

The Domestic RHI Scheme – September 2012 Consultation

Factsheet 2: Proposals for a domestic RHI Scheme - explained

Our proposals and the consultation

This Factsheet briefly describes what we currently propose the domestic Renewable Heat Incentive (RHI) scheme might look like. However, the consultation offers the opportunity to comment on the majority of our proposals and to suggest changes or alternative approaches to the structure and support offered by the scheme. What is set out here should therefore not be assumed to be what the scheme will look like when it starts. Further details of our proposals and how to contribute to the consultation are available on DECC's website¹.

What will the scheme offer?

The domestic RHI is designed to encourage people looking to change their current fossil fuel boiler due to age and/or loss of efficiency. It offers an incentive to replace that boiler with a renewable heating system. We are proposing to make payments to eligible consumers for the renewable heat they generate. The payments aim to compensate for the cost difference between installing and running a renewable heat technology compared to a fossil fuel system. The payments would also take into account barrier costs (e.g. installation-related disruption and provide compensation on the additional installation costs to cover costs of financing. .

Who will be able to apply?

The scheme is aimed at individual domestic properties. Provided their properties meet energy efficiency criteria (see below for details), we propose the following would be able to apply:

- Owner-occupiers (second homes would not be eligible).
- Private landlords (we are considering whether RHI support should be split between landlord and tenant given they share responsibility for heating systems).
- Householders who have installed renewable heating systems since 15 July 2009 without government support or who have received support under the Renewable

¹ http://www.decc.gov.uk/en/content/cms/consultations/rhi_domestic/rhi_domestic.aspx

Heat Premium Payment schemes² or from the Devolved Administrations, such as the Home Renewables Loan in Scotland.

- We are also considering introducing bespoke tariffs for the registered social landlord and new build sectors, albeit taking into account their different circumstances compared to owner-occupiers (such as potential economies of scale when purchasing heating systems).

Energy efficiency

We propose that in order to be eligible for the domestic RHI subsidy, applicants must have previously done a Green Deal assessment³ and have installed any 'green tick' (energy efficiency) measures the assessment identifies such as loft or cavity wall insulation (although our current thinking is that solid wall insulation will be an exception to this requirement). The Green Deal framework means that the measures will be paid for through savings on energy bills, so consumers will not be required to pay upfront for the work.

Buildings with good energy efficiency generally require smaller renewable heating systems to be installed. This can save money, reduce energy demand and drive down carbon emissions.

I received a Renewable Heat Premium Payment (RHPP). Will I have to pay it back? If not, will it impact on the amount of RHI I receive?

We propose that you would not have to pay back your RHPP. We are proposing that the amount of RHI support you receive would be reduced accordingly to take into account what you got under the RHPP scheme.

I received a Home Renewables Loan in Scotland. Will I have to pay it back? If not, will it impact on the amount of RHI I receive?

As with RHPP payments, we are proposing that you would not have to repay such a Loan, but your RHI support would be adjusted accordingly.

Will the RHI payment be made upfront?

No. People will need to have installed their renewable heating system before they can apply for RHI support. Consumers will therefore need initially to finance the upfront installation costs themselves which could be done either through their own

² Information on the RHPP is available on the Energy Saving Trust website:

<http://www.energysavingtrust.org.uk/Generating-energy/Getting-money-back/Renewable-Heat-Premium-Payment-Phase-2>

³ Information on the Green Deal is available on the DECC website:

http://www.decc.gov.uk/en/content/cms/tackling/green_deal/green_deal.aspx

funds or through securing a form of loan. However, to cover the cost of such financing, the proposed RHI tariffs include compensation of 7.5% on top of the additional upfront costs relating to installing the renewable heating system.

What will the payments be based on?

The payment would be based on the amount of renewable heat used by the consumer. We propose that in most cases that amount would be identified through 'deeming' (i.e. calculating the likely level of heat usage based on size, location and level of insulation in the property in question, combined with the renewable heating technology chosen).

Installing a meter and basing payments on readings from it may in some cases be used instead of deeming (although payments would be capped at the figure deemed for the property), especially where a consumer is allowed to keep their old heating system in place as, for example, a back-up.

How much will be paid?

We are proposing that the payment levels would be set on a tariff basis by paying a certain amount of money for each kilowatt hour of heat generated. These levels have not yet been fixed and are likely to change over time as our evidence base is updated and in light of the responses we receive from the consultation. We propose that payments would be made quarterly over a seven year period.

However, our work so far has led us to identify what we consider are indicative ranges within which the tariff levels might be set. The consultation offers the opportunity to comment on them. The ranges for eligible technologies are:

Technology	Air Source Heat Pumps	Biomass	Ground Source Heat Pumps	Solar Thermal
Pence per kilowatt hour of heat	6.9-11.5	5.2-8.7	12.5-17.3	17.3

More work is being done (including via the consultation) to ensure that the levels give enough support to boost the growth of the renewable heating industries in a sustainable way. We also need to consider budgetary management issues and value for money for taxpayers regarding the cost of renewable energy generally. By this we mean we do not want to support technologies to meet our renewables target at a level above the cost of installing more offshore wind turbines, since offshore wind is the cheapest technology that could be deployed at a scale sufficient to meet that target.

What technologies will be eligible?

We propose that the following technologies will be eligible, provided that they are MCS (Microgeneration Certification Scheme⁴) certified and the new system is put in by an MCS certified installer:

- Air to water heat pumps
- Biomass boilers and biomass pellet stoves with back boilers (subject to air quality and fuel sustainability requirements)
- Ground source heat pumps
- Flat plate and evacuated glass tube solar panels

We are proposing to exclude certain other types of systems for various reasons, such as not being classified as renewable or current lack of MCS certification. Further details about technology proposals are set out in our consultation document.

Can I keep my old heating system in place?

Running two or more systems alongside each other is known as 'bivalency'. Generally speaking, we propose requiring consumers to remove their existing fossil fuel systems in order to be eligible for RHI support. We do, however, propose certain exceptions to this position although we would require consumers to pay for heat meters to be installed in many of these cases. RHI payments would then be based on meter readings up to the figure 'deemed' for the property. The consultation document sets our proposals on bivalency in detail.

When will the scheme start?

We propose introducing the scheme in the summer of 2013.

How will I apply?

The scheme would initially be run by Ofgem⁵ and applications will need to be directed to them. In the future, we hope to hold a competitive tender process to identify who to perform this role in the longer term.

Can I get Green Deal finance and still get the full RHI payments?

In a small number of cases, consumers may be able to get some Green Deal finance to help fund a proportion of the costs of their renewable heat installations. In such cases it is our intention that we would also permit those consumers to claim RHI support.

⁴ <http://www.microgenerationcertification.org/>

⁵ Ofgem are the gas and electricity market regulator: <http://www.ofgem.gov.uk/Pages/OfgemHome.aspx>

We are considering how our proposals interact with EU rules on state support to undertakings and we will ensure the scheme we implement is compatible with these rules, where relevant.

Can I get ECO support and still get the full RHI payments?

There is no reason why an Affordable Warmth eligible household should not benefit from both ECO⁶ and the domestic RHI in this case, as long as it meets the legal 'additionality' requirement within ECO (i.e. it can be shown that the measure would not have taken place in the absence of ECO).

Providing support through two incentives potentially raises value for money concerns, as households could benefit from a free or subsidised measure through ECO and receive tariff payments through the RHI. However, under ECO Affordable Warmth, the energy suppliers' activity is tightly restricted to households at greatest risk of fuel poverty who would otherwise not have the upfront capital to invest in new heating measures. Also, off gas grid households are generally more expensive to treat. As energy suppliers can install any measures which lead to a notional reduction in heating costs to meet their ECO Affordable Warmth obligation, further support could be needed under RHI and we believe that the benefits of allowing both incentives to work together outweigh the risks.

If my current main fuel use is gas, can I still get RHI if I install a renewable heat technology?

Yes, we propose that the scheme be open to any home in Great Britain⁷ wishing to take part, even if they are currently using gas as their main fuel. However, almost 3 million homes in the UK do not have gas as an option. These off gas grid homes typically face higher bills and produce more carbon than the equivalent on grid home. For this reason, we are proposing that the tariff levels are set to be more financially advantageous to those homes off the gas grid, compared with those that are.

If my technology breaks down after seven years and I replace it, can I get RHI again?

No. We propose that individual homes would be eligible to apply only once during the lifetime of the scheme. It is advisable in any case to have some form of appropriate maintenance contract in place after installation so that the technology can continue to perform effectively over its lifetime.

⁶ The Energy Company Obligation: <https://www.gov.uk/green-deal-energy-saving-measures/help-from-energy-companies>

⁷ Northern Ireland have their own scheme.

Do I have to pay for a Green Deal assessment?

Green Deal Assessors may charge you for the visit, or they may be paid by a Green Deal Provider in order to generate a lead, but you can take the generated Green Deal Advice Report to any Green Deal Provider, no matter who the Assessor works for or with. Some companies may charge for the assessment but offer cash-back if you go ahead with them. How much a Green Deal assessment will cost will very much depend on the market.

If I need a heat meter due to running bivalent systems, how much will it cost me to install?

There are different types of heat meter and it is important to select the right one for your system. DECC use high-specification, high-resolution class 2 heat meters to monitor heat pumps in the RHPP. These cost approximately £300 each. Lower-specification heat meters may cost less. You may require more than one heat meter for your application if, for example, your heating appliance has separate outputs for space heating and hot water.

Where can I find out more about renewable heating technologies and options for installing them in my home?

As we are still at consultation stage, a framework within the domestic RHI scheme is not yet available to provide such guidance. However, for free, independent and impartial advice on renewable heating technologies and options for installing them in your home, contact the Energy Saving Trust on 0300 123 1234 (England, Wales or Northern Ireland) or 0800 512 012 (Scotland). In addition, you can find details relating to products and installers certified under the Microgeneration Certification Scheme (MCS) by visiting the MCS website (<http://www.microgenerationcertification.org/>).