

# DBULLETIN

## Another Renewable Energy Opportunity...

## UK Government Launches the Renewable Heat Incentive

Heating accounts for nearly half of total UK energy consumption and contributes to nearly half of our carbon emissions. With this stark fact in mind, the Government has announced the launch of the £860m Renewable Heat Incentive (RHI) scheme – the world's first such scheme.

This financial incentive will support a range of technologies including biomass, ground source and water source heat pumps, solar thermal and biomethane and will be open to domestic and non-domestic markets. From a practical perspective, the scheme will work in a similar way to the existing Feed in Tariff system and will be administered by Ofgem.

So, who will benefit from the RHI? Businesses and public sector organisations are expected to be the biggest beneficiaries of this long-term tariff system with the scheme first applying to the non-domestic sector. The non-domestic sector includes industrial and commercial sectors but also extends to the public sector and not-for-profit organisations across England, Wales and Scotland. In tune with the localism agenda, community projects will also be eligible for the RHI, provided a single installation is providing heat to more than one house.

With regard to residential dwellings, if a company, private landlord or registered social landlord installs single renewable heating units, in one or multiple residential dwellings, this would constitute a domestic installation and they will not be able to receive RHI tariffs from the outset, but will be able to claim the RHI from 2012. In cases where there is one heating installation serving multiple dwellings then this

will be treated as non-domestic and so will benefit from the RHI sooner rather than later along with other non-domestic installations.

If you've installed eligible technologies on or after 15th July 2009 then you may be eligible to claim the RHI, once available. If you're already installing renewable heat units or are considering doing so now then you would be wise to take heed of the eligibility criteria and transitional arrangements to ensure that you will be eligible to claim the RHI when it comes into effect.



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In terms of funding, the tariff will comprise quarterly payments over 20 years to the owner of the eligible installation and will be based upon kWth of renewable heat produced. The tariff is aimed at bridging the gap between the cost of conventional and renewable heat systems with additional compensation for certain technologies for an element of the non-financial cost. Like the Feed in Tariffs, the RHI won't be an upfront payment. Therefore generators will need to fund the initial capital costs. However, it is expected that the tariff will incentivise the use of other finance delivery structures through energy suppliers, bank funding, ESCOs and public sector financing.

The scheme is proposed to be introduced in two phases:

**Phase 1** – Long term tariff support targeting the **non-domestic sector**; from large-scale industrial heating to small business and community heating projects. This is likely to take effect in July 2011 once Parliament has approved the regulations.

**Phase 2** – Long term tariff support targeting the **domestic sector**; it is expected that this will be introduced in October 2012 with the introduction of the Green Deal.

**A little bit extra** - In addition, the first phase will introduce **Renewable Heat Premium Payments** for the **domestic sector** with £15m (ringfenced funding) to be used to make premium payments to households who install renewable heating. Those in receipt of the Renewable Heat Premium Payments will be able to receive the long-term RHI tariff when Phase 2 is introduced. Details of the Renewable Heat Premium Payment Scheme are expected to be published in May this year.

Although certain details remain to be clarified, the announcement is welcomed, particularly amidst the uncertainty around Solar Feed in Tariffs following the Government's announcement last month that it would be reviewing the larger solar PV projects. The Government and energy sector is positive that the RHI will stimulate a new market in renewable heat; Energy Secretary Chris Huhne says "Renewable heat is a largely untapped resource and an important new green industry of the future".

If you require further information on the Renewable Heat Incentive or any other energy and climate change related matters please contact Devonshires' Energy and Climate Change Group.

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