

RENEWABLE HEAT INCENTIVE COMMENT SHEET

The Government finally published details of the Renewable Heat Incentive (RHI) on 10th March 2011. The RHI is a world first and applies to England, Scotland and Wales. It is aimed at reducing carbon emissions by providing long term financial incentives for the generation and use of renewable heat in our homes and businesses. The RHI will be launched in two phases with Phase I targeting the non-domestic sector and Phase II targeting the domestic sector.

Background

It is estimated that the generation of heat accounts for approximately half of total UK energy requirements and carbon emissions. Given the Government's commitment to reduce our total annual CO₂ emissions, the RHI is seen as an important mechanism to increase the development of renewable heat.

This policy was first announced by the previous Government with confirmation of support from the Coalition Government in the recent Comprehensive Spending Review (CSR).

At a strategic level, there are many similarities between the RHI and the Feed in Tariff (FiT) scheme that was launched in April 2010 and, interestingly, there are signs that the Government has included several measures within the RHI based on lessons learned from the FiT scheme.

What is the RHI?

The RHI is essentially a system of guaranteed financial incentives over a 20 year period for the generation and use of renewable heat. Examples of renewable heat generating systems include; solar thermal hot water cells, biomass boilers, energy from waste, ground or water source heat pumps and deep geothermal systems.

The RHI also incentivises the production and injection of biomethane (via anaerobic digestion) directly into the gas grid. The financial incentives will be paid to the owner of the renewable heat generating installation or technology. The aim of the policy is to bridge the financial gap between the higher initial cost of the technology against the benefits in terms of a reduction in fossil fuel use and CO₂ emissions. The incentives are in the form of tariffs per unit of heat which differ according to the costs associated with the different technologies.



How will it work?

Contrary to expectations, and unlike the FiT system, the Government has decided to introduce the RHI in phases.

Phase I: Starts in July 2011 (assuming parliamentary approval)

- Targeted toward the large heat users in the non-domestic sector such as industry and the public sector such as hospitals, schools and charities;
- Tariffs for Phase I have been published with the aim of providing a 12% return on investment;
- Community Heating systems will also be supported in Phase I (although not gas fired CHP) which is to encourage community anaerobic digestion or biomass heating schemes;
- Industries that generate heat from waste biomass (such as brewing companies) or who generate biogas from food waste (such as supermarkets) could benefit;
- Biomass installations of 1MW (thermal) capacity and above will be required to submit a quarterly report on the sustainability of the fuel;
- Heat converted to cooling will also be supported provided it meets certain criteria (e.g. provided through absorption chillers);
- Eligible non-domestic installations completed on or after 15th July 2009, but before the start of the RHI, will be eligible for support as if they had been installed on the date of its introduction.

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Renewable Heat Premium Payment

For the domestic sector, Phase I will include a £15 million Renewable Heat Premium (RHP) fund to provide grants to contribute to the cost of installation of technologies. Further details on this are expected in May 2011 but may promote the following principles:

- Provision of additional support for those households off the gas grid (such as in rural locations);
- In return for the grants the recipients must agree to monitor the performance of the technology and provide feedback. The feedback from them may inform potential changes to RHI in Phase II.

Phase II: Starts in Autumn 2012

- From Autumn 2012 the Government will pay tariffs to the domestic sector for the approved technologies which (unless changed) will be those supported in the non-domestic sector in Phase I;
- Launch of RHI tariffs will coincide with the launch of the Green Deal (a key Government policy currently going through parliament);
- The tariffs are proposed at different levels for different technologies with payments made through metering of heat produced and/ or heat consumed.

The introduction of the RHI has the potential to significantly increase the generation of renewable heat in domestic and non-domestic buildings through the use of financial incentives. The Coalition Government has made a number of significant changes to this scheme from that originally announced by the previous Government. Some of these changes include:

- Air Source Heat Pumps (ASHPs) are at this stage excluded from Phase II support as a number of technological issues are investigated. This is a significant omission as ASHPs have been increasingly popular as a cost-effective renewable technology. On the positive side, the Government has indicated that they may be included within Phase II and has confirmed they will be eligible for the Renewable Heat Premium;
- Gas fired CHP is excluded from the scheme;
- For any biomass facility greater than 1MW a quarterly report on the sustainability of the fuel source must be provided. This is in response to the growing concern over the sourcing of some biomass fuels and their true sustainability credentials;

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Implications of RHI

- This policy is likely to give a significant boost to the UK biomass market and questions will undoubtedly be asked with regards to supply and demand;
- Any development or industrial facility that is likely to require significant sources of heat should look carefully at the incentives available through RHI;
- Given the continued rise in energy costs, installation of renewable heat generating technologies will prove increasingly viable. Anaerobic Digestion is now more financially viable as a result of a doubling of tariff for biogas production and injection into the grid.

Feed in Tariffs – one year on!

In April 2010, the previous Government launched the FiT scheme to promote the generation of renewable electricity. Since its introduction there have been many notable results, not least of which was a surge in applications for large scale (up to 5MW) ground mounted solar arrays. The Coalition Government expressed its concern over the number of proposed arrays and launched an earlier than proposed review of the FiT scheme, which included a fast-track review of solar arrays and farm scale anaerobic digestion.

The main proposed changes are as follows:

- The proposed new tariffs for PV cells with a combined output of greater than 50KW have been reduced significantly and restructured into bands up to 250kW;
- A proposed new tariff for all schemes between 250kWh and 5MW;
- The review is proposing to increase the tariff for electricity generated through farm-scale anaerobic digestion in light of a slower than expected uptake of this technology;
- It is the intention to implement these new tariffs from 1st August and they will not be applied retrospectively.

Implications of FiT Review

It is only a consultation document but it is likely that the proposed reduction in tariffs for large PV installations will drastically reduce the viability of ground mounted solar arrays:

- Industry focus is now likely to be on smaller, roof mounted PV systems, which can still be financially attractive;
- Farm scale AD (and larger AD systems) are more financially attractive as a result of the FiT review and RHI payments.