

EXPLANATORY MEMORANDUM TO

THE DOMESTIC RENEWABLE HEAT INCENTIVE SCHEME REGULATIONS 2014

2014 No. 928

1. This explanatory memorandum has been prepared by the Department of Energy and Climate Change (DECC) and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Domestic Renewable Heat Incentive Scheme Regulations 2014 (“the RHI Regulations”), establish a Domestic Renewable Heat Incentive (“the Domestic RHI scheme”) to facilitate and encourage the renewable generation of heat by giving subsidy payments to owners of eligible plants that generate heat from eligible renewable sources for domestic properties. They give functions to the Gas and Electricity Markets Authority (“the Authority”) to administer the scheme. The key functions for the Authority include:

- Accreditation of plants eligible for the Domestic RHI scheme;
- Calculating and paying RHI payments to participants;
- Calculation of tariffs and publication of tariff rates;
- Registration of optional metering and monitoring agreements and paying additional payments to participants whose agreements are registered by the Authority;
- General administrative functions needed to operate the scheme, including maintenance of a central register, inspection and enforcement provisions, and a process for reviewing its decisions on application by a participant (or proposed or former participant);
- Reporting to the Secretary of State; and
- Providing guidance to participants on the scheme criteria.

2.2 In addition to conferring functions on the Authority to administer the Domestic RHI scheme, the Regulations:

- specify the criteria with which a plant generating heat must comply in order to be eligible for the scheme;
- set out ongoing obligations on participants in the scheme relating to general and administrative requirements with which they must comply;
- confer functions on the Secretary of State in relation to the review of the scheme and the preparation of quarterly forecasts which are used for tariff-setting.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The Secretary of State makes this instrument in exercise of powers conferred by section 100 of the Energy Act 2008 (“the Act”) as amended by the Renewable Heat Incentive (Amendment to the Energy Act 2008) Regulations 2011 (S.I.2011/2195).

4.2 The Renewable Heat Incentive Scheme Regulations 2011 (S.I. 2011/2860) (“the 2011 Regulations”) established a renewable heat incentive scheme (“the RHI scheme”)

to facilitate and encourage the renewable generation of heat by giving subsidy payments to eligible generators of renewable heat and producers of biomethane. The 2011 Regulations have been amended several times and the RHI scheme supports the generation of renewable heat in non-domestic sectors (industrial, commercial public sector and not-for-profit) and producers of biomethane.

4.3 These Regulations introduce a similar scheme for the domestic sector, covering owners of renewable heating plants who own the domestic property to which the plant supplies heat (including landlords) or who occupy the property (for instance a tenant) and who installed an eligible plant on or after 15th July 2009 (the date when the scheme was first announced).

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

5.2 In accordance with section 100(7)(a) of the Act, the Secretary of State has obtained the Scottish Ministers consent to the making of these Regulations.

6. European Convention on Human Rights

Gregory Barker, Minister of State for the Department of Energy and Climate Change, has made the following statement regarding Human Rights:

In my view the provisions of the Domestic Renewable Heat Incentive Scheme Regulations 2014 are compatible with the Convention rights.

7. Policy background

- *What is being done and why*

7.1 The RHI scheme was introduced primarily to help meet the UK's target under Directive 2009/28/EC (the "Renewables Directive") that 15% of energy consumption is to come from renewable sources by 2020. The UK intends that renewable heat will make a significant contribution towards that target, adding 5-7 TWh of renewable heat by the end of 2015/16. The scheme also supports the UK's long-term goal to reduce emissions across the economy by 80% by 2050, by building supply chains and reducing costs this decade in preparation for mass rollout of low-carbon heating in the 2020s.

7.2 The RHI scheme opened for applications on 28 November 2011. It supports the generation of renewable heat in non-domestic sectors (industrial, commercial, public sector, not-for-profit and heat networks) and producers of biomethane. The scheme is designed to bridge the gap between the cost of fossil fuel heat installations and renewable heat alternatives through financial support for owners.

7.3 Heating in domestic buildings is responsible for around a quarter of the final energy demand of UK and around 13% of all UK's carbon emissions. Take up of renewable heating is very low among households, with less than 1% of households using renewable heating. This is due to the higher costs compared to fossil fuel heating and non-financial barriers such as lack of awareness and perceived risk of the technologies.

7.4 The Domestic RHI scheme is our key delivery tool to increase take up of renewable heating by householders. It will pay financial support at a set rate per unit of

renewable heat produced for seven years, to the owner of the heating system. The support is set at a level designed to compensate for the difference between the cost of installing and operating a renewable heating system and a fossil fuel system, including non-financial barriers. Systems must be certified by the Microgeneration Certification Scheme or equivalent, to protect consumers by ensuring high quality installations.

7.5 While the Domestic RHI scheme was being developed, the Government put in place the Renewable Heat Premium Payment voucher scheme (“the RHPP scheme”), which provides one-off grants to encourage off gas grid households to switch to renewable heating. The RHPP scheme was designed to provide learning on what people think of renewable heating technologies and how they perform in a variety of conditions, to inform the development of the Domestic RHI scheme. The RHPP scheme will close in March 2014. Where a Domestic RHI scheme participant has received RHPP or another public grant, this will be deducted from their RHI payments to ensure the scheme delivers value for money.

7.6 The Domestic RHI scheme is one of a package of Government policies (GD, ECO, FITs) which support customers in saving carbon and reducing their energy bills, and will help the country meet its carbon targets and improve energy security. The design of the Domestic RHI scheme has been integrated with these policies to ensure that households install the most cost effective measures first, and to smooth the customer journey.

8. Consultation outcome

8.1 The Domestic RHI scheme proposals were subject to a twelve week consultation in September 2012. The consultation proposals were published on the DECC website, and can be found at the following link: <https://www.gov.uk/government/consultations/renewable-heat-incentive-proposals-for-a-domestic-scheme>. The Department also undertook a number of other activities aimed at gathering a comprehensive range of responses, including a programme of regional events and thematic workshops, and digital and traditional media activities. The consultation received over 400 responses.

8.2 Overall, feedback was very supportive of the policy proposals and the Government decided to implement most aspects of the consultation proposals. There were a few areas where amendments were made to the policy as a result of feedback from the consultation process:

- Tariffs paid on renewable heat rather than all heat - ensures that better performing heat pumps are incentivised and the Government only pays for installations that have been designed to count towards the EU target;
- Social landlords will be included within the scheme - this should help to drive the development of the renewable heat supply chain and cost reductions essential to long-term viability of renewable heating;
- A back up fossil fuel system will be allowed with biomass as well as heat pumps, with metering equipment - this reduces the risks associated with a new technology and can be more efficient in summer;
- New build will not be eligible other than self-build - a tariff scheme does not work for developers, and there is also a significant issue with the deadweight cost of subsidising the thousands of installations that are currently going into new build each year;
- Minimum energy efficiency requirement slightly modified to require loft and cavity insulation rather than implementation of all green ticks - this

should prove less of a barrier to uptake, and hence increase delivery of renewable heat;

- Deeming using EPC rather than an MCS calculation – as EPCs have the benefits of independent assessors, more robust audit arrangements and an established methodology.
- Confirmation of additional support for customers who take up a metering and monitoring service package, similar to a service contract – enabling the householder and installer to view system performance over the internet, and diagnose and rectify any problems

8.3 The final policy decisions including eligibility criteria, tariff levels, calculations of payments and scheme administration details were published in July 2013. This was accompanied by a full analysis of the consultation responses and the Government response to the consultation. Further policy details covering budget management arrangements for the scheme and the application process for legacy applicants were published in December 2013. All documentation is available at the following link: <https://www.gov.uk/government/consultations/renewable-heat-incentive-proposals-for-a-domestic-scheme>.

9. Guidance

9.1 The Authority will provide detailed guidance for potential participants in the Domestic RHI scheme in a variety of formats for the start of the scheme, including on their website www.ofgem.gov.uk.

10. Impact

10.1 The impact on business, charities or voluntary bodies is only applicable if they are an owner of eligible renewable heat installations (such as a private or social landlord) and apply to join the Domestic RHI scheme, as it is a voluntary subsidy scheme. However, small firms who manufacture or install renewable heat technologies will benefit from the subsidies, and small firms are also expected to benefit from business and job creation opportunities generated from the increased demand for renewable technologies. Currently, a significant proportion of the firms which carry out domestic and other small scale installations are small firms.

10.2 The impact on the public sector is an increase of around £5m per annum in the Authority's administrative expenditure resulting from development of systems and ongoing scheme administration.

10.3 An Impact Assessment is attached to this memorandum and will be published alongside the Explanatory Memorandum on www.legislation.gov.uk.

11. Regulating small business

11.1 The legislation only applies to small businesses that apply for the subsidy under the Domestic RHI scheme, such as private landlords. However, it will have an impact on small businesses that operate in the renewable heating sector, by placing certain requirements on the installation of renewable heat plants in order for them to be eligible for the scheme.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is to avoid any additional burden on their operations, through alignment with the existing industry certification scheme the Microgeneration

Certification Scheme, and minimising additional information requirements from installers or applicants.

12. Monitoring & review

12.1 The Domestic RHI scheme is a new and innovative scheme. We plan to regularly review it to check it is working well and to make any changes needed to improve it or reflect changes in the market. These planned reviews will take place in 2015 and 2017, with the aim of bringing in any changes to the RHI Regulations in 2016 and 2018 respectively, if necessary.

12.2 To feed into reviews, evaluation of the scheme will be carried out in line with HM Treasury guidance on evaluation. The evaluation will focus on how the scheme is working in practice; whether it is meeting its objectives; why it is (or isn't) delivering as expected; and whether it provides value for money. The evaluation will be designed to provide evidence that can be used to improve the scheme in the future.

13. Contact

Lucy Longstaff at the Department of Energy and Climate Change, Tel: 0300 068 6782 or email: lucy.longstaff@decc.gsi.gov.uk can answer any queries regarding the instrument.