



## *The Renewable Heat Incentive (RHI)*

*November 2012*

The Renewable Heat Incentive (RHI) is part of the Government's strategy towards generating 15% of the UK's energy from renewable sources by 2020. Under the RHI, organisations and individuals that install an eligible renewable heating system, or inject biomethane into the gas grid, can receive regular payments from the Government for a period of 20 years.

### **Background**

The RHI launched in November 2011 for the non-domestic sector (Phase 1).<sup>1</sup>

The non-domestic RHI scheme is available in England, Scotland and Wales and applies to new renewable heat systems installed and commissioned on or after 15 July 2009.<sup>2</sup>

The Government intends to expand the existing scheme to cover additional technologies and also offer a domestic scheme for individual households from summer 2013 (Phase 2).

### **How it works**

The RHI, which is administered by Ofgem, pays scheme participants that generate and use renewable energy to heat their buildings. By increasing the generation of heat from renewable energy sources (instead of fossil fuels), the RHI is intended to help the UK reduce its greenhouse gas emissions.

In order to become an RHI participant, the installation owner must submit an application for accreditation demonstrating that the installation is of an eligible technology type and size and that the heat generated is used for eligible purposes. Ofgem aims to accredit installations within six weeks of a completed application being submitted to it.

RHI payments are made quarterly to cover the capital and running costs of renewable heat installations. For Phase 1, the Government has set the tariffs to achieve a 12% rate of return on additional capital invested (except for solar thermal, which offers a lower rate of return). Unlike the Feed-in Tariff scheme, where electricity suppliers pay the tariffs, payments under the RHI come from central Government funding and are made by Ofgem.

Participants must provide meter readings to enable Ofgem to calculate the amount of eligible heat generated, or eligible methane biomethane injected, each quarter.

The Government intends to introduce a degression mechanism to the scheme from Phase 2, in order to keep the scheme cost-effective. This will build trigger levels into the RHI, so that tariff levels reduce automatically once a certain point is reached (for example, a certain level of installed capacity).

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<sup>1</sup> Alongside Phase 1, the government introduced an interim scheme, the Renewable Heat Premium Payment (RHPP), which is separately administered by DECC and the Energy Saving Trust and applies to eligible domestic renewable heating systems. RHPP makes one-off payments towards installation of a limited number of technologies and fuel uses, rather than payments over 20 years.

<sup>2</sup> Ofgem will make payments for heat generated from the latter of either the date a complete application was made to the scheme, or the date at which all aspects of eligibility were met. For example, if a full and complete application for an eligible installation has been submitted to Ofgem, then irrespective of the time taken by Ofgem to process this application, payments will be backdated to date of submission. However, payments will not be backdated to the date a system was first commissioned.

## Eligible technologies

The non-domestic RHI scheme supports heat from installations defined as renewable in the EU's Renewable Energy Directive (RED). Broadly, these are:

- biomass boilers, including combined heat and power (CHP) biomass boilers;
- ground source heat pumps;
- water source heat pumps;
- deep geothermal heat pumps;
- all solar thermal collectors; and
- biomethane and biogas.

Ground source heat pumps, water source heat pumps, solid biomass and solar thermal installations must be certified under the Microgeneration Certification Scheme (MCS) if they generate 45 kilowatts thermal (kWth) or less.

As noted above, there are plans to extend support to additional technologies in 2013, including:

- air source heat pumps;
- biomass direct air heating; and
- biomass combustion over 200 kilowatts (kW).

## Preliminary accreditation

Potential RHI participants are able to submit plans for a renewable heat installation to Ofgem for consideration. If Ofgem is satisfied that all the eligibility criteria will be met, it will grant preliminary accreditation.

This provides developers and investors certainty that they will be eligible for RHI payments, before they invest in installation costs.

However, preliminary accreditation is only available for larger, more complex non-domestic installations using geothermal, biogas and solid biomass technologies.

## Change in ownership

Where an installation is sold, the new owner may receive RHI payments for the remaining period (out of the original 20 years), provided that it can satisfy Ofgem that:

- ownership has been validly transferred;
- all eligibility criteria are still being met; and
- the new owner will comply with the ongoing obligations.

The existing participant must also give notice of change of ownership within 28 days of a change in ownership.

Travers Smith has considerable experience in renewable energy incentives such as the UK's Feed-in Tariffs and Renewables Obligation. Please feel free to contact us if you have any questions on these incentives or other carbon related concerns or opportunities.



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