

Briefing Note

Renewable Heat Incentive

The Renewable Heat Incentive (RHI) provides support for eligible renewable heating installations in England, Wales and Scotland, in the form of payment of a subsidy for every kilowatt hour thermal (kWhth) of renewable heat generated.

Background

The RHI was introduced against a background of heating accounting for almost half of total UK energy consumption, with over 95% of this heat being produced by the burning of fossil fuels and only a meagre 1.5% coming from renewable sources. In order to fulfil its commitments towards arresting climate change and with a view to reducing dependence on imports of fossil fuels, the UK Government through the RHI aims to provide a surge in uptake of renewable heat technologies, so that 12% of heat comes from renewable sources by 2020 (the Scottish Government has set a separate target of 11% by 2020 for Scotland). Without government intervention the view was that the private sector was not likely to invest sufficiently to achieve the required uptake levels. The RHI sits alongside the Feed-in Tariffs Scheme (FiTs) which incentivises generation of electricity from renewable sources (see our separate briefing note).

Technologies Covered

The RHI covers technologies which the EU Commission considers to be renewable under the Renewable Energy Directive, including:

- 1) Biomass boilers (generation of heat through the burning of organic matter, primarily wood);
- 2) energy from waste combustion (the burning of the organic element of domestic waste to produce heat);
- 3) heat pumps (electrically or gas driven heat exchangers extracting solar heat from the ground, air or water);
- 4) deep geothermal (extraction of deep underground heat using pipes carrying steam or water);
- 5) solar thermal (collecting heat from the sun on to a collector which transfers heat energy to a working liquid); and
- 6) biomethane/biogas (generation of heat through combustion).

Heat used for the generation of electricity (other than as part of a combined heat and power (CHP system)) is not covered by the RHI.

Non-domestic and Domestic RHI

The non-domestic RHI commenced on 28th November 2011 and applies to the industrial and commercial sector, the public sector, not-for-profit- organisations and communities. It covers district and community heating e.g. a central boiler to an apartment building or residential dwellings adapted for commercial use e.g. a house converted to a shop or bed and breakfast establishment. Over 1GW of installed capacity has been accredited under the non-domestic RHI, the equivalent of enough heat to heat 100,000 homes.

The domestic RHI commenced on 9th April 2014 and applies to renewable heating systems which heat individual properties which are capable of being given a domestic Energy Performance Certificate. The domestic RHI covers a more limited range of technologies, namely biomass only boilers and biomass pellet stoves, air and ground source heat pumps and flat plate and evacuated tube solar thermal panels.

Eligible Installations

To be eligible for support under the non-domestic RHI, installations must have been completed and capable of operating and delivering heat to premises on or after 15th July 2009 (for Solid Biomass, Biogas below 200kWth, Ground and Water Source Heat pumps, Geothermal, Solar collectors and Energy from Waste) or on or after 4th December 2013 (for Air to Water Heat Pumps, Biogas 200kWth and above and CHP systems).

Installations must have been commissioned on or after 9th April 2014 in order to be eligible for the domestic RHI, although there were transitional eligibility rules for installations commissioned between 15th July 2009 and that date.

Tariff Levels

The tariff levels for new installations under the non-domestic RHI can be viewed at <https://www.ofgem.gov.uk/environmental-programmes/non-domestic-renewable-heat-incentive-rhi/tariffs-apply-non-domestic-rhi-great-britain>.

The tariff levels for new installations under the domestic RHI can be viewed at <https://www.ofgem.gov.uk/environmental-programmes/domestic-renewable-heat-incentive/about-domestic-rhi/tariffs-and-payments-domestic-renewable-heat-incentive>.

Payments are calculated by multiplying the appropriate tariff (depending on the technology and size of the installation) by the eligible heat use. The eligible heat use is measured by metering.

Tariff levels (originally calculated on the basis of a 12% rate of return) do not compensate for the full cost either of the renewable heat equipment or any fuel used by the renewable heat equipment, but only for the additional cost of such equipment and fuel above that of the fossil fuel alternative.

All tariffs are payable on a quarterly basis for a 20 year period for the non-domestic RHI and for a seven year period for the domestic RHI, and are adjusted annually to reflect the movement in the Retail Price Index.

Because some tariff levels are banded, with tariffs for smaller installations being higher, the term “Installation” was defined so as to prevent owners from claiming RHI payments for several small installations rather than one large installation. A number of tariffs are also tiered, meaning that installations covered by these tariffs receive a higher tier tariff for the initial proportion of their generation, followed by lower tier tariffs for any generation exceeding the amount of heat covered by the higher tier. This approach was adopted to avoid any incentive to generators to generate excess or wasteful heat purely to maximise RHI payments.

Payments are made to the owner of the installation, which will normally be the person who has purchased and paid for the installation.

Administration

The RHI (both non-domestic and domestic) is administered by Ofgem, who deal with applications for support, accreditation of installations, making payments to recipients and monitoring compliance with the scheme conditions

Ofgem require to be satisfied that heat produced is useful (not created artificially purely to claim RHI) and that metering arrangements are in place before accreditation will take place. Solid biomass, heat pumps and solar thermal plants of 45kWth capacity or less must be certified under the Microgeneration Certification Scheme (an independent industry-lead certification scheme accredited by the UK Accreditation Service) or equivalent schemes.

Funding, Degression and Reviewability

The RHI is funded from general Government spending, rather than through any separate RHI levy, which was intended to alleviate fears about the potential impact on energy bills (unlike FiTs).

In terms of degression, support levels for new installations (under both the non-domestic and domestic RHI) will automatically drop quarterly by a given percentage, if deployment reaches certain trigger points. The trigger points will depend on the deployment required to keep the Government on track to deliver the 2020 renewables target.

The non-domestic RHI has been kept under review and various changes, expansions and improvements have been introduced over the past two years following several Government Consultations. The Department of Energy and Climate Change (DECC) has committed to keeping the non-domestic RHI under annual legislative review. The domestic RHI is similarly kept under review and DECC even have the power to request an individual participant to assist in maintaining and reading meters, keeping records, and providing information relating to their heating system on request.

Comment

The introduction of both the non-domestic and, more recently, the domestic RHI has been welcomed, as has the schemes' expansion to cover other technologies and, in some cases, even increase some of the tariff. Uptake under both schemes has been good and a market has even developed in would-be participants and developers working together on joint ventures.

The ongoing degression and review provisions and the potential for amendments to the RHI by future Governments may be of concern to some, including investors, but the general trend of fixing targets for renewable energy production will give a certain amount of comfort that support under the RHI should be available for some time to come.

This note is intended as a brief summary of the Renewable Heat Incentive. No responsibility can be taken for any action taken in reliance on this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice.

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