Department of Energy & Climate Change

Further details of the domestic Renewable Heat Incentive

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This document is also available from our website at www.gov.uk/decc.

Further details of the domestic Renewable Heat Incentive

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Executive summary

In July 2013 we published, “The first step to transforming the way we heat our homes,” which set out details of the domestic Renewable Heat Incentive that we intend to launch in Spring 2014.[1] At that time we still needed to finalise when legacy applicants (those who installed before the scheme opens) would be able to apply, the details of how we would manage the budget for the scheme, treatment of some types of subsidy and the solar thermal tariff. These details are set out in this document, alongside an update on biomass sustainability requirements.

Phasing of applications to the domestic scheme

When the scheme launches, it will be open to applications from owners of new installations and legacy owners whose installation was not part-funded by the Renewable Heat Premium Payment scheme (RHPP). After three months, the scheme will open additionally to applications from owners of installations part funded by RHPP, where the voucher used to claim payment under RHPP was applied for before 20th May 2013. After a further three months (i.e. six months after the scheme launch), the scheme will open to all applicants. Applications from legacy applicants will only be accepted in the first year of the scheme, which means that RHPP applicants will have six or nine months to apply to the scheme, depending on when their voucher was applied for. Applications for renewable heating systems that were installed (i.e. commissioned) after the launch of the scheme must be submitted within one year of their commissioning date.

Budget management

In the domestic RHI policy document and Government Response published in July 2013 it was set out that the budget for the domestic RHI would be managed through degression (lowering) of tariffs as pre-set levels of spend are reached, with further details of the mechanism to follow. We can now confirm that degression tests will take place quarterly and that announcements will be made one month before any degression will take effect. Triggers and super triggers will be set out for each tariff in the scheme in Regulations. If a trigger is hit a 10% reduction of that tariff will take place. If deployment of any technology is significantly higher and a super trigger is hit, a 20% reduction could take effect. The reduced tariffs will only apply to new applicants; those already accredited onto the RHI will continue to receive the tariff in place at the time they were accredited (adjusted annually by reference to the Retail Prices Index).

The solar thermal tariff

In the July document we announced that the solar thermal tariff would be at least 19.2p/kWh, and possibly higher, depending on the decision on the appropriate level of the value for money cap following the outcome of the non-domestic RHI tariff review consultation.[2] We can now confirm that the solar thermal tariff will be 19.2p/kWh of renewable heat.

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[1] https://www.gov.uk/government/consultations/renewable-heat-incentive-proposals-for-a-domestic-scheme

[2] https://www.gov.uk/government/consultations/non-domestic-rhi-early-tariff-review

Treatment of other types of subsidy

In July, we confirmed that any public funding for a renewable heating installation would be deducted from RHI payments for that installation. In addition, we have now decided that where an installation was not at least in part paid for by the owner, even where the installation was funded from a private source, that installation will not be eligible for the domestic RHI.

An installation which has been part-funded by the owner will be eligible. Only funding which is public funding will be deducted from RHI payments.

Update on biomass sustainability requirements

In July, we said that domestic RHI recipients using biomass would need to source their fuel from a supplier registered on an approved suppliers list (henceforth known as the Biomass Suppliers List), from the launch of the scheme in Spring 2014.

However, in light of stakeholder feedback about industry readiness, we have decided to postpone implementation of the requirement to source from the list until Autumn 2014. This is to give domestic consumers sufficient time to start sourcing their fuel from a supplier on the list and to enable biomass suppliers to monitor their processes in light of the sustainability criteria and build the audit trail necessary to demonstrate compliance. Our intention remains for the Biomass Suppliers List to be open to applications from suppliers, including self-suppliers, in Spring 2014.

Phasing of applications to the domestic scheme and a cut-off date for applications

1. In the policy announcement in July we said that we were working with Ofgem to develop an approach to phasing applications from those who installed their renewable heating systems between 15th July 2009 and the launch of the scheme (legacy installations). Phasing would happen over a period of time after the launch of the scheme, in order to manage the potentially large volume of legacy applications and avoid a backlog. We said that we would provide more details closer to the launch of the scheme.
2. The approach to phasing legacy applications has now been finalised. When the scheme launches, it will be open to applications from owners of new installations and legacy owners whose installation was not part-funded by RHPP. After three months the scheme will open additionally to applications from owners of installations part funded by RHPP, where the voucher used to claim payment under RHPP was applied for before 20th May 2013. After a further three months (i.e. six months after scheme launch), the scheme will open to all applicants. All legacy applicants will have to apply by the end of the first year of the scheme and will not be able to submit an application after that date. The treatment of legacy applicants is summarised in Table 1 below.
3. Legacy applicants will be protected from any tariff reductions over first year of the scheme. This is because it would not be fair to an applicant in one of the later phases to receive a reduced tariff compared to those who could apply earlier.
4. For new installations that take place (i.e. are commissioned) after the launch of the scheme, applications must be submitted within a year of the commissioning date.

Table 1 – Approach to phasing of applications

Phase	Who can apply
Months 1-3	• New applications • Legacy that was not part–funded by RHPP
Months 4-6	• New applications • Legacy that was not part–funded by RHPP • Legacy part funded by RHPP (voucher applied for before 20th May 2013)
Months 7-12	• New applications • All legacy applications
Year 2 onwards	• New applications only (within one year of commissioning date)

Budget management in the domestic RHI

5. The RHI is funded directly from Government spending, with budgets assigned as part of the spending review. Budgets are set for each year and are not flexible, so spending less in one year does not mean that we can spend more in future years. We need to ensure that the scheme stays within budget and that it is value for money for the tax payer. At the same time we need to ensure that the domestic RHI is sustainable into the future and enables consumers to choose to install renewable heat with the assurance that there will be enough budget available for their installation, and clarity as to what will happen to the tariffs in the scheme if more renewable heat is installed than we expect.

6. In the policy document, “The first step to transforming the way we heat our homes,” published in July 2013, we set out that the main method of ensuring that the scheme stays within budget would be degression (lowering) of the tariffs paid to new applicants as spend on the domestic scheme reaches “triggers” (an amount of budget) set out in advance in the RHI regulations. We are now in a position to set out further detail of the degression mechanism.

Timing and frequency of degression

7. Every quarter we will check whether a trigger has been reached. If a trigger has been hit, that tariff will degress, otherwise, tariffs will remain the same. We will provide one month’s notice of any tariff reduction.

8. We consider that quarterly checks of whether triggers have been reached with one month’s notice of any tariff change taking effect provides a sensible balance between scheme responsiveness and providing certainty to potential recipients. More frequent degressions would allow for more responsive cost control, and potentially smaller reductions in the tariff; however they would also result in less certainty about the likely tariff for consumers who are considering installing renewable heat technology. More frequent degression could also increase costs for renewable heat installers and might increase the risk of consumers being mis-sold installations with quotes based on out of date tariffs. Degressions that took place less frequently than quarterly would not provide adequate budgetary control as there would be longer for installations between degression tests, increasing the risk of overspend. In that case, larger reductions might be required, unsettling the market.

9. We expect application numbers to peak during the notice period as people rush to get the higher tariff. If a degression trigger has been reached we are already getting more applications to the RHI of that technology that we expect, so this peak of applications would result in a risk to the budget. We therefore cannot allow the notice period to be longer than one month. We consider that one month is long enough to allow the majority of those with complete or almost complete installations to submit the application to Ofgem.

What happens when spend reaches a degression trigger

10. Applicants who are already part of the scheme will continue to receive their existing tariff (adjusted annually by reference to the RPI). In addition, those who applied to the scheme before the end of the notice period (and provided all the necessary information to be accepted onto the scheme) will not be affected by the tariff reduction so will receive the previous (higher) tariff. Those who apply once the notice period ends, or who applied previously but do not provide all the necessary information to be accepted onto the scheme until after the notice period ends, will receive the new lower (degressed) tariff. The timetable for tests of whether triggers have been reached and degressions taking place is shown in Figure 1.

11. The calculation will be based on the applications to the domestic scheme for that technology. It will not be affected by applications to the non-domestic RHI or by other technologies in the domestic scheme. Setting triggers in this way (i.e. for each tariff) will ensure that the RHI supports a mix of technologies, resulting in long term growth, and that one technology does not dominate the whole domestic budget. Unlike the non-domestic budget management mechanism there will not be an overall trigger which can degress all tariffs that are over deploying. This will make the domestic budget management mechanism simpler than the non-domestic, which will enable the domestic market to track and understand whether a tariff reduction is likely more easily.

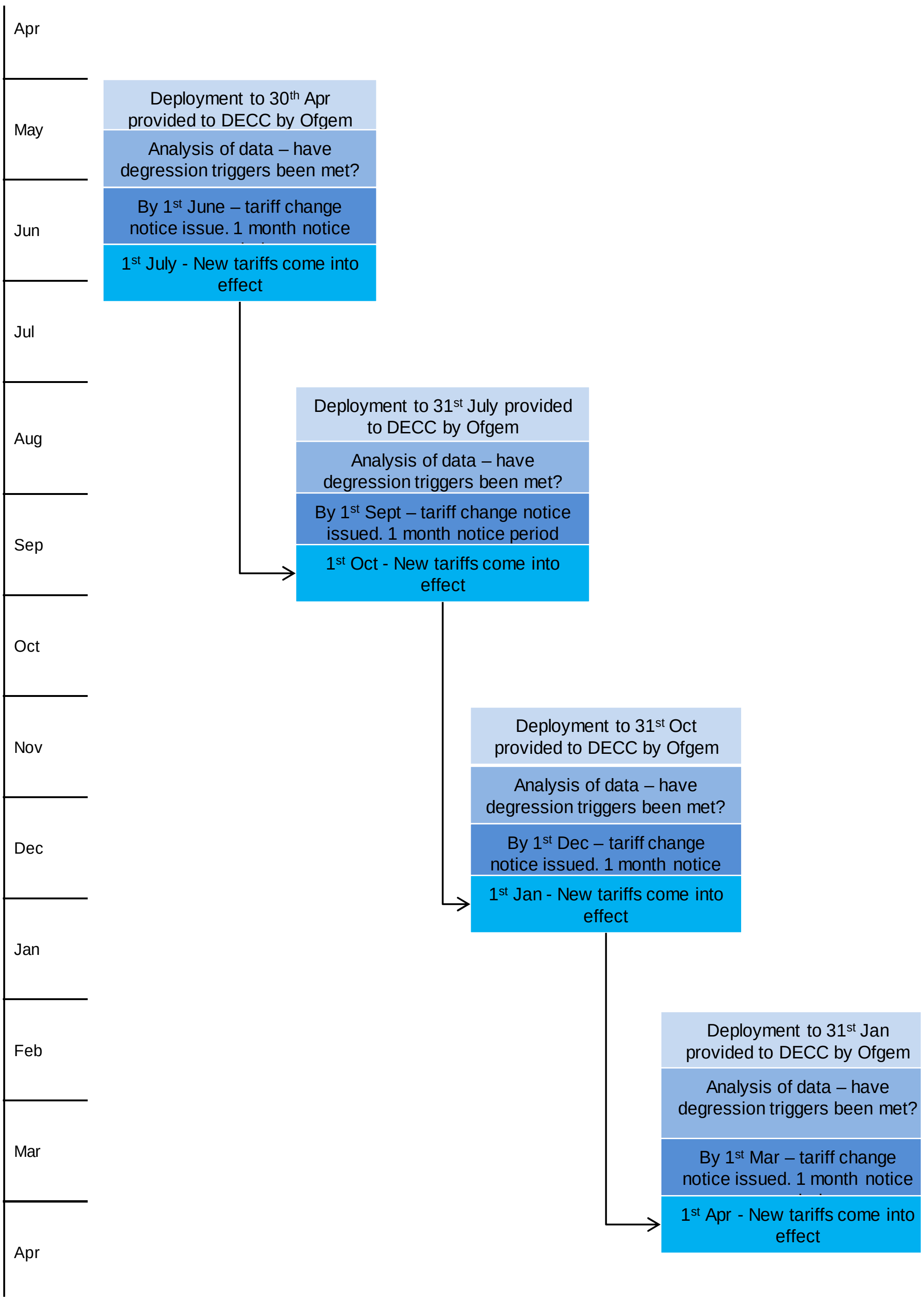

Figure 1 - Sequencing of degression assessments, announcements and reductions taking effect

Treatment of legacy installations for budget management

12. Applicants who installed their renewable heating systems between 15th July 2009 and the launch of the scheme (legacy installations) will not count towards the calculation of whether to reduce tariffs as they are not indicative of current deployment and, as set out in the previous section, will not receive reduced tariffs if a degression takes place.

Degression triggers

13. Degression triggers will be set for each technology in the scheme until the end of 2015-16. Triggers for April 2016 onwards will be published during 2015-16, when the future budget allocation for the RHI is known. There will also be a higher "super trigger" to guard against sudden, unexpected and very high over-deployment of any technology which would imply either our initial tariffs were too high or there have been major cost reductions. The triggers are set out in Table 2.

Table 2 – Degression triggers until March 2016

	Assessment date						
	31 Jul 14	31 Oct 14	31 Jan 15	30 Apr 15	31 Jul 15	31 Oct 15	31 Jan 16
Biomass boilers							
Trigger (£m)	2.4	4.2	6.0	8.4	11.9	15.5	19.1
Super trigger (£m)	4.8	8.4	12.0	16.8	23.9	31.1	38.2
Air source heat pumps							
Trigger (£m)	2.4	4.2	6.0	8.4	11.9	15.5	19.1
Super trigger (£m)	4.8	8.4	12.0	16.8	23.9	31.1	38.2
Ground source heat pumps							
Trigger (£m)	2.4	4.2	6.0	8.4	11.9	15.5	19.1
Super trigger (£m)	4.8	8.4	12.0	16.8	23.9	31.1	38.2
Solar thermal collectors							
Trigger (£m)	1.2	2.1	2.9	3.9	5.0	6.1	7.2
Super trigger (£m)	2.3	4.1	5.9	7.8	10.0	12.2	14.4

14. The triggers are set to manage the total spend on the domestic scheme to around £45m in 2014-15 and £80m in 2015-16. These totals include spend on legacy installations and metering and monitoring service packages, as set out in Table 3, as well as on new domestic installations. The total budget for the domestic scheme is based on our latest market intelligence and allows for significant and achievable growth across the range of renewable heating technologies supported.
15. At the tariff levels in place when the scheme launches we consider that these triggers could allow a significant increase in the number of installations, increasing from current levels to approximately 35,000 installations in 2014-15 and 57,000 installations in 2015-16 without degression. If tariff levels reduced in response to a degression (for example because

demand for the scheme was very high because technology costs were lower than we anticipated) we would be able to support an even larger number of installations.

Table 3 – Total spend on new applications, legacy and metering and monitoring service packages

	2014/15 budget	2015/16 budget
New applications	£14.2m	£46.8m
Metering and monitoring service packages	£0.6m	£2.4m
Legacy	£30.0m	£30.9m
Total	**£44.8m**	**£80.1m**

16. The triggers for each technology allow equal shares of the available domestic budget for ground source heat pumps, air source heat pumps and biomass boilers (the space heating technologies). The evidence we have in advance of the launch of the scheme is highly uncertain however we consider that these triggers are a good reflection of the potential for growth in each technology and enable us to avoid picking one technology over another at this early stage of the market's development. The trigger for solar thermal is lower than the other technologies; however it is in line with the amount we expect to spend based on our assessment of the market, and allows significant growth from current levels of installations.

Publication of deployment data

17. Monthly updates of progress towards the triggers will be published on the gov.uk website. The monthly data we publish will include the estimation of the total amount of committed expenditure for each tariff for the next 12 months. This will be based on applications accredited and applications received. Forecasting ahead based on applications ensures that the full cost of all applications in the system is accounted for and is consistent with the approach used in the non-domestic RHI.
18. As a general rule, we will forecast the cost of an application based on the property's expected annual heat usage, as this is what will be used to calculate the payments that will be received by most RHI applicants (as set out in the document in July).
19. Some properties will have more than one heating system, and so their payments will be based on metering of how much renewable heat they use. However, for degression purposes, we will forecast the cost of these based on the expected annual heat usage as we do not have more accurate means of knowing how often an applicant will use their accredited renewable heating system. When the scheme is reviewed in the future, and we have more data about how owners use their systems, we may consider changing this method of forecasting. Any changes would require a change to the Regulations.
20. For applications from owners of second homes (which are also metered for payment), we will forecast the amount they will cost using a proportion of the expected annual heat usage based on the amount of time that the home will be occupied, as declared by the applicant as part of their application.

When a degression trigger is reached

21. If a trigger is hit, the tariff for that technology will be reduced by 10%; if a super trigger is hit, that tariff will be reduced by 20%. This will apply to all technologies; we will not be implementing a different degression rate for Air Source Heat Pumps (this is something we

indicated that we were considering in the consultation in September 2012). We consider that a 10% reduction will usually be enough to ensure that the budget is managed effectively; it will decrease the cost of new applications to the scheme and may discourage some more expensive installations. Given the total subsidy offered to domestic recipients, we think that a 5% reduction, as used in the non-domestic RHI, would not have a sufficient impact on the subsidy received to affect decision making in the domestic sector to manage the budget effectively. We consider that 5% reductions would only work in the domestic sector if we tested against triggers more regularly.

22. The 20% “super trigger” reduction is there as a backstop, so that if spend is significantly more than we expect on any particular technology we can take action. Spend at these levels would suggest that the scheme was not supporting a diverse technology mix.

23. If a degression takes place in any quarter, then in the following quarter we will test the growth in spend against the growth between the triggers in those quarters, as well as considering the actual level of forecast spend. If the growth rate is higher than, or the same as, the growth in the triggers a further reduction in the tariff would occur; if it is lower the tariff would stay the same. This will ensure that we do not over-reduce a tariff. A flow chart setting out all possible options is shown in Figure 2.

A cap on expenditure

24. In the policy document we published in the summer we said that we might consider combining degression with a cap i.e. a level of budget at which the scheme could be suspended to new applicants until the following financial year if the budget was at risk. A cap would provide additional ability to ensure that the scheme does not go over budget, but the risk of the scheme being stopped could discourage people from choosing renewable heat. We have therefore decided not to implement a cap at this time. This means that consumers can be sure that the scheme will be available for them to apply to as there is no risk that the scheme may be suspended at short notice. We may consider introducing a cap in the future if degression does not control expenditure adequately. It would require a change to the RHI Regulations to implement this.

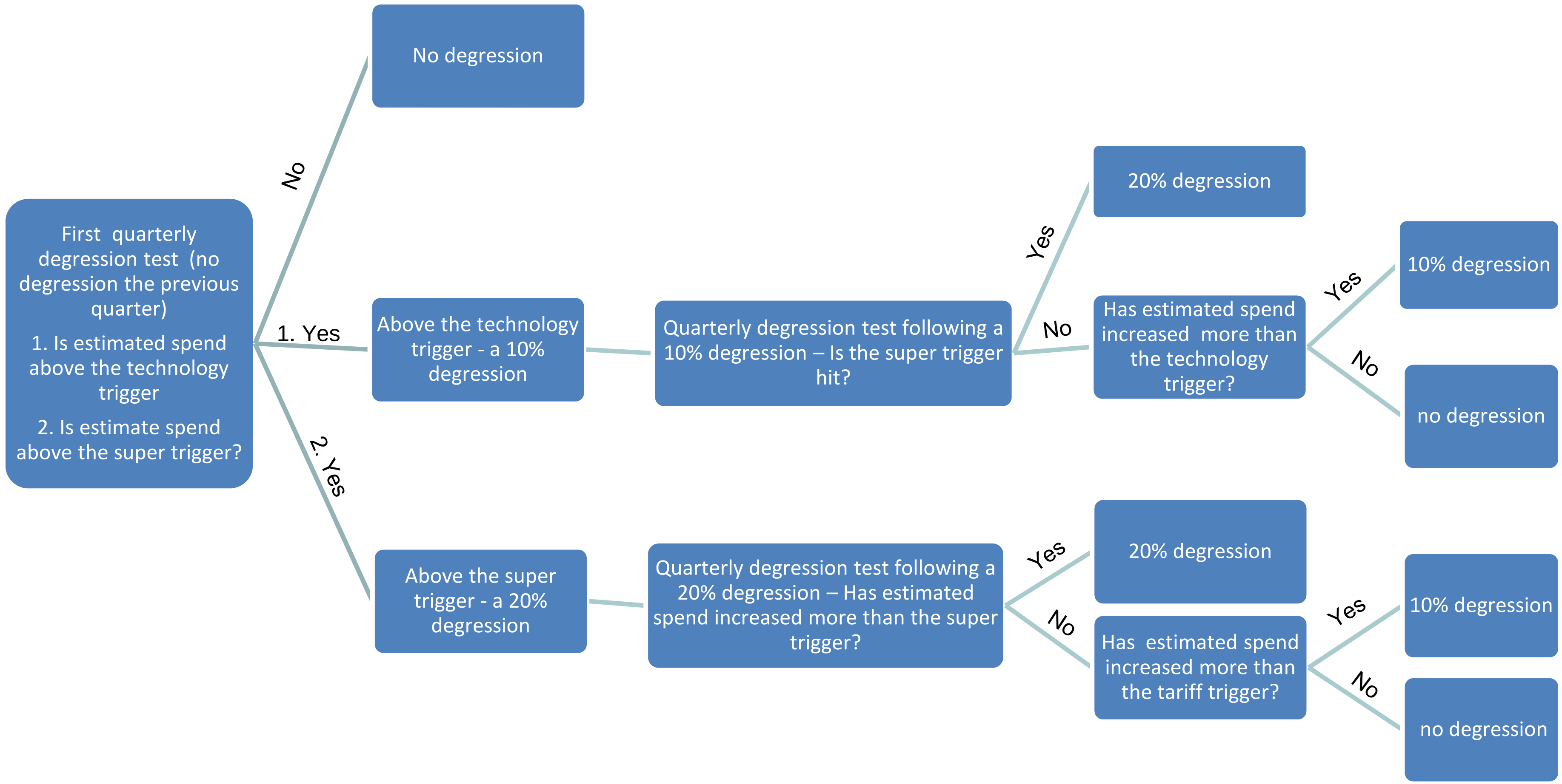

Figure 2 - A flow chart showing subsequent degressions

Other updates to the policy set out in July

Treatment of other subsidy under the domestic RHI

25. In July, we said that in considering eligibility and payments for the RHI, we intended to take into account other forms of subsidy in addition to public funding – for example, support from energy companies. This was to ensure applicants did not receive a double subsidy to install renewable heat.

26. Following further consideration, we decided that where an installation was not at least in part paid for by the owner, even where the installation was funded from a private source, that installation will not be eligible for the domestic RHI. This is because it would be very poor value for money for the taxpayer to support these installations which have not been incentivised by the domestic RHI, but by different subsidy, and where the owner has not incurred any costs.

27. An installation which has been part-funded by the owner will be eligible. Only funding which is public funding will be deducted from the RHI payments. This is because it is difficult to define which types of other funding would need to be deducted, and is likely to be difficult or impossible for the applicant to determine how much funding they have received in many cases (for example, if an applicant only knew how much they had contributed), and for Ofgem to verify. This approach to funding from private sources is the same as the approach taken in the non-domestic scheme.

Solar thermal tariff

28. In July we announced that the solar thermal tariff would be at least 19.2p/kWh, and possibly higher, depending on the decision on the appropriate level of the value for money cap following the outcome of the non-domestic tariff review consultation.

29. There was wide support for an increase to the cap in responses to the consultation. However, to ensure that the scheme offers good value for money compared to other forms of renewables, as of Spring 2014 tariffs across the RHI will be capped at 10.0p/kWh renewable heat (with annual RPI adjustment). This equates to a solar thermal tariff of 19.2p/kWh of renewable heat over a 7 year tariff payment period. More details can be found in the government response, "Improving support, increasing uptake." [3]

Update on introduction of biomass sustainability requirements

30. In July, we said that domestic RHI recipients using biomass would need to source their fuel from a supplier registered on an approved suppliers list (henceforth known as the Biomass Suppliers List) from the launch of the scheme in Spring 2014.

31. However, in light of stakeholder feedback about industry readiness, we have decided to postpone implementation of the requirement to source from the list until Autumn 2014. This is to give domestic consumers sufficient time to start sourcing their fuel from a supplier on the list, and to enable biomass suppliers to monitor their processes in light of the sustainability criteria and build the audit trail necessary to demonstrate compliance. Our intention remains for the Biomass Suppliers List to be open to applications from suppliers, including self-suppliers, in Spring 2014.

32. This postponement will not affect the opening of the domestic RHI scheme, or eligibility for the scheme. Once the requirement is introduced in Autumn 2014, all applicants and existing participants using a biomass system will need to purchase fuel from an approved supplier.

[3] https://www.gov.uk/government/consultations/renewable-heat-incentive-expanding-the-non-domestic-scheme

Before this date, there will be no obligation to purchase from a registered supplier, although participants will be encouraged to source biomass from a registered supplier if possible in order to ensure a smooth transition when compliance becomes mandatory.

33. More information on the progress of the Biomass Suppliers List can be found in “Improving support, increasing uptake”[3], the Government response to the non-domestic RHI consultations on “Expanding the Non-Domestic Scheme”, “Air-water Heat Pumps and Energy From Waste” and “Early Tariff Review.”