

EXPLANATORY MEMORANDUM TO
THE DOMESTIC RENEWABLE HEAT INCENTIVE SCHEME (AMENDMENT)
REGULATIONS 2017

2017 No. [XXXX]

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 This instrument amends the Domestic Renewable Heat Incentive Scheme Regulations 2014 (S.I. 2014/928) following consultation to reform both the Domestic Renewable Heat Incentive (RHI) and Non-domestic RHI schemes. These amendments reform the RHI in line with the Department's objectives to ensure focus on long-term decarbonisation, promotion of technologies with a credible role to play in that transition, and offering better value for money for taxpayers.
- 2.2 These amendments introduce a number of changes, including to: the scheme eligibility criteria; methods for calculating and issuing scheme payments; budget control mechanisms; the levels of tariffs for making payments to scheme participants; and the ability to recover certain payments made under the scheme.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 None.

Other matters of interest to the House of Commons

- 3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland.

4. Legislative Context

- 4.1 The Domestic RHI scheme was introduced to facilitate and encourage the renewable generation of heat within domestic dwellings by giving subsidy payments to owners of eligible renewable heating systems. The Domestic RHI Scheme Regulations came into force on 9th April 2014 and have been amended subsequently.
- 4.2 An equivalent scheme established by the Renewable Heat Incentive Scheme Regulations 2011 (S.I. 2011/2860) provides subsidy payments for the generation of renewable heat in the non-domestic sector (industrial, commercial, public sector and not-for-profit) and producers of biomethane injected into the gas grid.
- 4.3 This instrument introduces amendments to the Domestic RHI scheme in line with the Government's response to the consultation: [The Renewable Heat Incentive – A](#)

[reformed and refocused scheme](#)¹, published on 3rd March 2016. It is introduced alongside the Renewable Heat Incentive Scheme Regulations 2017 (2017 No. XXXX), which consolidate the Renewable Heat Incentive Scheme Regulations 2011 and introduce amendments to the Non-domestic scheme.

- 4.4 The Autumn Statement in November 2015 confirmed the budget for the RHI to the end of the Spending Review period in 2020/21 and the reforms to the scheme are made to achieve best value for money from this budget.

5. Extent and Territorial Application

- 5.1 The extent of this instrument is Great Britain.
5.2 The territorial application of this instrument is Great Britain.

6. European Convention on Human Rights

- 6.1 Jesse Norman MP, Parliamentary Under Secretary of State, Minister for Energy and Industry, has made the following statement regarding Human Rights:

“In my view the provisions of the Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2017 are compatible with the Convention rights.”

7. Policy background

What is being done and why

- 7.1 The RHI scheme was introduced under the powers afforded to the Secretary of State by the Energy Act 2008. It was introduced to deliver carbon emissions reductions to help the UK meet its obligations under the Climate Change Act 2008 and the Carbon Budgets established under this Act, and to help the UK meet its target under Directive 2009/28/EC (the “Renewable Energy Directive”) that 15% of energy consumption is to come from renewable sources by 2020. The Government intends that the renewable heat generated under the RHI will make a significant contribution to these obligations.
- 7.2 Section 100 of the Energy Act 2008 makes provision for the Secretary of State to make regulations which establish a scheme to facilitate and encourage the renewable generation of heat and govern the administration of the scheme and the calculation of payments to participants. The Government expects the scheme (the Domestic and Non-domestic RHI combined) to deliver over 22 terawatt hours (TWh) of renewable heat in 2020/21, with 8TWh from deployment following these reforms. Furthermore, the Government expects the scheme to deliver over 40 megatonnes of carbon abatement during each of the periods of the fourth and fifth Carbon Budgets, with over 18 megatonnes of abatement delivered by deployment following these reforms.
- 7.3 The Domestic and Non-domestic schemes operate by making subsidy payments to owners of eligible renewable heat technologies and producers of biomethane (in the Non-domestic scheme only) for the renewable heat generated or biomethane injected into the grid.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505972/The_Renewable_Heat_Incentive_-_A_reformed_and_refocussed_scheme.pdf

- 7.4 These Regulations make a number of changes to the existing Domestic RHI scheme, in line with the Department’s objectives to ensure it focusses on long-term decarbonisation, promotes technologies with a credible role to play in that transition, and offers better value for money. The changes will also help to ensure the scheme’s contribution to the UK’s renewable energy targets, as well as its other objectives, are met.
- 7.5 The tariffs for new air source heat pumps (ASHPs), ground source heat pumps (GSHPs), and biomass boilers and stoves are being increased to levels that are expected to increase deployment of these technologies. This increased deployment will allow the supply chain to develop and drive cost reductions to help build growing markets that provide quality to consumers and are sustainable without Government support in future.
- 7.6 All new ASHPs and GSHPs applying for support under the scheme will be required to have electricity metering in place alongside their heating system. This is to provide more information to consumers to allow them to engage more effectively with their heat pumps and help protect against poor performance and excessive electricity bills.
- 7.7 Heat demand limits are being introduced for biomass and heat pump installations, to limit the level of annual heat demand in respect of which any household can receive support. This will provide better value for money for taxpayers. This will not disqualify properties with higher heat demands from applying to the scheme – they will simply have their payments capped at the heat demand limit.
- 7.8 The reforms will also make changes to the scheme’s budget management rules, which reduce the tariffs available to new applicants when certain conditions are met. These mechanisms control the spending both on individual technology types and on the scheme as a whole. Tariff reductions (referred to as tariff “degressions”) are triggered when specified thresholds for forecasted expenditure or growth in forecasted expenditure are reached. The reforms will not alter this overall framework but will introduce changes designed to simplify the rules and improve transparency, and reflect learning from the scheme’s operation so far. In particular, the changes will aim to remove the potential for the rules to continue to reduce tariffs even after deployment has slowed down.
- 7.9 The way in which additional payments are made for additional technical monitoring equipment – known as metering and monitoring service packages (MMSPs) – is also being changed. Consumers have previously been incentivised to install this voluntary additional equipment through additional quarterly payments to cover the capital cost and paid over the course of their membership of the scheme. To encourage more installations, half of these total payments will now be paid within the first three months following successful application. Increased installation of MMSPs will provide valuable additional performance data to consumers and also allow the Department to evaluate performance of heat pumps installed in domestic premises and inform future policy-making decisions.
- 7.10 Additional powers are also being granted to The Office of Gas and Electricity Markets (“Ofgem”), which administers the RHI schemes, to allow them to recover payments made for MMSPs that are found to be beyond what the participant was entitled to, due to non-compliance with scheme rules or the provision of false information. This provides additional protection to the public purse and the reputation of the scheme.

Consolidation

- 7.11 The Department does not intend to consolidate the relevant legislation at this time, although the original scheme Regulations and subsequent amendments are available through the legislation.gov.uk website.

8. Consultation outcome

- 8.1 In November 2015, the Government renewed its commitment to the transition to a low carbon economy by confirming a continued budget for the RHI out to 2020/21.
- 8.2 In March 2016, the Government set out its initial proposals for reform of the RHI scheme in a consultation which set out proposals relating to both the Non-domestic and Domestic RHI schemes: [The Renewable Heat Incentive - A reformed and refocused scheme](#). The consultation ran from 3rd March to 27th April 2016 and received 370 responses from individuals, businesses, trade bodies and other organisations. The Government Response to the consultation can be found on the [gov.uk website](#)² but the relevant points for the content of this instrument are summarised below.
- 8.3 Regarding the proposed increase to heat pump tariffs, 64% of respondents agreed that the tariff available should be reviewed for ASHPs and 58% agreed that the GSHP tariff should be reviewed. The consultation did not propose to increase the biomass tariff but feedback received through the consultation and other stakeholder engagement provided the Department with enough additional information and justification to reset to this tariff to the level available between October and December 2015.
- 8.4 Out of the respondents, 92% agreed that further Government and industry action is required to drive up the performance of heat pumps and tackle underperforming installations on the RHI. A number of options were discussed with industry representatives following the consultation and the decision was taken that the mandatory installation of electricity meters, without heat meters also having to be installed, provided a suitable level of information to consumers without excessive financial or technical burden.
- 8.5 Of those who responded, 56% opposed the introduction of heat demand limits, largely due to concerns that they would make larger installations less attractive without increasing the attractiveness of smaller installations. It was not clear, though, that these responses took account of the proposed increases to tariffs that could counteract these concerns. Many respondents, however, noted a number of positive outcomes from heat demand limits, including that they may help to rebalance deployment of the various technologies through the scheme and ensure support is available for smaller properties and not just larger, less efficient buildings, meaning that a greater number of properties overall can be supported with the same level of funding. This is in line with the Government's commitment to provide better value for money through the RHI, so, given that there were not any viable alternatives, heat demand limits are being introduced.
- 8.6 There was widespread recognition that degression has delivered its headline objective to control spending of the RHI budget and that such measures are necessary. 45% of respondents agreed with the proposed approach for degression and threshold setting –

² <https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme>

thresholds being the levels of forecast expenditure at which tariff reductions are triggered – but 53% disagreed, with many respondents feeling that tariff reductions created too much uncertainty across the industry. Some alternative proposals for the degression methodology were provided, but, again, there was general acceptance that degression was required to protect the scheme budget, with a desire for enough headroom to be given in thresholds to support increased deployment.

- 8.7 Of the 57 responses to the question asking what could be done to make MMSPs more attractive, the most popular responses were to provide upfront payments and to relax the data storage/transfer requirements, both of which are being implemented. Other respondents suggested mandating the installation of MMSPs and, while the Department did not believe this to be a proportionate response, it did help to inform the Department's decision to introduce mandatory electricity metering for heat pumps, as described in paragraphs 7.6 and 8.4.
- 8.8 The provision of additional powers to Ofgem to recover MMSP payments that exceed the amount to which the participant was entitled was not specifically consulted on, but simply makes more explicit these powers for Ofgem to protect payments made under the RHI and provide better value for money to the taxpayer and aligns with existing powers to recover other RHI payments.

9. Guidance

- 9.1 The Government Response to the consultation explains the amendments in detail and provides clarification of the changes to the scheme eligibility criteria. Ofgem will also publish supporting guidance that will provide further information for scheme applicants, participants and installers.

10. Impact

- 10.1 There is no impact on business, charities or voluntary bodies, given the RHI is a voluntary scheme.
- 10.2 There is no impact on the public sector, given the RHI is a voluntary scheme.
- 10.3 An Impact Assessment is submitted with this memorandum and will be published alongside the Explanatory Memorandum on the legislation.gov.uk website.

11. Regulating small business

- 11.1 The legislation does not apply to activities that are undertaken by small businesses.

12. Monitoring & review

- 12.1 The Department will undertake an evaluation of the reformed RHI scheme. The evaluation will assess the impact of the scheme and identify lessons for future policy development. The evaluation will include assessment of the reformed RHI's impact on renewable heat generation, carbon abatement and contribution towards the development of a sustainable market. Regular monitoring data is expected throughout the evaluation (2017-2021), with evidence review reports expected in December 2017, May 2020 and after scheme close. The details of the evaluation will be confirmed in spring 2017.

13. Contact

- 13.1 Katy Read at the Department for Business, Energy and Industrial Strategy, Telephone: 0300 068 6010 or email: katy.read@beis.gov.uk, can answer any queries regarding the instrument.