

EXPLANATORY MEMORANDUM TO
THE RENEWABLE HEAT INCENTIVE SCHEME AND DOMESTIC RENEWABLE
HEAT INCENTIVE SCHEME (AMENDMENT) REGULATIONS 2019

2019 No. 1052

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument makes changes to the legislation concerning both the Non-Domestic and Domestic Renewable Heat Incentive schemes.

2.2 The Domestic RHI scheme is set out in the Domestic Renewable Heat Incentive Scheme Regulations 2014 (SI 2014/928). The Non-Domestic RHI scheme is set out in the Renewable Heat Incentive Regulations 2018 (SI 2018/ 611).

2.3 Amendments to the Domestic Renewable Heat Incentive Scheme Regulations 2014 are to make changes to tables in Schedule 6 (Expenditure on individual technologies), in order to ensure that the expenditure triggers at which tariff degressions take place set out in this schedule are in line with our latest deployment assumptions.

2.4 Amendments made to the Renewable Heat Incentive Scheme Regulations 2018 include: the creation of an extended allocation of Tariff Guarantees to 31 January 2021 and a full review of expenditure triggers based on deployment assumptions. These amendments are made to continue the 2018 reforms to the RHI in line with the Department's objectives to ensure the scheme focusses on long-term decarbonisation and offers better value for money.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

3.2 As the instrument is subject to negative resolution procedure there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. Extent and Territorial Application.

4.1 The territorial extent of this instrument is Great Britain.

4.2 The territorial application of this instrument is Great Britain.

5. European Convention on Human Rights

- 5.1 The Rt Hon Chris Skidmore MP, Interim Minister of State for Energy and Clean Growth, has made the following statement regarding Human Rights:
- 5.2 “In my view the provisions of The Renewable Heat Incentive Scheme and Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2019 are compatible with the Convention rights.”

6. Legislative Context

- 6.1 The Non-domestic RHI was introduced in November 2011 and is open to producers of biomethane for injection into the gas grid and to renewable heat installations that provide heat to buildings and for purposes other than heating a single domestic property. This includes, for example, systems providing renewable heating to public buildings or commercial properties, for industrial or agricultural uses, or for heating a block of flats.
- 6.2 The Domestic RHI followed in April 2014 and is open to renewable heat installations that provide heat to single domestic properties.
- 6.3 Both RHI schemes aim to facilitate and encourage the transition from conventional forms of heating to low carbon alternatives. The RHI provides financial incentives to households and nondomestic consumers, including public bodies and charities, to help bridge the gap between the cost of renewable heating systems and the conventional alternatives.
- 6.4 The Autumn Statement in November 2015 confirmed the budget for the RHI to the end of the Spending Review period in 2020/21 and the reforms to the scheme are intended to continue to extract best value for money from this budget.
- 6.5 The amendments to the Non-domestic RHI scheme build on the reforms achieved by The Renewable Heat Incentive Scheme Regulations (2018) (SI 2018/611), details of which can be found in the Explanatory Memorandum to the 2018 Regulations.

7. Policy background

What is being done and why?

- 7.1 The RHI schemes were introduced under the powers afforded to the Secretary of State by the Energy Act 2008. They were intended to deliver carbon emissions reductions to help the UK meet its obligations under the Climate Change Act 2008 and the Carbon Budgets established under this Act, and to help the UK meet its target under Directive 2009/28/EC (the “Renewable Energy Directive”) that 15% of energy consumption is to come from renewable sources by 2020. The Government intends that the renewable heat generated under the RHI will make a significant contribution to these obligations.
- 7.2 Section 100 of the Energy Act 2008 makes provision for the Secretary of State to make regulations which establish a scheme to facilitate and encourage the renewable generation of heat and govern the administration of the scheme and the calculation of payments to participants.
- 7.3 Both schemes operate by making subsidy payments to owners of eligible renewable heat technologies and producers of biomethane (in the Non-domestic scheme only) for the renewable heat generated or biomethane injected into the grid.

- 7.4 These amendments to the 2018 Regulations on the Non-domestic scheme will extend the allocation of large-scale Tariff Guarantee applications from 31 January 2020 to 31 January 2021. The RHI is a government scheme providing financial incentive to promote the use of renewable heat. Tariff Guarantees offer investment certainty to larger, better Value for Money renewable heat generation projects which contribute significantly towards the Government's commitment to meeting our legally binding carbon targets. This extended allocation of Tariff Guarantees will consolidate the existing pipeline of applications whilst also providing opportunities for new applications to enter onto the RHI.
- 7.5 It is the view of the Department that this change in policy will serve to consolidate and secure the existing pipeline of existing tariff guarantees, which is dominated by biomethane applications, as well as provide time for new renewable heat projects to develop and commission. The installations supported by this policy are expected to have a positive impact on renewable heat generation and carbon abatement, contributing to the UK Government's stretching targets. Tariff guarantees promote deployment of large projects which benefit from economies of scale and therefore produce heat more cheaply, so may lead to more cost-effective generation of renewable heat and carbon abatement. By continuing to incentivise deployment of the technologies supported by tariff guarantees, the policy change will also allow supply chains to continue to develop, providing a base for the mass roll-out of low carbon heating in the 2020s. We intend to publish in the summer an impact assessment setting out further details of the costs and benefits of the policy change.
- 7.6 Additionally, this SI makes amendments to Schedule 7 (Degression) of the 2018 Regulations and Schedule 6 (Expenditure for individual technologies) of the 2014 Regulations –to align, in relation to both schemes, the triggers for mechanically reducing tariffs to the latest deployment assumptions. We continuously reassess RHI deployment assumptions as part of ongoing cost control of this multi-billion-pound scheme.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

- 8.1 This Instrument does not relate to withdrawal from the European Union nor trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

- 9.1 The Department does not intend to consolidate the relevant legislation at this time.

10. Consultation outcome

- 10.1 In accordance with section 100(7) of the Energy Act 2008, the Secretary of State has obtained the consent of the Scottish Ministers to the making of these Regulations.
- 10.2 In accordance with section 55(1) of the Wales Act 2017, the Secretary of State has consulted with the Welsh Ministers in relation to the making of these Regulations.
- 10.3 The changes outlined in section 7 were informed by two consultations as part of the overarching 2018 reforms. The first set out proposals relating to both the Non-domestic and Domestic RHI schemes: [The Renewable Heat Incentive – A reformed and refocused scheme](#). The consultation ran from 3rd March to 27th April 2016 and received 370 responses from individuals, businesses, trade bodies and other

organisations. The Government Response to the consultation can be found here: [The Renewable Heat Incentive: A Reformed Scheme](#). Responses to this consultation raised a number of questions not consulted on and, as a result, a further consultation was published, running from 5th September to 31st October 2017: [The Non-domestic Renewable Heat Incentive: Further Proposed Amendments](#). This consultation received 108 responses.

11. Guidance

- 11.1 Ofgem, which administers the RHI schemes, will publish supporting guidance that will provide further information for scheme applicants, participants and installers.

12. Impact

- 12.1 There is no, or no significant, impact on business, charities or voluntary bodies.
- 12.2 There is no, or no significant, impact on the public sector.
- 12.3 A full impact assessment of the effect that this instrument will have on the costs of business and the voluntary sector will be published during summer 2019, and will be available from the Department for Business, Energy and Industrial Strategy, 1 Victoria Street, London, SW1H 0ET.

13. Regulating small business

- 13.1 The legislation does not apply to activities that are undertaken by small businesses.

14. Monitoring & review

- 14.1 The Department is undertaking an evaluation of the reformed domestic and non-domestic RHI schemes following the introduction of the 2018 reforms. This evaluation will assess the impact of the scheme and identify lessons for future policy development. The evaluation will include assessment of the reformed RHI's impact on renewable heat generation, carbon abatement and contribution towards the development of a sustainable market. Regular monitoring data and evidence review reports are expected throughout the evaluation (2017-2021), with a published report after scheme close.

15. Contact

- 15.1 Nic Crowe at the Department for Business, Energy and Industrial Strategy (Nic.Crowe@BEIS.gov.uk) can be contacted with any queries regarding the instrument.
- 15.2 Rebecca Vallance, Deputy Director for Renewable Heat Incentive, at the Department for Business, Energy and Industrial Strategy can confirm that this Explanatory Memorandum meets the required standard.
- 15.3 Chris Skidmore, Interim Minister of State for Energy and Clean Growth at the Department for Business, Energy and Industrial Strategy confirms that this Explanatory Memorandum meets the required standard.