



## ENERGYBULLETIN



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# THE RENEWABLE HEAT INCENTIVE

## Introduction

The Government published the long-awaited Consultation Paper on the Renewable Heat Incentive ("RHI") on 1 February as part of the Renewable Energy Strategy which in turn forms an important part of their Low Carbon Transition Plan. Support for the production of renewable heat comes in the light of the Government's binding commitment to have 15% of the UK's overall energy consumption produced from renewable sources by 2020 and also due to the fact that currently only about 1% of the UK's heating requirement comes from renewable sources.

## A Brief Overview of the RHI

The Government's target is for 12% of total heating requirements to be provided from renewable sources by 2020, from a starting point of about 1% currently. Hence the urgent need for financial support for renewable heat production. What, though, are the Government's plans for tackling this issue and how will the RHI work in practice, who will be affected and who could benefit from these new plans?

Unlike the Feed-In Tariffs ("FITs") to support small-scale renewable electricity production to be introduced in April 2010 (click here for our FITs bulletin) where there are numerous existing examples of such schemes

elsewhere in the world, support mechanisms for renewable heat production are almost entirely non-existent. A totally new mechanism had to be created and hence the Government's reticence to give in to vociferous lobbying for the RHI to be introduced simultaneously with the FITs

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regime in April 2010. They wanted to make sure that the RHI would work from the outset and so the RHI will not be introduced until April 2011.

Turning now to the RHI itself, the key proposals in brief are as follows:-

1. **Qualifying Technologies** - The technologies which are considered to be qualifying renewable heat sources include ground and air source heat pumps; solar thermal heating; biomass boilers; biogas; bio liquids; renewable combined heat and power; renewable district or community heating schemes; and injection of bio methane into the gas grid.

2. **Funding** - The RHI will be funded by the introduction of a new levy on the suppliers of fossil fuels to consumers for the purposes of generating heat. There are some very real difficulties which have already been identified in relation to the implementation of this

levy, the enforcement and indeed administration of the RHI. The Consultation does not therefore contain detailed provisions as to how the RHI will be funded. It is proposed that such further details will be announced in the 2010 Budget this Spring. It is to be hoped that a General Election will not delay any such announcement as all stakeholders and affected parties are naturally keen to understand the likely funding proposals.

3. **Beneficiaries** - The planned beneficiaries of the RHI are likely to be individuals, communities and

businesses, although one key difference between the RHI and the FITs regime is that the RHI is not limited to smaller projects.

Looking at each of these beneficiaries in turn:

- Alongside private domestic level installations which should be encouraged by the RHI, there is anticipated to be a major opportunity for landlords in the social housing sector to retrofit their housing stock with renewable heating installations. Guidance will be published to assist them in this arena. Registered Social Landlords in particular could benefit by recycling the revenues derived under the RHI to fund wider programmes for refurbishing dwellings.
- Communities will also be key beneficiaries particularly in rural locations where there is at present little opportunity to link into the existing gas network, forcing them to depend on expensive fossil fuelled heating systems. This is also seen as a way of alleviating to some extent fuel poverty in such communities by reducing heating bills for those affected. Community-sized renewable CHP systems (benefiting from both the RHI and FITs) could well be considered for rural communities who are at present remote from the gas network.
- As the Government have stated that they expect 12% of total heating requirements to be met from renewable sources by 2020, there will have to be a large reliance on the commercial sector to deliver a large percentage of new renewable heat projects/developments.

The targeted sectors will include paper, food and drink and agriculture, all of which are expected to be able to benefit from the RHI.

4. **Tariffs** - Like FITs, a key aspect of the RHI is the level of tariffs. There are a number of issues to note here:
  - DECC has stated that as with the FITs regime for renewable electricity development, one of the aims of the RHI is to provide developers of renewable heat installations at all levels and over a number of different technologies with a reasonable level of compensation. The proposal is for the investment return to be 12% over all technologies with the exception of solar thermal where the return is proposed to be 6%. These figures are designed to reflect the upfront capital costs of the installations and the costs differences between

conventional and renewable heat technologies.

- Separate tariffs are proposed for each different type of renewable heat source or technology and each different source/technology will have different bands depending on the size of the relevant installation.
- The Consultation sets out in detail (in Chapter 3) the proposed tariff rates for the relevant technologies/sources and these range from 1.5p/kWh for large scale ground source heat pumps to 18p/kWh for small scale solar thermal installations. The lifetime for the tariffs is also different across different technologies/sources, ranging from 10 years for biogas on-site combustion to 23 years for small scale ground source heat pumps.



One of the key issues surrounding the RHI is the question of recording the production of heat particularly from small (domestic scale) installations. DECC realised that if metering of all heat supplies was required then this could actually give the wrong message to domestic and smaller generators. The concern was that they might see the opportunity of generating as much heat as possible to benefit from RHI payments rather than only generating what they realistically needed for their own use, thereby distorting the market by increasing the burden on fossil fuel suppliers by hiking up the amount of the

network of pipes and associated infrastructure to deliver the heat to connected dwellings and properties. DECC are considering an uplift to the tariff levels for any schemes which are to serve "hard to treat cases", but will need to gather evidence prior to publishing detailed proposals on any such uplift.

Finally, the question of renewable CHP projects is dealt with and the proposal here is that new renewable CHP projects which are operational before 2013 will have a choice of either receiving ROCs plus ROC uplift (under

stimulate widespread implementation of renewable heat installations, and whether the administration of the overall scheme and the whole "deeming" regime will work efficiently. Let us hope that the RHI is a success and that UK manufacturing can step up to the plate and deliver UK made installations and that there are the skills in the UK economy to enable the renewable heat sector to become another success within the nascent UK Low Carbon Economy. This is a big challenge and will need buy in from central and local government, the RDAs and the HE and FE sectors.

**This bulletin summarises complicated issues and should not be relied upon in relation to specific matters. You are advised to take legal advice on particular problems and we will be happy to assist.**

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## “Let us hope that the RHI is a success and that UK manufacturing can step up to the plate”

levy. Therefore the concept of "deeming" has been introduced whereby instead of metering the heat output of smaller installations, a deemed number of kWh would be allocated to such installations on an annual basis, and this would be based on the "reasonable heat requirement" that the relevant heat installation was intended to serve. The actual deeming methodology for use by small and medium sized scales will need to be provided and is not currently in existence. Larger scale installations and bio methane injection projects would be required to install heat metering equipment.

A further complication is faced by district and community heating schemes. They have the additional costs of installing not only the renewable heat generation installation itself but also the

the current RO provisions) or receiving ROCs plus RHI tariff payments. After 2013 new projects will be required to go down the ROC plus RHI route.

### Conclusions

The RHI is a brand new support regime and is as yet untried and untested, so there are bound to be some teething problems in the early days of its operation. In particular the RHI will interact with other support mechanisms such as the FITs regime and the RO and any unintended consequences will have to be considered carefully as and when they arise.

However, overall the RHI has to be viewed as good news. Renewable heat production has been ignored in the UK for far too long.

As with the FITs regime there will be a debate as to whether the suggested tariff levels for the RHI will be high enough to