

Non-Domestic Renewable Heat Incentive (RHI)

www.ofgem.gov.uk

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Guide to Tariff Guarantees

Background

A tariff guarantee allows applicants to the Non-Domestic Renewable Heat Incentive (RHI) to secure a tariff rate before their installation is commissioned and fully accredited on the RHI. Note that a tariff guarantee does not guarantee accreditation, each application will still need to comply with all of the regulations in place at the time of accreditation. Subject to parliamentary approval, the regulations for tariff guarantees are expected to be introduced in May 2018.

Who are they for?

Tariff guarantees are only available for installations where applicants apply and commission up until 31 January 2020. Table 1 shows which technologies and capacities are eligible.

Table 1: Tariff Guarantee availability

Technology Type	Capacity
Biomass	$\geq 1\text{MWth}$
Biomass CHP	All
GSHP	$\geq 100\text{kWth}$
WSHP	$\geq 100\text{kWth}$
Geothermal	All
Biogas	$\geq 600\text{kWth}$
Biomethane	All

Making an application for a tariff guarantee

A new application process has been developed for tariff guarantees involving three stages. During each stage you will have the same RHI number and you will simply add to the information already provided. See the diagram on page 6 of this document for a successful tariff guarantee application.

Please note there is only one application allowed per installation. Also note that in the case a TG is revoked, an installation will still be able to accredit in the standard way at stage 3 at the prevailing market tariff.

Contact us

Help is at hand if you need it. Our enquiries staff are experts on the RHI and can help advise you.

Telephone: 0300 003 2289

Email: rhi.enquiry@ofgem.gov.uk

Stage 1 – Application submitted

The first stage of the application submitted to Ofgem for a tariff guarantee will need to include the following information. Asterisks (*) indicate where there will be mandatory document upload slots as part of the stage 1 application form:

- The source of energy and technology you plan to develop
- Your business address and contact details
- Location of the plant, or for biomethane, the location of the place where biomethane will be injected
- Expected commissioning date (up to 31 January 2020) or date of injection in the case of biomethane (key date 2 in the diagram)
- The estimated total annual heat generation after commissioning or, for biomethane, the expected volume in cubic meters of biomethane you expect to produce for injection each year once injection has begun
- The expected capacity of the plant or, for biomethane the expected maximum initial capacity (at this first stage, this estimate does not have to be from a network entry agreement)
- The expected power efficiency (for new solid biomass CHP system) as certified by CHPQA
- Evidence of the proposed heat use (for non-biomethane installations)*
- Evidence that any necessary planning permission has been granted (or evidence that it is not required)*, and for biomethane, evidence that you have a signed connection agreement*
- A declaration that the plant will be owned or jointly owned by the applicant
- Any further information which the authority may require (including but not limited to the Standard Industry Classification Code)

Ofgem will then check whether or not there is available budget for the application. If there *is* available budget, Ofgem will notify you and proceed to the full review of your Stage 1 application. If there *is not* available budget, your application will be placed in a queue. For further information on the tariff guarantee budget control and the queuing system please see the section titled '**Tariff guarantee budget control**'.

After the budget check the Stage 1 application will be fully reviewed by Ofgem. If this application is considered 'properly made' and subsequently approved in line with the details provided at Stage 1, the tariff rate for any potential future payments will be the rate on the date you made this submission (key date 1 in Figure 1 on page 4). At the end of a

successful Stage 1 application you will be sent a Provisional Tariff Guarantee Notice (PTGN).

Stage 1 evidence clarifications

Evidence of the proposed heat use

The regulations are not prescriptive as to what such evidence should entail and as such evidence will be reviewed on a case by case basis. The following three points though should provide guidance.

- Firstly, evidence provided needs to show heat use proportionate to the size of the installation in question.
- Secondly, Ofgem will take into account that Tariff Guarantees are for installations that have yet to be built, or commissioned, meaning that confirmed/contracted heat users are unlikely to be available in all cases. Despite this, it is vital that your supporting evidence is as complete as possible, and if any provisional heat use agreements are available, they should be provided. The evidence that Ofgem will accept is not limited to provisional heat agreements and Ofgem are able to consider other evidence on a case by case basis.
- Thirdly, Ofgem can revoke tariff guarantees if it considers there to be a material change between information provided at stage 1 and stage 3 which includes 'evidence as to the proposed heat use.' Therefore it is important that applications submitted at stage 1 are submitted to the best of the applicants knowledge and are for installations that are suitably well progressed with regards to business case planning and development.

Connection agreements

For biomethane applications Ofgem requires a signed connection agreement but understands that different network operators take slightly different approaches. For a 'connection agreement' what we require is evidence of signed legally-binding agreements between the biomethane producers and the network operators for the design and construction of connections to inject biomethane into pipeline systems. Evidence of these agreements can include copies of contracts between producers and operators, in addition to letters from operators confirming that agreements and payment schedules/terms are in place.

If you have any concerns over whether or not the documentation you have received from an operator is able to meet the definition of 'connection agreement' in the RHI regulations we would expect you to take your own legal advice before application.

Planning permission

If there are any changes to your plans that require the planning permission submitted at stage 1 to be revised, this may be acceptable as long as it does not impact on your RHI application and the information provided about your installation at stage 1. It will be your responsibility to demonstrate that any changes in planning permission do not change your RHI installation applied for at Stage 1.

Stage 2 - Financial close information

Evidence of financial close will need to be submitted within three weeks of the Stage 1 application approval (key date 4 in Figure 1). This date will be specified in the PTGN you receive at the end of Stage 1. This financial close information is crucial in order to demonstrate that the installation will be developed in the future. If this evidence is not provided within the three week window specified your application will be rejected in accordance with the regulations.

Once evidence of financial close has been approved, **a tariff guarantee will be awarded**. This means that on completion and approval of the full accreditation (Stage 3) the tariff rate for future payments will be the rate on the date of the original Stage 1 submission (key date 1 in Figure 1) assuming this is the date the Stage 1 application was 'properly made'.

At the end of a successful Stage 2 application you will be sent a Tariff Guarantee Notice (TGN) which will state the guaranteed tariff which will apply if you become accredited/registered within the timelines noted (see Stage 3 for more details). This TGN will also include instructions on information that is required between the issuance of the TGN and the installation becoming accredited/ registered. The purpose of this is to provide assurance to Ofgem that the project as specified in Stages 1 and 2 is still on track to meet the expected commissioning/ injection date provided in Stage 1.

NOTE: If you have your Stage 2 financial close information available at the same time as your Stage 1 information you can submit both together and these will be reviewed by Ofgem at the same time. Administratively, Ofgem will request that the stage 2 information is submitted in parallel via email to RHI.TariffGuarantees@ofgem.gov.uk. Please note any application must still fulfil the Stage 1 requirements in order for us to consider whether the Stage 2 requirements have been met. Note if additional Stage 2 information is required you will have the normal 3 weeks from (key date 3 in Figure 1) when we accept your stage 1 application approval to provide this information.

What is financial close evidence?

Financial close evidence will need to prove two main criteria; firstly that funds are available to cover the complete construction of the proposed project; and secondly that these funds are formally committed to the project. This proof may come from investment agreements and some other form of legal or contract documentation.

Crucially, **financial close evidence must be verified and supported by a report from an independent auditor who is not a 'connected person'** (this means any person connected to the applicant and/ or investors as defined in section 1122 of the Corporation Tax Act 2010). The report should confirm:

- The auditor's relevant qualifications
- The validity of the financial close evidence provided
- That funds are available to cover the complete construction of the proposed project, including the auditor's reasoning and verification of these funds
- That these funds are committed to the proposed project
- Any caveats with regards to the above points

Ofgem prefers to receive financial close reports, including any relevant evidence in the ISAE3000 (limited assurance engagement) format. When reviewing this report Ofgem will consider the information closely to determine whether or not financial close has been met.

Please submit relevant supporting information, including any evidence relied on in the report to support the auditor's conclusions.

If Ofgem does require any evidence specific to your individual case that is not indicated above but is required to satisfy us that financial close has been reached, you will be informed of this in your PTGN received at the end of stage 1.

Stage 3 – Full application details

With a tariff guarantee confirmed (pending conditions), the final stage is for the installation to be commissioned (within 183 days of the estimated commissioning date and before 31 January 2020) and for the final details of the application to be completed in the application form. This application involves standard questions about the technology and any other circumstances for this particular

installation (see our [Easy Guide to Applying](#) for further information).

If the application is materially different (assessed on a case by case basis) from the information provided when the tariff guarantee was granted, Ofgem has the power to revoke the tariff guarantee. Therefore you should flag to us if you consider there will be any possibility of changes to the scope or design of the installation.

You must submit the Stage 3 application (key date 5 in Figure 1) within 183 days of the expected date of commissioning (and before 31 January 2020) provided as part of your Stage 1 submission (key date 2 in Figure 1). A Stage 3 submission cannot be submitted before this expected commissioning date otherwise you will not receive the tariff guarantee tariff rate.

When may Ofgem revoke a tariff guarantee?

Ofgem may revoke a tariff guarantee before the plant is accredited/registered as part of Stage 3 under the following circumstances:

- There has been a material change in circumstances such that had the application for the Tariff Guarantee been made after the change, it would have been refused
- The plant does not commission or the injection of biomethane does not commence and an application is not submitted before the date noted in the Tariff Guarantee notice
- The information on which the decision to issue a Tariff Guarantee was based, was incorrect in a material way
- There has been failure to provide information during the Tariff Guarantee period or to follow any further conditions imposed by Ofgem
- The information on which the decision to issue a Tariff Guarantee was based is materially different to that in the Stage 3 application. Ofgem may take into account any matters which it believes to be relevant including but not limited to:
 - The location of the plant or place where biomethane is injected
 - The installation capacity of the plant (non-biomethane only) is considered materially different for the purposes of the regulations if:
 - the installation capacity is 10% greater or smaller than that provided in the Stage 1 application; or
 - The installation capacity is such that a different tariff would apply
 - For biomethane, changes in the maximum initial capacity between stages 1 and 3 are not subject to a strict 10% materiality test. However, Ofgem will take into account changes in the expected maximum initial capacity between stage 1 and stage 3, when considering whether or not to revoke a tariff guarantee. It is therefore important that tariff guarantee applications are submitted accurately and to the best of an applicant's knowledge.
 - The source of energy and technology or design of the plant

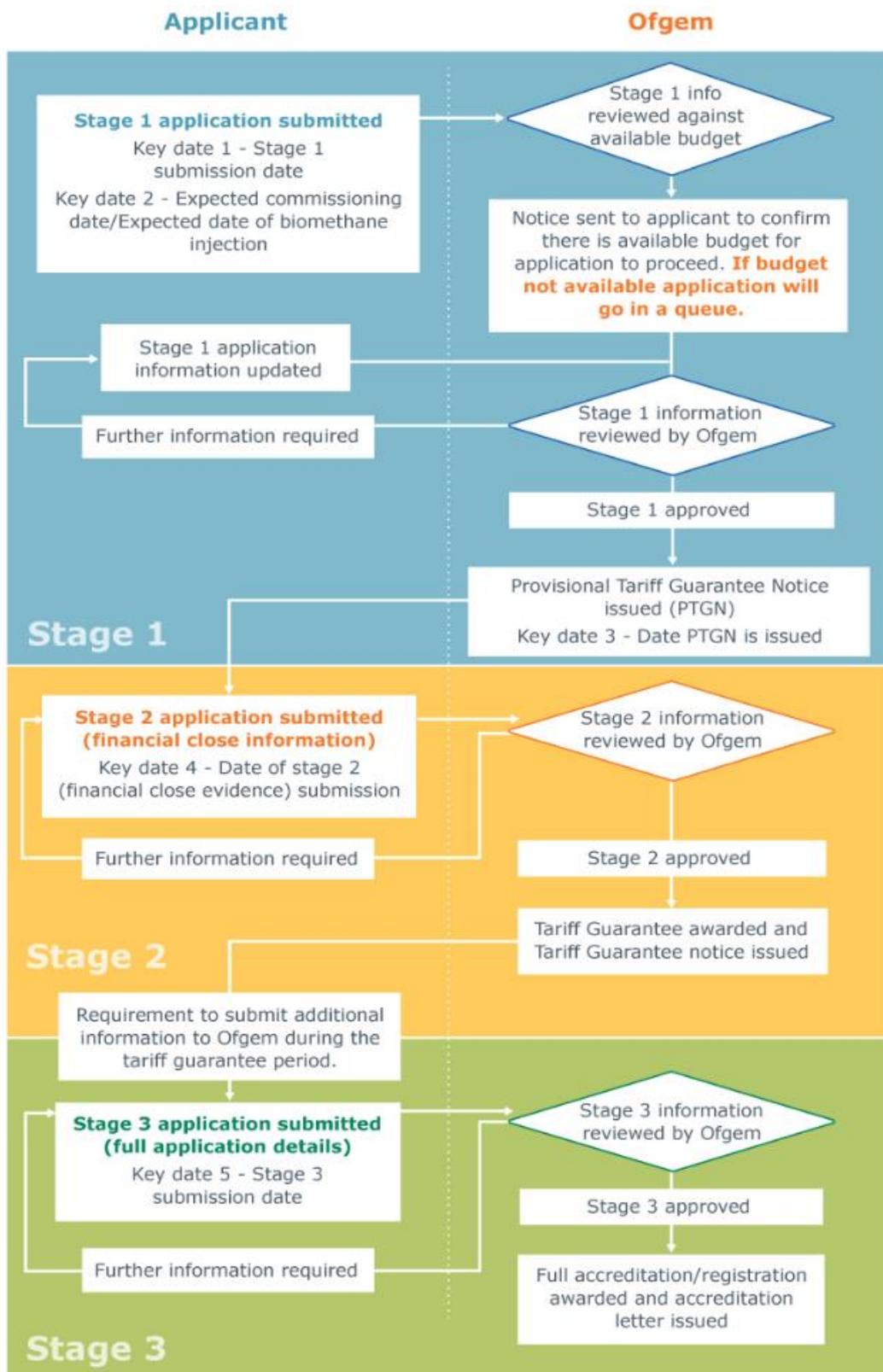


Figure 1: Flow diagram illustrating a successful Tariff Guarantee application

If you have an existing full application in the system

You will not be able to change this to a tariff guarantee application. This is because your installation will have already been commissioned and you would not gain anything from starting again at Stage 1.

What if I have an existing preliminary application in the system?

If you wish to apply for a tariff guarantee instead, you will need to cancel your preliminary application and submit a new tariff guarantee application.

Tariff guarantee limit

For installations that gain Stage 3 accreditation, tariff rates secured through the tariff guarantee process will be limited to 250GWh of heat produced, and used for eligible purposes, in each 12 month period. The same limit also applies to biomethane injected by producers of biomethane. Beyond this the tariff rates will revert to that which existed on the date a properly made full Stage 3 application was made (i.e. 'key date 5' in Figure 1).

Tariff guarantees and CPI

The tariff rate that is secured through the tariff guarantees process will not take account of any CPI inflation points that may occur before the installation is accredited as part of Stage 3. Once accredited the tariff rate will then increase by CPI as per standard RHI accreditations.

For example if an applicant guaranteed a tariff rate of '4p' on 1 July 2018 and then fully accredited on to the RHI scheme on the 1 January 2020 the initial tariff rate on the 1 January 2020 would still be '4p.' From this point onwards the tariff rate will then increase by CPI on 1 April each year during the 20 years on the scheme.

Tariff guarantee budget control

The RHI has a limited budget which is set out on the Department for Business, Energy and Industrial Strategy (BEIS) [website](#). Given the potentially large size of these installations and the limited amount of information that needs to be provided at Stage 1 it is important that controls are in place to manage available budget in a responsive and transparent way. This is why a budget control for Tariff Guarantee applications is being introduced.

For budget purposes, a tariff guarantee application submitted at Stage 1 will count as fully committing a share of scheme budget.

What is the budget allocation for tariff guarantees?

The budget allocation for tariff guarantees is set by the Secretary of State and published by BEIS. The initial budget allocation for each of the financial years of 2018/19, 2019/20 and 2020/21 has been published with the budget for tariff guarantees being set at 50% of the remaining budget available for each financial year at the time of publishing.

The budget allocated to tariff guarantees is open to review by the Secretary of State but can only be increased and not decreased. Increases in budget allocation will only happen on 1 February, 1 May, 1 August or 1 November in a relevant financial year. The budget allocated to tariff guarantees will be reviewed prior to these dates by the Secretary of State and an announcement made a month before. Given the proximity of 1 May 2018 to the date on which Tariff Guarantees are expected to be introduced the first increase in budget allocation will be considered by BEIS for 1 August 2018.

For further questions on tariff guarantee budget allocation please contact BEIS at rhi@beis.gov.uk

How are applications counted towards the budget?

Using information included in the Stage 1 application and information published by BEIS, Ofgem will assess whether or not there is available budget to progress the application further or whether it should be held in a queue. It is important to ensure that Stage 1 applications are accurate and include all necessary evidence as failure to do so could result in your application being rejected and not counted towards the budget. **You cannot amend an application after it has been made.** Ofgem may request further information to clarify information you have submitted as part of your Stage 1 application while allowing you to maintain your place in the queue and not be rejected.

For **all technologies** the following formulae will be used for assessing the contribution towards the budget allocations in the relevant financial years.

$$\text{For the first year: } E \times T \times \frac{D}{Y}$$

$$\text{For subsequent years: } E \times T \times I$$

Where:

‘E’ is the estimated heat

‘T’ is the tariff that would apply if the installation were to be accredited/ registered

‘D’ is the number of days in the year starting from the expected commissioning date/ date of injection

‘Y’ is the number of days in the first relevant financial year

‘I’ is the estimate of inflation for that year published by BEIS

To calculate the estimated heat ‘E’ the following formulae will be used

For **all technologies (except for biomethane)**

$$C \times LF \times H$$

Where:

‘C’ is the expected installation capacity

‘LF’ is the average load factor for the technology as published by BEIS

‘H’ is hours in a year

For biomethane:

$$V \times F \times P$$

Where:

'V' is the maximum volume in cubic metres of eligible biomethane which the applicant can inject each year, based on data from the relevant connection agreement submitted as part of the Stage 1 application;

'F' is 9.1 (this is a factor to account for the calorific value per cubic metre of biomethane (10 kWh/m³) and proportion of eligible biomethane per unit of biomethane injected (0.91))

'P' is the average of the quarterly biomethane production factors, published by BEIS.

The following examples use **demonstration figures** for budget allocations, load factors, biomethane quarterly production factors and inflation. **Actual figures** have now been published and can be found on the BEIS [website](#)

Example 1: Biogas installation

Factors	Values
'T'	1.36p (the large biogas tariff on the date the properly made Stage 1 application was submitted – in this example 22 May)
'D'	121 (number of days in the 18/19 financial year starting from the expected commissioning date – in this example 1 December 2018)
'Y'	365 (number of days in the 18/19 financial year)
'C'	10000kWh
'H'	8760 hours in 18/19 and 20/21. 8784 hours in 19/20)
'I'	2% for 19/20 and 20/21 (Demonstration figure, BEIS to publish actual figure)
'LF'	40% (to be provided by SoS)
'E'	35040000kWhth for 18/19 and 20/21. 35136000kWhth for 19/20 ('C' x 'LF' x 'H')

Committed spend for first year: 18/19

$$= E (35,040,000kWhth) \times T (£0.0132/kWhth) \times D/Y (121/365)$$

= £157,977.60

Committed spend for second year: 19/20

$$= E (35,136,000kWhth) \times T (£0.0132/kWhth) \times I (1.02)$$

= £487,406.59

Committed spend for third year: 20/21

$$= (E (35,040,000kWhth) \times T (£0.0132/kWhth) \times I (1.02)) \times I (1.02)$$

= £497,154.72

Example 2: Biomethane plant

Factors	Values
'T'	Tier 1: 5.6p, Tier 2: 3.29p, Tier 3: 2.53p (the biomethane tariffs on the date the properly made Stage 1 application was submitted – in this example the 22nd May)
'D'	121 (number of days in the 18/19 financial year starting from the expected injection date – in this example the 1st December 2018)
'Y'	365 (number of days in the 18/19 financial year)
'V'	8760000m ³ (maximum volume in cubic meters of eligible biomethane that can be injected each year. Based on data from your connection agreement)
'F'	9.1kWh/m ³ (fixed figure from the regulations)
'I'	2% for 19/20 and 20/21 (Demonstration figure, BEIS to publish actual figure)
'P' in the first year (18/19)	20.25% (based on averaging the quarterly production factors in the table below that are applicable for the 18/19 financial year. Final table to be provided by BEIS)
'P' in the second year (19/20)	63.33% (based on averaging the quarterly production factors in the table below that are applicable for the 19/20 financial year, which is a leap year. Final table to be provided by BEIS)
'P' in the third year (20/21)	79.99% (based on averaging the quarterly production factors in the demonstration table below that are applicable for the 20/21 financial year. Final table to be provided by BEIS)
'E' in the first year (18/19)	16,142,490kWhth ('V' x 'F' x 'P')
'E' in the second year (19/20)	50,484,142.8kWh ('V' x 'F' x 'P')
'E' in the third year (20/21)	63,764,828.4kWh ('V' x 'F' x 'P')

Demonstration Quarterly Production Factors

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10+
Production factors to use	10%	50%	60%	65%	70%	75%	75%	80%	85%	90%
2018/19 days from 1/12/18 to 31/3/19	90	31								
2019/20 days from 1/4/19 to 31/3/20		61	92	91	91	31				
2020/21 days from 1/4/20 to 31/4/21						61	92	91	90	31

As the biomethane tariff includes tiering the relevant tariffs to use will need to be identified for each of the committed spend formulae. For biomethane the tier 1 tariff applies to biomethane injection up to 40,000,000kWh. Above this and up to 80,000,000kWh the tier 2 tariff applies. Above 80,000,000kWh the tier 3 tariff applies.

Committed spend for first year: 18/19

All to be calculated at tier 1 tariff as relevant kWh (E x D/Y) is under 40,000,000kWh
 = E (16,142,490kWhth) x T (£0.056/kWhth) x D/Y (121/365)
 = **£299,675.38**

Committed spend for second year: 19/20

E = 50,484,142.8kWh meaning that the first 40,000,000kWh will be paid at tier 1 and the remaining 10,484,142.8kWh will be paid at tier 2

$$= ((40,000,000\text{kWh} \times T (\pounds 0.056/\text{kWh})) + (10,484,142.8\text{kWh} \times T (\pounds 0.0329))) \times I (1.02)$$

$$= \pounds 2,636,626.86$$

Committed spend for third year: 20/21

E = 63,764,828.4kWh meaning that the first 40,000,000kWh will be paid at tier 1 and the remaining 23,764,828.4kWh will be paid at tier 2

$$= (((40,000,000\text{kWh} \times T (\pounds 0.056/\text{kWh})) + (23,764,828.4\text{kWh} \times T (\pounds 0.0329))) \times I (1.02)) \times I (1.02)$$

$$= \pounds 3,143,946.11$$

What if there is not available budget?

The key principle underlying the tariff guarantee budget is that no application will proceed to Stage 1 if it would cause any of the three annual budget limits to be exceeded. Applications cannot be partly funded, so unless the required spending commitment can be met in full for all three financial years it cannot proceed.

An application that would cause the budget for any financial year to be exceeded will be held in a queue. A queue will then be formed for all subsequent applications with budget requirements that cannot be met in full. Applications that can be funded will continue to be processed. This may mean that a large application is in the queue while smaller applications, or those with commissioning/first injection dates in later years can proceed.

Applications in the queue may be processed at a later date if further budget becomes available. This may be the result of increased budget allocation from the Secretary of State following a quarterly review, or from tariff guarantee applications that were previously counted towards the budget being withdrawn or rejected.

This is best illustrated through an example queue. Please note that figures in this example are fictional and created purely for illustrative purposes.

In this example we will assume that the tariff guarantee budget allocations are as follows:

Example budget allocations (in £million)		
18/19	19/20	20/21
50	100	150

In the table below are a series of applications A to M which are ordered by the date at which a properly made Stage 1 application was submitted. The applications which are highlighted red remain in the queue whilst those that are non-coloured are able to proceed.

	Committed Spend calculation			Funded (y/n)	Cumulative committed spend			Headroom (Budget allocation minus cumulative committed spend)		
	18/19	19/20	20/21		18/19	19/20	20/21	18/19	19/20	20/21
A	15	20	20	y	15	20	20	35	80	130
B	15	20	20	y	30	40	40	20	60	110
C	5	10	10	y	35	50	50	15	50	100
D	15	20	20	y	50	70	70	0	30	80
E	10	20	20	n						
F	10	20	20	n						
G	0	5	10	y	50	75	80	0	25	70
H	0	20	40	y	50	95	120	0	5	30
I	0	20	40	n						
J	5	10	12	n						
K	0	5	10	y	50	100	130	0	0	20
L	10	20	25	n						
M	0	0	10	y	50	100	140	0	0	10

Applications E and F (in red) cannot proceed because they include spend in 18/19 where there is no more headroom. They are not rejected and remain in the queue.

Application I cannot proceed as there is not sufficient headroom in both the 19/20 and 20/21 budget. Application J cannot proceed as there is not sufficient headroom in both the 18/19 and 19/20 budget. They are not rejected and remain in the queue.

Applications G, H, K and M are all able to proceed despite applications above them remaining in the queue

Resuming our example, the Secretary of State now increases the budget for each financial year by £50 million. In the table below the previously accepted applications (clear coloured) have been moved to the top of the table. The queue now begins with application E which was the first application to be blocked because the budget was unavailable. Applications that are now able to be accepted in light of this increased budget are coloured green and those that remain in the queue are coloured red.

	Committed Spend calculation			Funded (y/n)	Cumulative committed spend			Headroom (Budget allocation minus cumulative committed spend)		
	18/19	19/20	20/21		18/19	19/20	20/21	18/19	19/20	20/21
A	15	20	20	y	15	20	20	35	80	130
B	15	20	20	y	30	40	40	20	60	110
C	5	10	10	y	35	50	50	15	50	100
D	15	20	20	y	50	70	70	0	30	80
G	0	5	10	y	50	75	80	0	25	70
H	0	20	40	y	50	95	120	0	5	30
K	0	5	10	y	50	100	130	0	0	10
M	0	0	10	y	50	100	140	50	50	60
E	10	20	20	y	60	120	160	40	30	40
F	10	20	20	y	70	140	180	30	10	20
I	0	20	40	n						
J	5	10	12	y	75	150	192	25	0	8
L	10	20	25	n						

Applications E and F are now accepted due to the increased headroom.

I cannot be accepted as it would exceed 19/20 and 20/21 headroom.

Headroom increased by 50 in each financial year

Easy guides series

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- [Guide to Tariff Guarantees](#)

This Easy Guide is applicable to applicants and participants on the GB Non-Domestic scheme. If you're an applicant or participant on the Northern Ireland Non-Domestic scheme then please refer to the [Northern Ireland Renewable Heat Incentive](#).

Contact us Help is at hand if you need it. Our enquiries staff are experts on the RHI and can help advise you. Telephone: 0300 003 2289 Email: rhi.enquiry@ofgem.gov.uk RHI enquiry line open Monday to Thursday 9am-5pm and to 4.30pm on Fridays. Note: Calls may be recorded.