Renewable Heat Incentive in Great Britain

My letter of 19 September 2018 set out the actions that my Department has taken to respond to the Committee’s recommendations 1b, 5a, 5b and 6b as detailed in the Committee Report HC696 RHI for the Renewable Heat Incentive (RHI). I hope this provided sufficient assurance of the work my Department and Ofgem are doing to strengthen the scheme in line with the Committee’s helpful advice.

Please see the attached note prepared by the Renewable Heat Incentive team, which covers the following recommendations:

1a) Write to the Committee demonstrating how a future heat strategy will be underpinned by joined up policymaking across government, informed by robust market research.

2a) As part of its new framework to support heat policy, address the issues of affordability for people less able to pay upfront costs, and how best to inform and influence the homeowners being targeted.

3) Ensure energy efficiency policy is integral to future plans for heat in buildings and show how they will work alongside each other and be cost effective. Explain what lessons the Department has learned from the RHI, how it is applying those lessons in its future plans for heat in buildings and how it will ensure there is a smooth transition from the current RHI to the successor policy.

4) Set and publish clear and specific goals, measures and milestones for developing the low carbon heating supply chain within the RHI, any successor policies and its parallel project on heat networks.

6a) Publish estimates of the impact of fraud and non-compliance across the whole RHI population in 2017–18, and continue to do so annually over the remaining life of the RHI.
I hope the Committee finds this information useful in assessing the Department's progress against its recommendations.

Kind regards,

Alex Chisholm
Annex: RHI Team note

Further to Alex Chisholm’s letter, I am pleased to provide further detail on the four recommendations for which the Committee requested a response by the time the Government Response to the Future Framework for Heat in Buildings call for evidence¹ was published.

Recommendation 1a – joined-up policymaking

The Department is taking a holistic view in developing its future heat policies, with teams across BEIS and the wider government developing policy together to ensure join-up. Examples of this collaboration are:

- Engagement with Department for Environment, Food and Rural Affairs (DEFRA), the Department for Transport, the Department for International Trade and the BEIS Clean Electricity and Science teams on the development of biomass policy for heat, feeding into DEFRA’s Clean Air Strategy and considering the wider, strategic picture of the use of biomass in the UK and global energy systems.
- Working with the Department for Education to influence installer training, building on the excellent installer engagement work carried out in developing the Boiler Plus² policy.
- Working with the Ministry of Housing, Communities and Local Government (MHCLG) on updating Building Regulations and with the BEIS Energy Efficiency and Construction teams to consider how decarbonisation can be achieved across the building stock, through construction standards and developing the market for energy efficiency measures.
- Working with MHCLG and the Department of Health and Social Care on a design competition for new homes, integrating requirements for high energy performance with the needs of an ageing population.
- Engaging with the BEIS Energy Company Obligation team to ensure policies affecting those in fuel poverty align.
- Acting on recommendations in the 2016 Each Home Counts review, covering consumer advice, protection, standards, monitoring and enforcement for UK home energy efficiency and renewable energy measures.
- Liaising with officials in Wales, Scotland and Northern Ireland to ensure policies in each territory complement each other and our shared heating industry.

More widely, the Department has been making extensive efforts to underpin its policy development with robust market research, by commissioning further research to plug gaps in its understanding and to seek early views on off gas grid policy from stakeholders:

- Publication of five new, externally commissioned technical reports in April 2018 and a further four in November 2018³, to inform policy development for long-term heat decarbonisation options. These cover a range of research on hybrid heat pumps, the use of biomass and hydrogen gas for heating, an assessment of market and

³ https://www.gov.uk/government/collections/heat-pump-research#history
Recommendation 2a – issues of affordability and influencing homeowners

Funding for the RHI has been agreed out to 2021 and the Department is now developing policy proposals for the following period. As the Committee has noted, from 19 March to 11 June we held the Future Framework for Heat in Buildings call for evidence as a first step in developing a post-RHI policy, which will aim to phase out high carbon fossil fuel heating in buildings, during the 2020s.

The response covers a number of the Committee's recommendations, including 2a. The sections on 'Overcoming the cost barrier' and 'Information to consumers' have a special focus on addressing the Committee’s concerns in this area.

Using learning from the RHI and further social research, the Department is improving its evidence on barriers to take-up of low carbon heating, and it will continue to do so through planned consumer engagement throughout the policy development period. As part of this broader process of engagement, the call for evidence helps us to understand what government, industry and consumers can do to reduce these barriers, while reducing reliance on government subsidy and preparing the ground for future approaches that could include regulation.

Affordability

The RHI has demonstrated that access to upfront capital can be a barrier to installation of low-carbon heating. The Department has taken steps to address this through introducing the Assignment of Rights, as set out in Alex Chisholm's letter of 22 June 2018.

Building on this learning, the call for evidence and response document consider what scope exists to reduce the cost of low carbon heating and the associated energy efficiency measures. Future action to lower costs may include a range of actions undertaken by both government and the heating industry, including the use of regulation (for instance, targeted subsidy schemes or a supplier obligation), investing in research and development
to build cheaper products, or the development of innovative finance models by industry, which may change the way people pay for their heat or heating appliance. The Department will continue to work with the heating industry and consumer groups as this policy develops.

**Informing and influencing off gas grid consumers**

Any new policy framework must be designed with and around those affected, taking their different needs into account. The Future Framework policy for the 2020s will refer to actions we can take to decarbonise heating off the gas grid, encompassing a wide range of consumers. The Department will need to understand these consumers' different routes to low-carbon heating, and to listen and learn from them. The scope of this work encompasses rural homes and businesses. As such, the new framework will be mindful of the needs and diversity of rural communities and consider these when developing future policy. We will consult with consumers throughout the period of policy development, including through internet engagement and focus groups, and these views will be invaluable as we design the future policy framework. The Department has already conducted significant research and consumer engagement looking at consumer attitudes to low-carbon heating, and will continue to build upon that.

The Department is committed to ensuring adequate protection for the most vulnerable households. We will ensure that whatever policy is decided upon, the rights of the most vulnerable will be safeguarded. The RHI and Heat in Buildings teams maintain good relationships with consumer groups such as Which?, Age UK and Citizens Advice, who are already feeding into policy development through the RHI Consumer Group and through meetings with officials working on the Future Framework policy.

Clear messages from government on the phasing out of high carbon heating technologies in off gas grid areas will signal the direction for consumers. With more certainty about the long-term trajectory and better information about the available options, government understands that consumers can make better long-term decisions. The government will need to work together with industry and consumer groups to ensure that there is a common and consistent message, across all elements of the consumer domestic energy experience, as we did with Boiler Plus.

This work has already begun. The Department developed the Simple Energy Advice service in conjunction with industry and based on extensive research with users. The service provides tailored information and recommendations to consumers based on established approaches. We made the service available to the public in May, and a call centre ensures that the same quality of advice is available to all, regardless of digital skill or access. The Each Home Counts Review acknowledged the importance of consumers receiving trusted, impartial advice on energy efficiency and the service is in line with the Review’s recommendations.

Installers and heating engineers will also play a crucial role in enabling consumers to make the transition and they can act as a gateway between industry and government, and the consumer. When choosing a replacement heating system, installers and heating engineers are often the most trusted sources of information. We will be looking into how we can

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4 [https://www.simpleenergyadvice.org.uk/](https://www.simpleenergyadvice.org.uk/)
support installers to help consumers make sustainable decisions and invest in low carbon heat, building on the significant installer engagement conducted for the Boiler Plus policy, which focused on tightening boiler standards in England.

We will also work with other trusted advice providers to ensure relevant and accessible information is available to consumers, understanding that well-informed consumers are better able to make the best decisions for their circumstances.

In addition, the Department will ensure that any learning on how to engage effectively with consumers in off gas grid areas is shared with the policy teams working on the long-term decarbonisation of the gas grid and on heat networks.

**Recommendation 3 – energy efficiency and lessons learned from RHI**

**Energy efficiency**

The Department recognises the importance of both energy efficiency and heating measures to meet carbon targets. Energy efficiency measures play a valuable role in reducing the challenge associated with decarbonising heat, while also reducing consumer bills. The Department also understands the synergies between the two for consumers, and commits to considering buildings holistically to ensure that the heat demand of buildings is being reduced, where possible, through improved energy efficiency.

To that end, the government published an aspiration in the Clean Growth Strategy that as many homes as possible should be upgraded to an Energy Performance Certificate (EPC) band C by 2035, where practical, cost effective, and affordable. To deliver this, we are developing a comprehensive suite of policies that work across all tenures: owner occupier, private rented and social rented. These could deliver a range of measures (heat and energy efficiency) and we will seek to ensure that future policy encourages consumer action across all measure types.

The ‘Building a Market for Energy Efficiency’ Call for Evidence, which closed in January this year, contained a range of proposals for increasing the installation rates of energy efficiency measures amongst homeowners and small businesses, including proposals on how to encourage lenders to offer green mortgage products. We are currently evaluating responses to this Call for Evidence and when that is complete will publish an action plan that will set out a range of measures to shape the market for the future in line with the aspiration.

In the Clean Growth Strategy, we also committed to setting longer term energy performance standards across both the domestic private and social rented sectors. We are developing proposals towards this for consultation in spring 2019. Once the standards are set there are likely to be a variety of measures that landlords might choose to install to meet them, subject to final policy design, however it is clear that heating and energy efficiency measures should both have a role as we move towards higher EPC ratings.

To further underline the need for integrated decarbonisation and energy efficiency policy, the Prime Minister launched the Buildings Mission in May 2018. This cross-cutting work commits the UK to halving the energy use of new buildings by 2030, halving the cost of
renovating existing buildings to a similar standard as new buildings and making sure every new building in Britain is safe, high quality, much more efficient and uses clean heating. Policy development will be underpinned by expertise from across the BEIS Heat, Construction and Energy Efficiency teams and from MHCLG.

Lessons learned from RHI

The Department has learned lessons from previous policies on heat decarbonisation. This includes the RHI, which has provided valuable learning on how to structure incentive schemes, how to influence consumer behaviour and reduce barriers to uptake of renewable and low-carbon heating technologies, and how to encourage the market to deliver. For instance, we have seen significant cost reductions where technologies have been deployed at scale, such as the 46% reduction in costs for non-domestic biomass identified by the NAO.

The RHI has also helped drive innovation in the market. For example, the deployment of biomethane for injection into the gas grid has been one of the big success stories of the RHI. The RHI has helped create a new market which has vastly exceeded our original expectations, and by 2020 we estimate will generate enough biomethane to heat the equivalent of 340,000 homes for a year.

Further reforms to the RHI, including the Assignment of Rights, came into force in September 2017 and May 2018, to capitalise on this learning and refocus the scheme on its long-term objectives. The Department is conducting an evaluation of these reforms, which is due to conclude in Autumn 2021. The evaluation will provide an assessment of the impact of the scheme and provide further strategic learning to inform heat policy development, including on how to address barriers to uptake of technologies such as heat pumps.

Given that the RHI has funding confirmed until April 2021, the Department understands the need to maintain deployment of low-carbon heat technologies throughout the 2020s. Responses to the Future Framework call for evidence were clear that, to achieve its aims, government needs to provide certainty to businesses, consumers and other decision-makers in the supply chain. One of the strongest overriding messages from the responses was the need for a clear, long term framework set by government, ideally through regulations, that would enable industry to play their part. There was a clear view that this would allow industry to align their strategy and investment plans, and to drive forward innovation in technologies and business models. Many comparisons were drawn with transport’s commitment to end the sale of petrol and diesel cars from 2040, which has provided the automotive industry with direction and opportunities for growth.

The Department will seek to provide clarity as early as possible on policy changes that will affect consumers, including homeowners and businesses. As a next step, the call for evidence response commits to consulting in 2019 on a range of regulatory scenarios for decarbonising off gas grid heating in the 2020s, and to engage consumers and the industry, including installers and heating engineers, to ensure all needs are understood and represented.

Recommendation 4 – supply chain metric
As set out in Treasury Minute Cm9667, July 2018, the Government accepts that supply chain development will be essential for the successful delivery of a future heat strategy and agrees that more can be done to improve our current assessment of the low carbon heat supply chain.

Recognising that there are a range of factors that influence low carbon heat supply chains, for instance oil prices, Government policy and consumer demand, the Department uses a basket of measures to assess supply chain health. The Department uses a range of quantitative information to draw conclusions, such as MCS installer data, numbers and size of installations and capital costs for technologies, as well as market intelligence from engagement with stakeholders within the renewable heating industry.

The Department has taken steps to augment this basket of metrics, and has identified a number of potential new metrics, covering the various parts of the supply chain: manufacturers and suppliers, distributors, installers, consumers, infrastructure, innovation and finance, with appropriate benchmarks and comparison data also being considered. The Department is also considering whether wider learning can be applied from its analysis of supply chains for other sectors, such as steel.

Given the relative newness and fragmentation of low carbon heat supply chains in the UK compared to the wider heat supply chain (e.g. for gas and oil boilers), these supply chain metrics rely on incomplete data. As such, we are undertaking further analytical review before specific goals, measures and milestones can be published. It is likely that the eventual, refined basket of metrics will include both core metrics that apply generally across the low carbon heat supply chain, and metrics specific to particular policies. This would take into account, for instance, the different focus and timelines of the RHI to the Heat Networks Investment Project.

The Department has engaged with the overseas and UK heat networks market, offshore wind and other renewable energy technologies for over two years to develop an in depth understanding of this market and supply chain. The Department is confident that the industry can deliver the £1bn plus pipeline of Heat Networks Investment Project (HNIP) funded projects whilst recognising that there are challenges in designing, building and sourcing specialist advice services in the heat networks supply chain. To address these the Department will engage closely in various cross-departmental activities and with the HNIP Delivery Partner to drive strategic intervention to transform the sector where necessary.

The Department commits to publishing clear and specific goals, measures and milestones for developing the low carbon heating supply chain within the RHI by April 2019. Any successor policies and parallel projects, such as heat networks will follow the agreed reporting structure accordingly.

**Recommendation 6a – publish estimates of RHI fraud and non-compliance**

The Department and Ofgem are working closely together to ensure scrutiny of the RHI’s fraud and non-compliance processes. This has included:

- A review of the 2017-18 non-compliance figures by the Department’s statistics team and independent advice obtained by Ofgem. This resulted in improvements to the
methodology for 2018-19, which has been signed off by Ofgem and the BEIS RHI Project Board.

- Enhancement of our oversight arrangement including bringing together previous arrangements into a more formal quarterly meeting to discuss fraud, non-compliance and gaming. We review recent cases and audit findings, work together to identify the root causes of fraud and ensure effective management of those issues taking place. This systematic approach will also provide quantifiable improvement data.

The Department is committed to meeting the Committee’s recommendation to publish its estimates of the impact of fraud and non-compliance across the whole of the RHI population, and will publish the first of its annual updates in March 2019 to align with the close of the financial year.

Dan Osgood

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