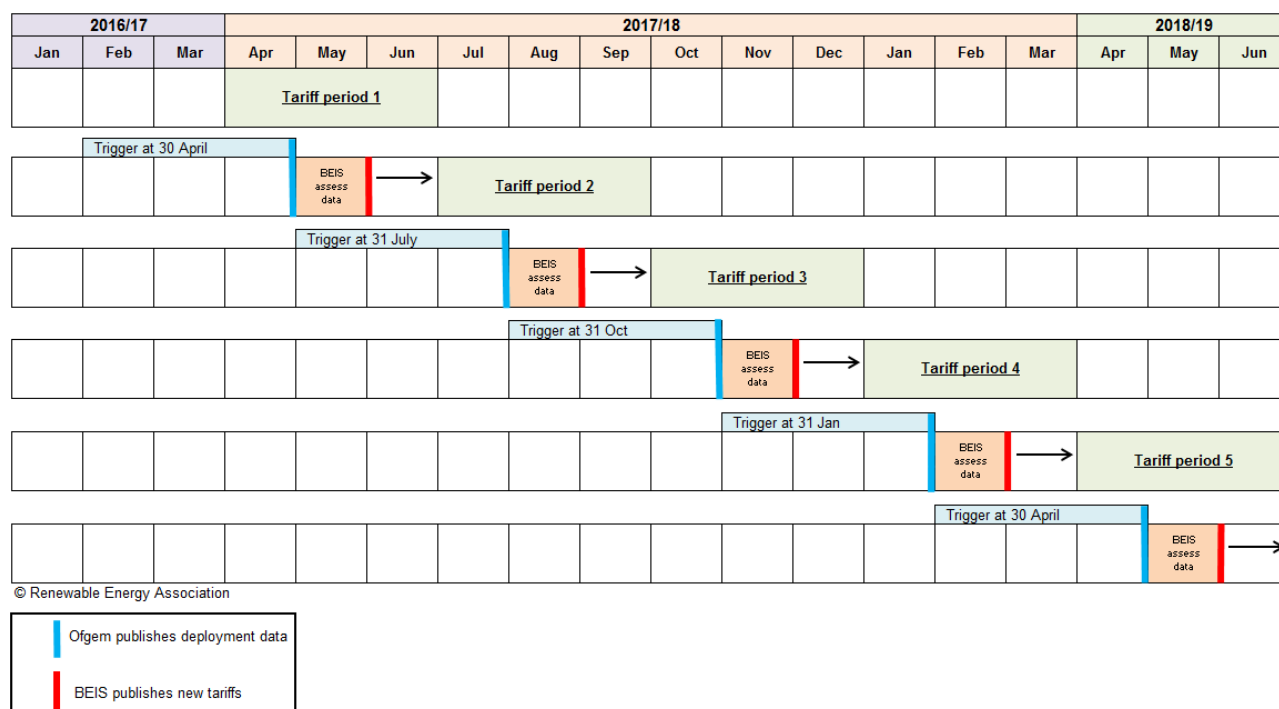
- The previous 5% degression step has been removed and only the higher 10% and 20% degression steps will remain

- Sufficient steady growth is needed to trigger several degressions. Booms in markets might trigger one degression, but if deployment slows down in the following quarters, then there should be no further degressions.

These changes have been introduced with the aim of stopping tariffs from continuing to reduce once deployment slows down.

In addition, the budget groupings were changed so that small and medium biogas (below 600kW) are degressed together, and large biogas (above 600kW) and biomethane are degressed together. The final size of the budget groupings and anticipated increase in the associated budget expenditure is published in the regulations.

Finally, key for assessing the likelihood of degression in a specific quarter is the timeline, i.e. which deployment months BEIS will use to determine whether degressions are triggered. This is illustrated in the following figure:



This shows that degressions applying on 1st January are announced by end of November, using deployment data from August, September and October, and so on. Degressions applying on 1st April are announced by end of February using deployment data from November, December and January and so on.

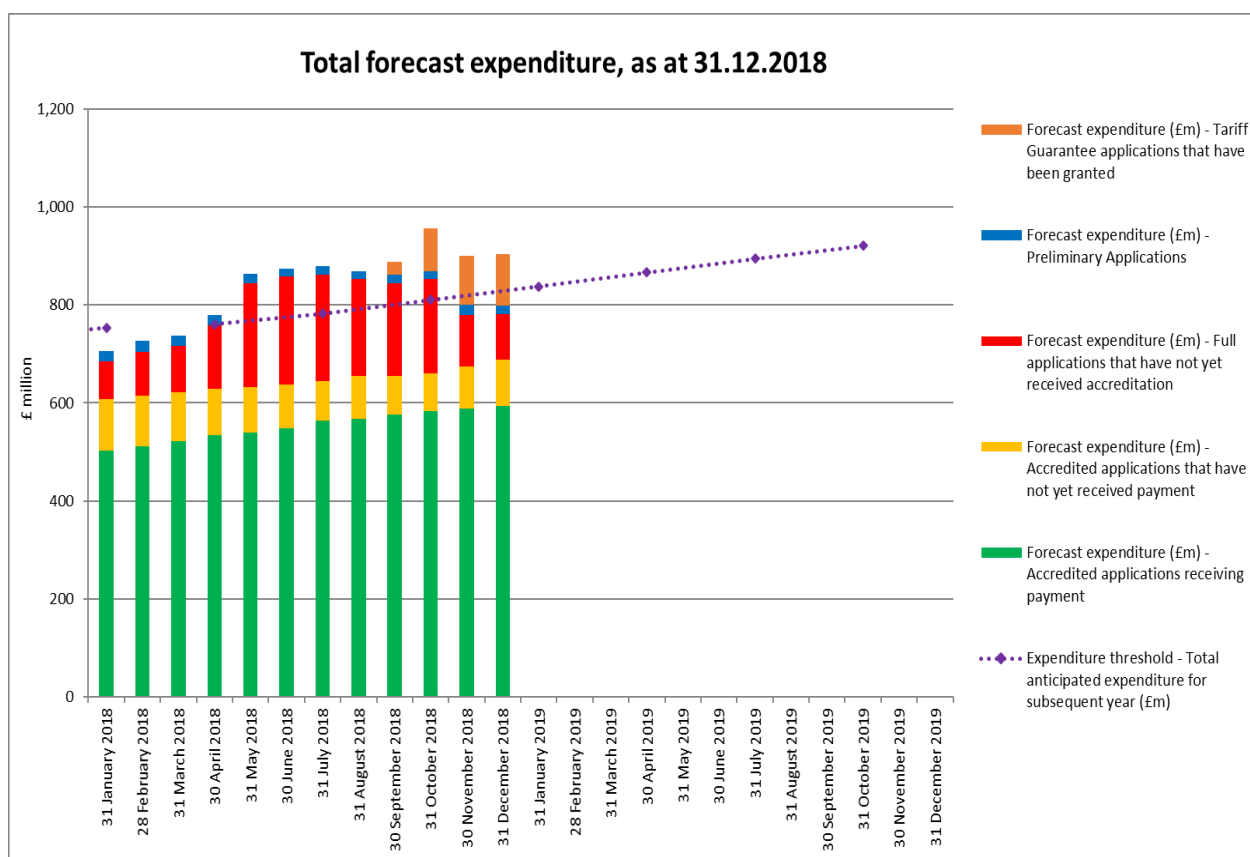
Tariff guarantees are counted towards estimated spend from the point at which they are granted (rather than at the point that the plant commissions/commences biomethane injection).

Total Scheme expenditure as at 31st December

As illustrated in the chart below, as at 31st December 2018 the estimated spend across the scheme continues to exceed the total anticipated expenditure.

There was a marked drop in the total forecast spent as at 30th November 2018, caused by a decrease in the forecast expenditure for full applications that have not yet received accreditation (the red bars). This is reflected in the [deployment report](#) for November 2018, which shows a marked reduction in the number of full applications for biomethane (95) compared to the [previous month](#) (136). Our understanding is that this is due to a number

of full applications – around 40 – that were rejected during November for reasons that cannot be disclosed by Ofgem.



Biomethane and large biogas

Degressions on 1st January 2019

A degression of 15% was applied to the biomethane and large biogas tariffs from 1st January 2019. This followed the large increase in the forecast spend during the relevant deployment months (August, September and October), mostly due to the high number of tariff guarantees granted in this period.

Degressions on 1st April 2019

Since a degression occurred in the previous quarter (1st January 2019), the scenarios for biomethane / large biogas are:

	Reduction to large biogas / biomethane tariffs 1 April 2019
If estimate spend is not above technology trigger (£398.45m)	0%
If estimate spend is above technology trigger (£398.45m) and growth during November 2018 - January 2019 is less than 50% of growth trigger (£3.2m)	0%

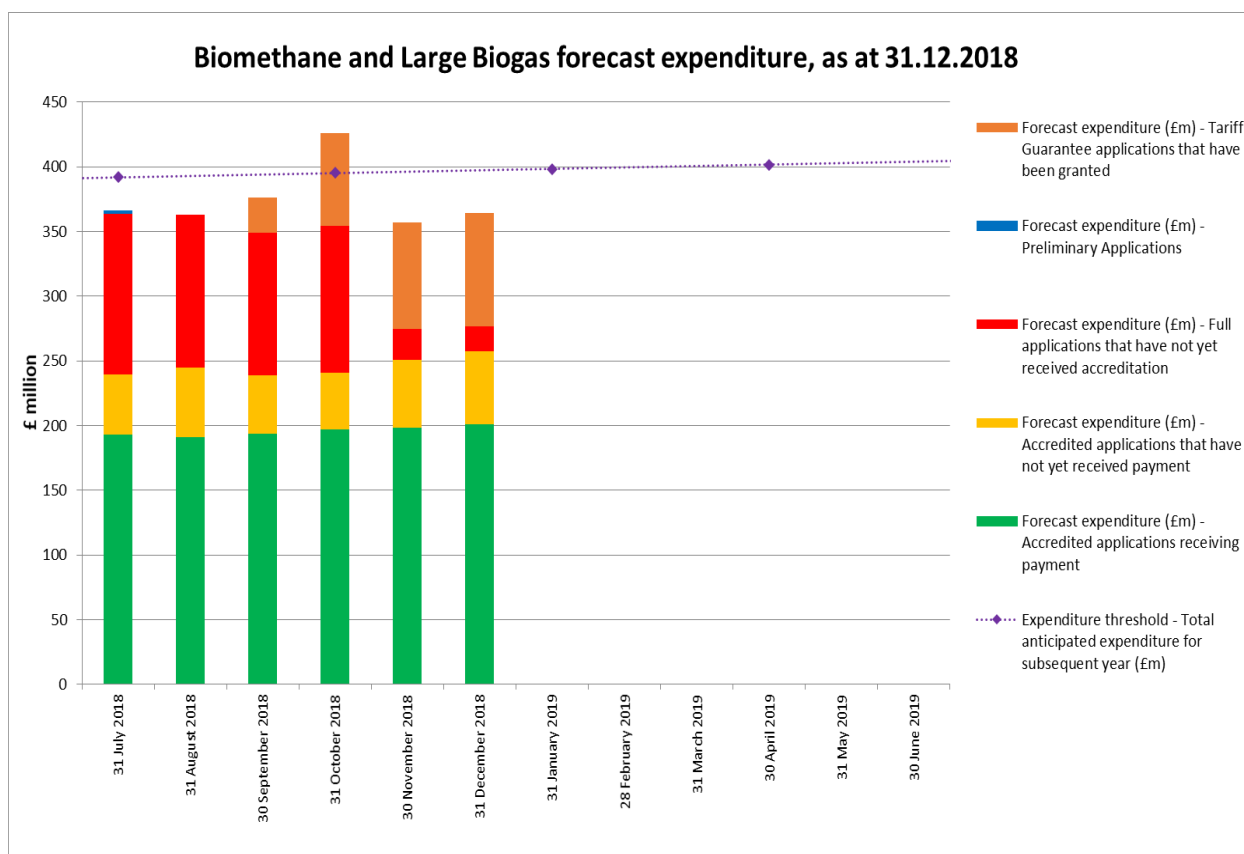
If estimate spend is above technology trigger (£398.45m) and growth during November 2018 - January 2019 is 50-150% of growth trigger (£3.2m)

10% (+5% if total RHI trigger hit)

If estimate spend is above technology trigger (£398.45m) and growth during November 2018 - January 2019 is above 150% of growth trigger (£3.2m)

20% (+5% if total RHI trigger hit)

As illustrated in the chart below, as at 31st December 2018 the forecast expenditure is below the technology trigger (anticipated expenditure for subsequent year).



As for the total forecast spent, there is a marked drop in the forecast expenditure as at 30th November caused by a substantial number of full applications being rejected during November (reflected in a significant reduction of the red bar in the chart).

Approximately another £34 million of forecasted spend would be required for biomethane and large biogas as at 31st January 2019 for the trigger to be reached. In addition, significant growth (an additional £63 million) would need to happen for the growth trigger to be reached and it seems unlikely that we will see this level of growth.

Ofgem [reports](#) on TG applications indicate that there were only 7 TGs awarded for biomethane during the assessment period, which are unlikely to be sufficient to cause the trigger to be hit. However, we still don't know whether some or all of the full applications that were rejected in November have been re-submitted during January 2019, as the January 2019 deployment data is not yet available. Should these be re-submitted, that could change the picture significantly.

It is worth noticing that BEIS have recently confirmed to the REA that there isn't a mechanism within the degression methodology set out in the regulations that enable the Department to discount rejected applications from the degression calculation, should they be put back on the system (ie should they be re-submitted). So, if these applications are re-submitted, they will count again toward the forecast spend and have the potential to cause another degression.

Degressions on 1st July 2019

The possible degression scenarios for the quarter starting on 1st July are outlined below.

	Reduction to biogas / biomethane tariffs 1 July 2019
If estimate spend is not above technology trigger (£401.64m)	0%
If estimate spend is above technology trigger (£401.64m) and growth during Feb 2019 - April 2019 is less than 50% of growth trigger (£3.2m)	0%
If estimate spend is above technology trigger (£401.64m) and growth during Feb 2019 - April 2019 is 50-150% of growth trigger (£3.2m)	10% (+5% if total RHI trigger hit)
If estimate spend is above technology trigger (£401.64m) and growth during Feb 2019 - April 2019 is above 150% of growth trigger (£3.2m)	10* or 20** % (+5% if total RHI trigger hit) *if no degression in previous quarter **if degression in previous quarter

It is impossible at this stage to predict whether degression will occur in this quarter, as this will depend on the number of tariff guarantees granted over the relevant deployment months, whether the full applications rejected in November 2018 are re-submitted over this period and other factors.

The latest deployment data published by BEIS indicate that there are 25 TG applications for biomethane in the queue that are yet to be granted a tariff guarantee. Degressions in the following quarters will therefore depend on how many of these TGs are granted over the relevant assessment periods, and other factors such as number of new full applications and associated spend, as well as number of re-submissions of full applications and associated spend.

It is therefore not possible to draw any conclusions on whether a degression would apply to this quarter and what its level would be as the uncertainty is too high. Given the short window available for projects under the tariff guarantees to complete, we may expect only a limited growth at this stage, so it is possible but by no means certain that there could be no degressions in this and the following quarters.

However, **PLEASE NOTE**, as we saw previously, there are many factors such as load factors, dormant applications, and re-submissions, which may significantly affect the final figure when the quarterly forecast is produced. It is not certain that the tariff will be degressed, or by this much. The final and certain forecast is made by BEIS when any degression is announced. This analysis is merely intended to inform members of potential scenarios and their likelihood based on market intelligence available to us, and does not constitute advice. They are not intended to constitute legal or other professional advice, and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances. The Renewable Energy Association, or any of its subsidiaries, shall accept no responsibility for any errors, omissions or misleading statements in this assessment, or for any loss which may arise from reliance on this paper.

Small and medium biogas

Degressions on 1st January 2019

There was no degression applied to the tariffs for small and medium biogas on 1st January 2019.

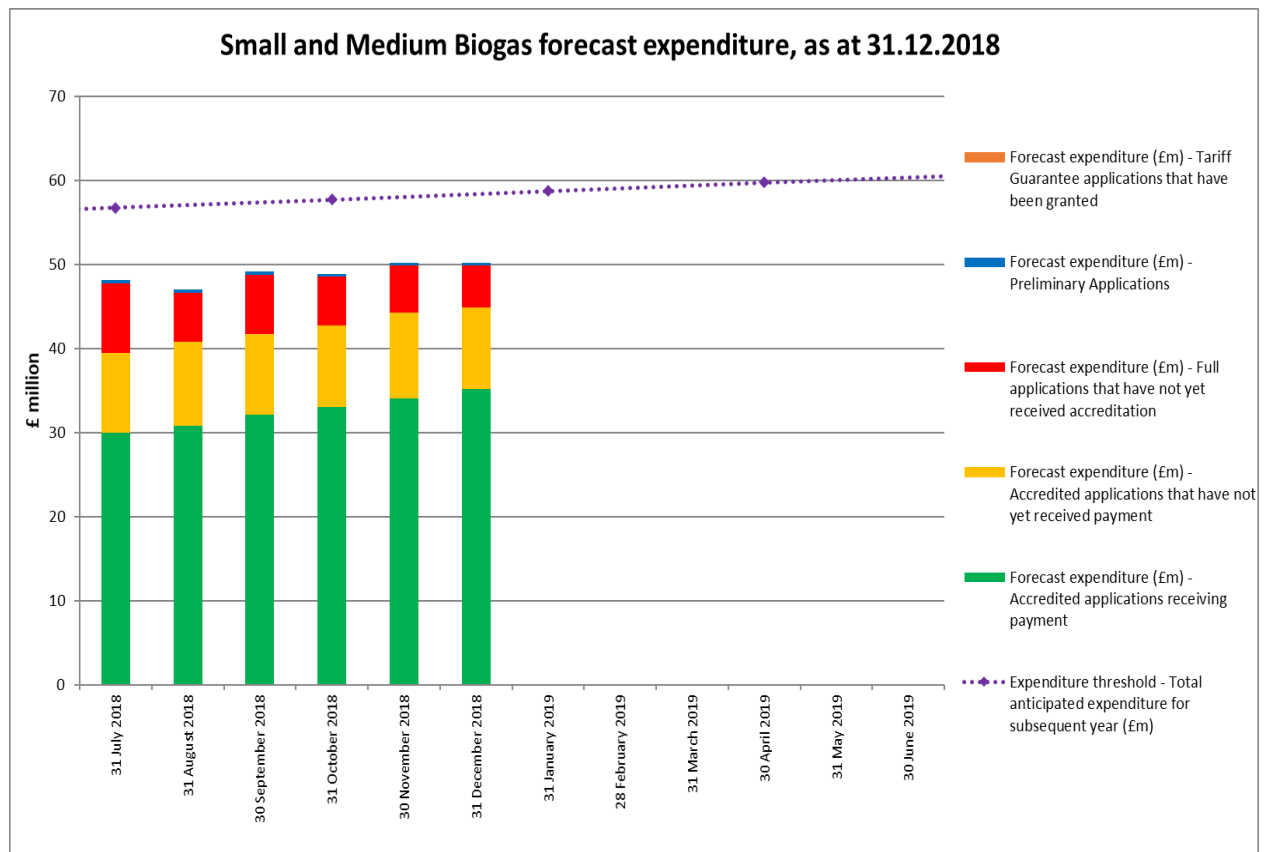
Degressions on 1st April 2019

Since there was no degression in the previous quarter (1st January 2019), the scenarios for small / medium biogas are:

	Reduction to small / medium biogas tariffs 1 April 2019
If estimate spend is not above technology trigger (£58.73m)	0%
If estimate spend is above technology trigger (£58.73m) and growth during November 2018 - January 2019 is less than 50% of growth trigger (£1.00m)	0%
If estimate spend is above technology trigger (£58.73m) and growth during November 2018 - January 2019 is 50-150% of growth trigger (£1.00m)	10% (+5% if total RHI trigger hit)
If estimate spend is above technology trigger (£58.73m) and growth during November 2018 - January 2019 is above 150% of growth trigger (£1.00m)	10% (+5% if total RHI trigger hit)

As illustrated in the chart below, as at 31st December 2018 the forecast expenditure is well below the technology trigger (anticipated expenditure for subsequent year).

Our market intelligence suggests the growth in this section of the sector is negligible, so we do not anticipate any degressions in April 2019 or the following quarters, but this is by no means certain.



Degression conclusion for biomethane/large biogas and small/medium biogas

- This analysis would suggest that biogas / biomethane degression on 1st April is not likely, as it is unlikely that the growth in spend during the relevant assessment period will be as large as needed to trigger degression
- For biomethane and large biogas, degression in the quarter starting on 1st July 2019 could be anything between 0 and 25%. This will depend on a number of factors, such as the number of TGs granted in the relevant assessment period and whether previously rejected applications will be re-submitted. However, if growth is slow from February 2019 onwards, it is possible (but by no means certain) that no degression will occur in this and following quarters.
- For small and medium biogas, it is unlikely that we will see degenerations in April 2019 or the following quarters as growth in this section of the sector is currently very limited.

Kiara Zennaro, 12/02/2019