# Domestic RHI
# **Annual Report** 2019-2020

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**for energy consumers**

# Executive Summary

The Domestic Renewable Heat Incentive (Domestic RHI) is a government financial incentive to promote the use of renewable heat. Switching to heating systems that use renewable energy sources can help the UK reduce its carbon emissions and meet its renewable energy targets. Applicants who are accredited to the scheme and meet their ongoing obligations receive quarterly payments, for seven years, for the amount of clean, green renewable heat it's estimated their system produces. This report summarises activity during the sixth year of the scheme (SY6) covering the period 01 April 2019 to 31 March 2020.

SY6 saw a significant increase in the number of Domestic RHI applications compared to previous years. Over 14,000 applications were submitted compared to an average of 9,400 over the previous three scheme years. This increase led to a similar increase in accreditations with 12,502 applications being approved, taking the total accreditations on the scheme at the end of SY6 to 78,206. As was seen in SY5, Air Source Heat Pumps continue to be the most popular technology adopted on the scheme in SY6, accounting for 83.6% of accreditations.

Payments are made to accredited installations on a quarterly basis and continue for seven years, so long as participants continue to meet eligibility requirements. Payments made in SY6 totalled £132.9million, taking the total spend on this scheme since launch to £529.2million. The total renewable heat generated by accredited installations now stands at 4,596.9GWh and we estimate that carbon savings over the lifetime of the scheme will now be 4.95Mt$CO_2$.

As part of our commitment to protect taxpayer's money, we undertake a comprehensive audit programme every year to ensure participants are complying with scheme rules. This year we conducted a total of 1,587 audits of which 878 were desk based and 709 were site visits. Desk based audits involve us asking participants to supply certain documents and records. Site audits involve an inspection of the heating system in addition to the supply of certain documents and records. These site inspections are carried out by an external auditor that is appointed by Ofgem. Installations can be selected for audit via two methods, either statistical or targeted.For statistical audits a number of installations are selected randomly from the population, whereas targeted audits are identified through the use of referrals from internal teams and data analytics, where we aim to identify sites that may have an increased risk associated to non-compliance with the scheme. The audit work carried out in SY6 will result in savings of over £1.1million of public funds.

Originally set to close at the end of the 2020-21 financial year, it was announced[1] by the Government that the Domestic RHI scheme would be extended by an additional year and will now close at the end of March 2022.

[1] https://www.gov.uk/government/publications/changes-to-the-renewable-heat-incentive-rhi-schemes

# Contents

# Associated Documents

- The Domestic Renewable Heat Incentive Scheme Regulations 2014
  http://www.legislation.gov.uk/uksi/2014/928/contents/made

- The Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2015
  http://www.legislation.gov.uk/uksi/2015/143/contents/made

- The Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2018
  http://www.legislation.gov.uk/uksi/2018/610/contents/made

- Domestic Renewable Heat Incentive essential guide for applicants v5.0
  https://www.ofgem.gov.uk/publications-and-updates/domestic-renewable-heat-incentive-essential-guide-applicants

- Domestic RHI Guidance and Resources
  https://www.ofgem.gov.uk/environmental-programmes/domestic-rhi/contacts-guidance-and-resources/documents-and-videos

- Domestic RHI Public Reports and Data
  https://www.ofgem.gov.uk/environmental-programmes/domestic-rhi/contacts-guidance-and-resources/public-reports-and-data-domestic-rhi

# Legislative Context

The Domestic Renewable Heat Incentive (DRHI) was introduced in England, Scotland and Wales in April 2014 by the Department for Energy and Climate Change (DECC)[2] and is a financial incentive designed to encourage the uptake of renewable heating systems. Its aim is to cut carbon emissions in the United Kingdom and to help towards meeting renewable energy targets.

The scheme is set out in legislation under The Domestic Renewable Heat Incentive Scheme Regulations 2014 (the Order) and subsequent amendments. There are four eligible technologies under the scheme; Air and Ground Source Heat Pumps, Biomass boilers and Solar Thermal plants, each with different eligibility requirements. The scheme does not impose a limit on capacity, but systems must be certified by the Microgeneration Certification Scheme (MCS), which has a thermal limit of 45kW for a single renewable heating product. Products may be combined in capacity of not more than 70kW to meet larger heat demands[3].

In March 2016, the Department for Business, Enterprise and Industrial Strategy (BEIS), published a consultation on changes to the scheme. After taking into account the feedback it received, BEIS published its consultation response[4] on 14 December 2016. The changes would come into force in two stages, the first stage came into effect from 20 September 2017 which included tariff uplifts for three of the four technology types and also introduced heat demand limits, used to cap the financial support that individual installations can receive.

The second stage of changes came into force on 22 May 2018. These include metering for performance requirements for heat pumps, new Metering and Monitoring Service Package (MMSP) payment schedules and enforcement powers, the introduction of Assignment of Rights (AoR)[5], revised degression thresholds, as well as extending the RHI's budget management mechanism until the end of 2020-21. Further to this extension, it was announced on the 11 March 2020 by the Chancellor of the Exchequer, as part of his Budget, that the scheme would be extended for an additional year to March 2022[6].

We continue to work closely with BEIS to ensure the scheme is being delivered effectively and in accordance with policy, and to implement changes made to the legislation.

The Gas and Electricity Markets Authority (the Authority) is the statutory body responsible for administering the Domestic RHI scheme in Great Britain (GB). The Authority's functions are

[2] From July 2016 the new Department for Business, Energy and Industrial Strategy (BEIS) assumed the roles and responsibilities of the Department of Energy and Climate Change (DECC)
[3] As specified by MCS Standards
[4] https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme
[5] AoR applications were eligible from 27 June 2018
[6] https://www.gov.uk/government/publications/changes-to-the-renewable-heat-incentive-rhi-schemes/changes-to-rhi-support-and-covid-19-response

performed by Ofgem, the office of the Authority. As administrator Ofgem performs a number of functions, including publishing guidance, the review of applications to join the scheme and ensuring that accredited scheme participants continue to meet their ongoing obligations. There is also the duty to calculate and make payments to accredited participants. Ofgem is also responsible for ensuring the scheme is guarded against fraud and error which is done via an extensive audit programme.

The Regulations require us to produce and publish an annual report on the scheme by 31 July following the end of a scheme year. The contents of the report are set out in the Regulations, however, we do include further information that we believe is of interest to stakeholders and the general public.

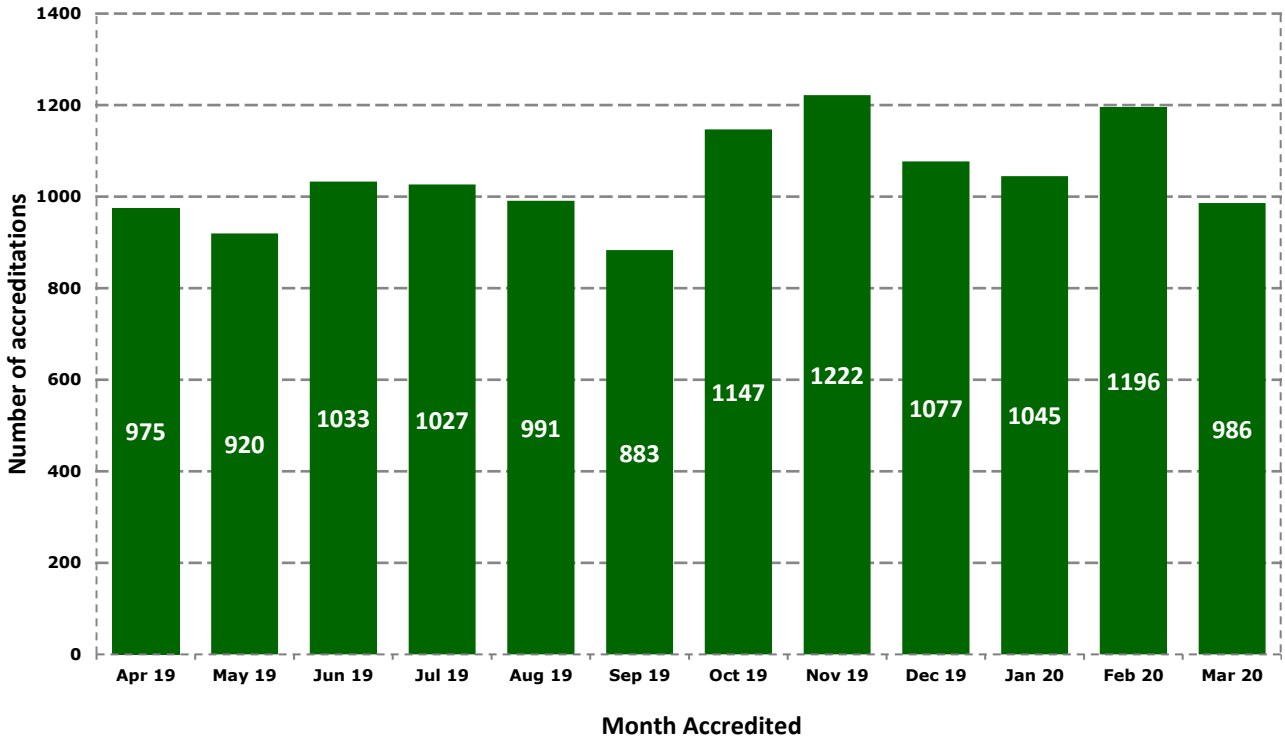
# 1. Accreditations

1.1. Higher volumes of applications in SY6 (14,145) compared to SY5 (9,949) subsequently led to an increase in the number of accreditations.

1.2. The volume of applications received was fairly consistent across the year, with the expected peaks continuing in line with recent years in October/November and February/March.

1.3. A total of 12,502 accreditations were made on the scheme in 2019-20. This represented an increase of 64.6% compared to 2018-19 (7,597 accreditations).

**Figure 1.1: Number of Domestic RHI Accreditations 2019-20**



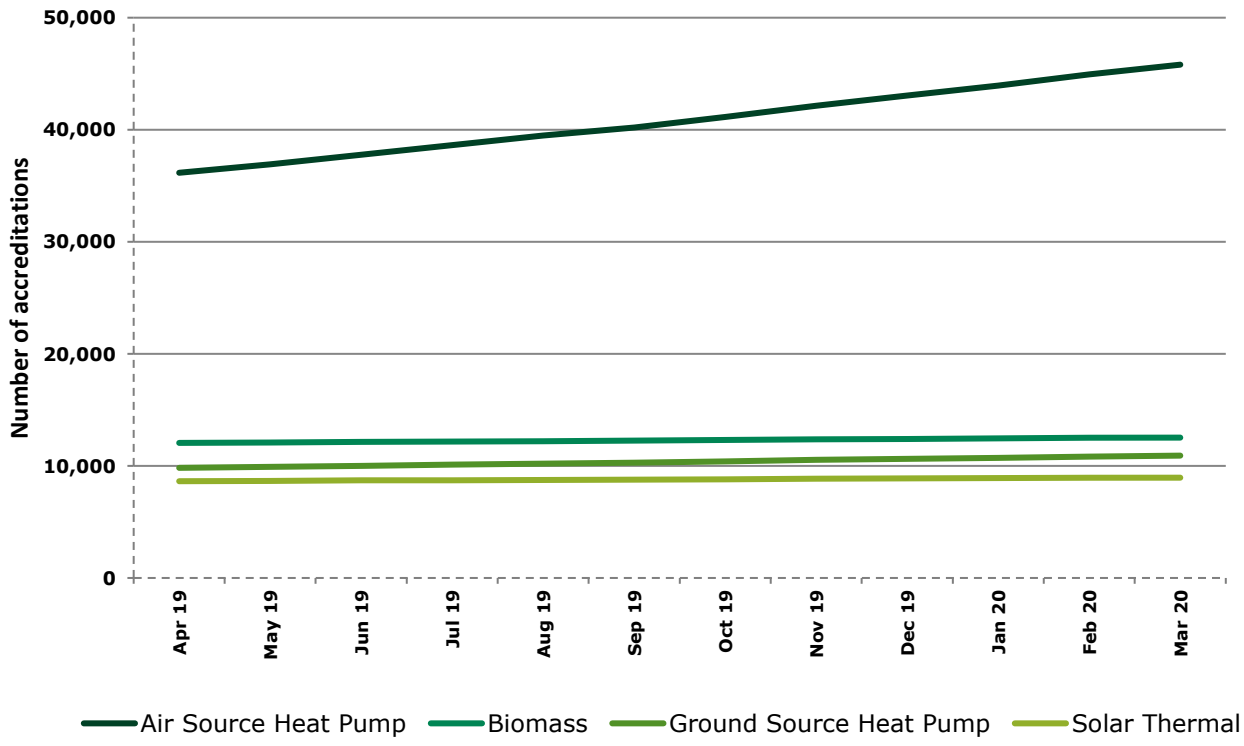

1.4. The total number of accreditations since the scheme launched now stands at 78,206.[7]

1.5. Of the eligible technologies types under the scheme, Air Source Heat Pumps continue to be the most popular, accounting for 83.6% of total accreditations made in 2019-20.

1.6. **Figure 1.2** below highlights the uptake of Air Source Heat Pumps over the previous 12 months, whilst uptake of the other eligible technologies remains much lower.

[7] Figure correct as at 31 March 2020

**Figure 1.2: Cumulative Accreditations by Technology Type**




1.7. **Table 1.1** below shows the split of accreditations since the launch of the scheme, with Air Source Heat Pump's now accounting for more than half of all accreditations.

**Table 1.1: Accreditations by Technology Type**

| Technology Type | Cumulative Total | Percentage (%) |
|---|---|---|
| Air Source Heat Pump | 45,809 | 58.6% |
| Biomass | 12,527 | 16.0% |
| Ground Source Heat Pump | 10,920 | 14.0% |
| Solar Thermal | 8,950 | 11.4% |
| **TOTAL** | **78,206** | **100%** |

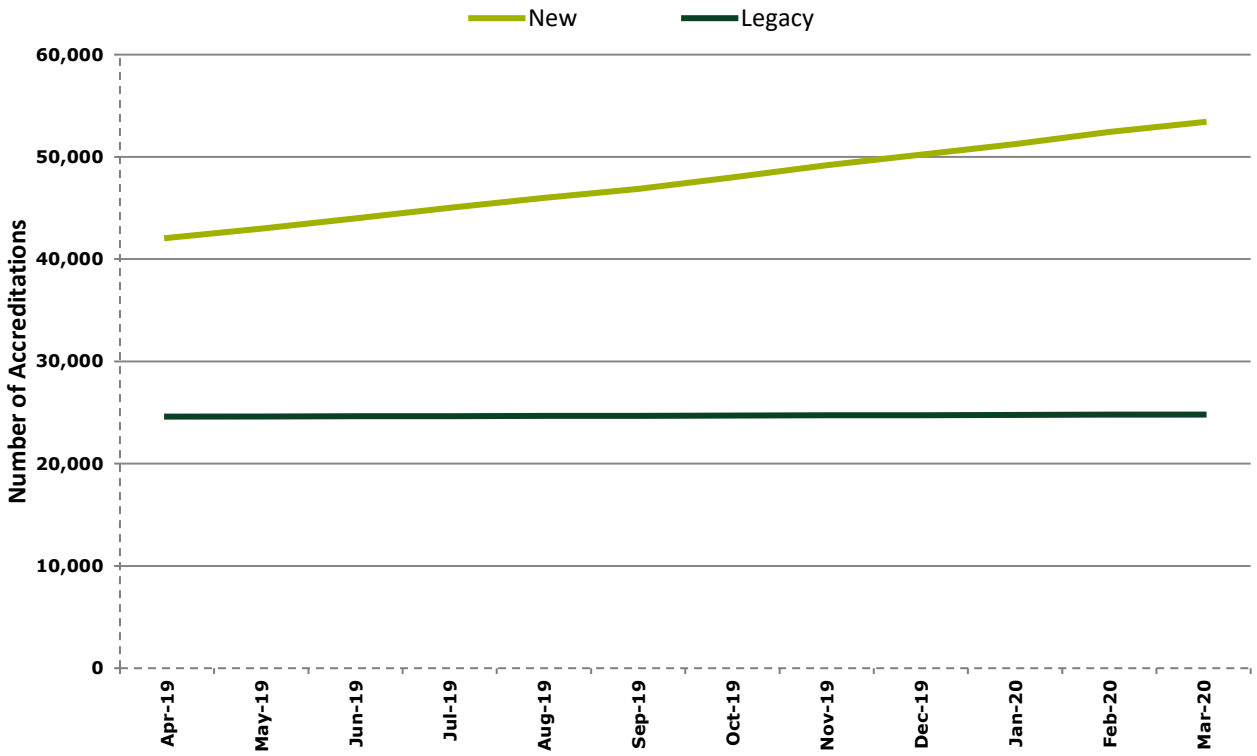
**Legacy and New accreditations**

1.8. 'Legacy' accreditations are systems that were commissioned between 15 July 2009 when the Domestic RHI was first announced by the Department for Energy and Climate Change (DECC), now the Department for Business, Energy and Industrial Strategy (BEIS), and 09 April 2014 when the Domestic RHI scheme launched.

1.9. 'New' accreditations are systems that were commissioned on or after the launch of the scheme on 09 April 2014.

1.10. The deadline for the submission of 'Legacy' applications was 08 April 2015.[8] However, when ownership of an accredited installation is transferred, for example during a house sale, the new incoming owner inherits the installation and can apply to receive any remaining payments up to the seven-year eligibility date of the accreditation.

**Figure 1.3: Cumulative accreditations by application type**




1.11. There were 12,290 'New' accreditations made and 212 transfers of 'Legacy' accreditations made in SY6.

1.12. This brings the cumulative totals on the scheme to 53,404 'New' and 24,802 'Legacy' accreditations respectively.

**Geographic Distribution of Accredited Installations**

1.13. The geographical distribution of installations remained consistent with previous scheme years. With a full break down of distribution by technology type detailed in **Figure 1.4** and **Table 1.2**.

[8] Applicants installing certain products were granted an extension to this deadline and some participants were granted extensions due to extenuating circumstances.

**Figure 1.4: Geographic distribution of accreditations 2019-20**

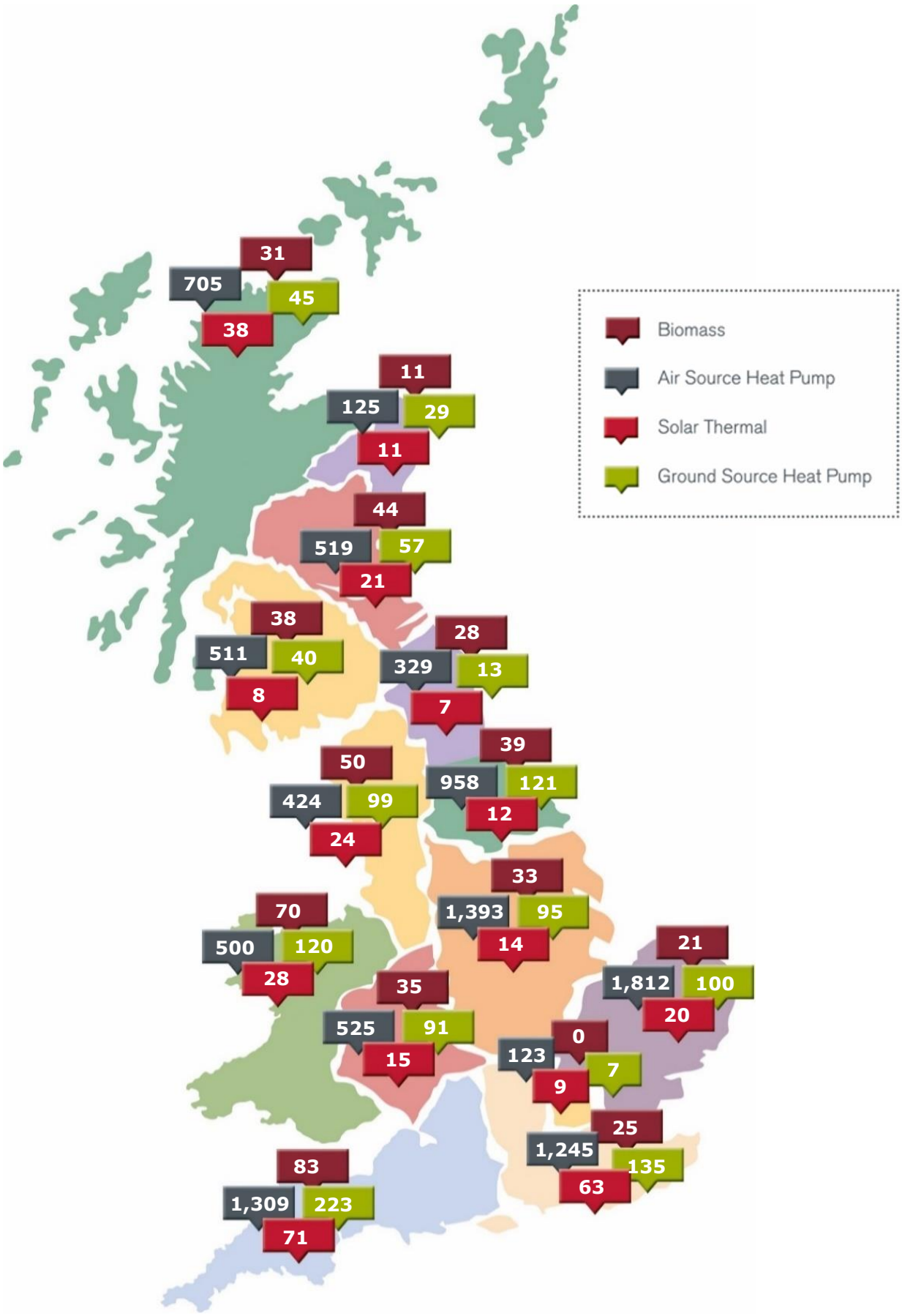


**Table 1.2: Accreditations per region 2019-20**

| Location | ASHP | Biomass | GSHP | Solar Thermal | Grand Total |
|---|---|---|---|---|---|
| East England | 1,812 | 21 | 100 | 20 | 1,953 |
| South West England | 1,309 | 83 | 223 | 71 | 1,686 |
| East Midlands | 1,393 | 33 | 95 | 14 | 1,535 |
| South East England | 1,245 | 25 | 135 | 63 | 1,468 |
| Yorkshire and The Humber | 958 | 39 | 121 | 12 | 1,130 |
| Highlands & Islands | 705 | 31 | 45 | 38 | 819 |
| Wales | 500 | 70 | 120 | 28 | 718 |
| West Midlands | 525 | 35 | 91 | 15 | 666 |
| East Scotland | 519 | 44 | 57 | 21 | 641 |
| South West Scotland | 511 | 38 | 40 | 8 | 597 |
| North West England | 424 | 50 | 99 | 24 | 597 |
| North East England | 329 | 28 | 13 | 7 | 377 |
| North East Scotland | 125 | 11 | 29 | 11 | 176 |
| London | 123 | 0 | 7 | 9 | 139 |
| **Grand Total** | **10,478** | **508** | **1,175** | **341** | **12,502** |

1.14. Southern and eastern parts of England (South West, South East, East and East Midlands) constitute for over half of all accreditations made in SY6.

1.15. London continues to see the lowest uptake on the scheme, accounting for only 1.1% of total accreditations in SY6.

**Registered Social Landlords**

1.16. Registered Social Landlords (RSLs) are also eligible to apply for the Domestic RHI.

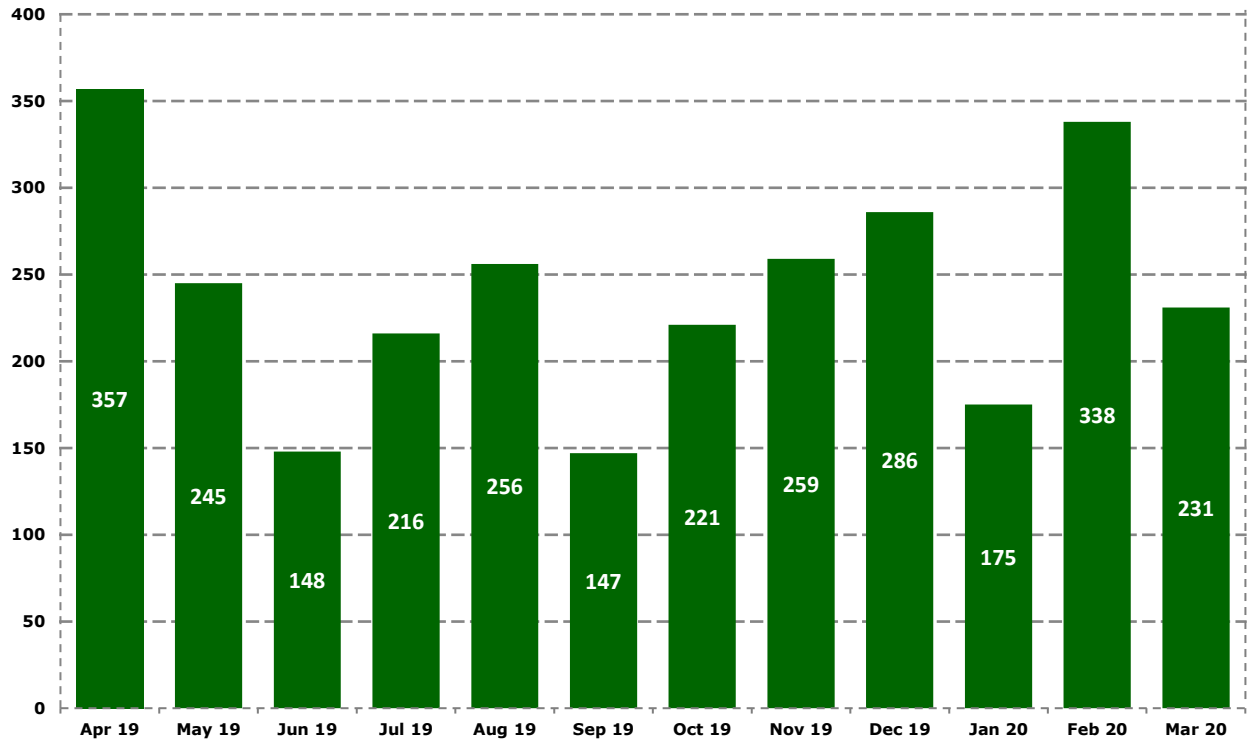
1.17. In total 17,884 accreditations have been awarded to RSLs, 35.2% (6,293) of which relate to 'Legacy' installations.

1.18. There were 2,879 RSL accreditations in SY6, of which 99.8% (2,874) were for Air Source Heat Pumps.

1.19. Of the remaining five accreditations, four were Solar Thermal systems and one was a Ground Source Heat Pump.

1.20. RSL accreditations account for 22.9% of all accreditation on the scheme.

**Figure 1.5: Number of RSL accreditations per month in 2019-20**




**Assignment of Rights (AoR)**

1.21. Assignment of Rights (AoR) allows an investor to help fund the purchase or installation of a renewable heating system and in return receive the rights to RHI payments.

1.22. Assignment of Rights came into effect following amendments to the Domestic RHI on 27 June 2018, with the intention of preventing future use of other third party financing models (i.e. where individuals and third parties have an agreement outside of the Domestic RHI to transfer RHI payments to the third party).

1.23. Investors may now only receive RHI payments as a 'nominated registered investor' in an Assignment of Rights agreement.

1.24. In the case of any renewable heating systems for which Domestic RHI applications are made on or after 27 June 2018 and for which funding for purchase and/or installation is provided by a third party, the Assignment of Rights model will have to be used if the third party is to receive RHI payments. The third party (investor) will then receive the

payments directly from Ofgem. Heating systems accredited, or for which applications were submitted, before 27 June are unaffected by this change.

1.25. Before an investor is eligible to receive RHI payments, they must register and be approved by Ofgem by completing an application.[9] They should also already be a member of either the Renewable Energy Consumer Code (RECC) or the Home Insulation and Energy Systems Scheme (HIES), both of which are approved consumer protection codes.

1.26. At the end of March 2020, there were 23 approved investors to the scheme.

1.27. A total of 197 accreditations have been granted under the AoR eligibility criteria by the end of March 2020.

**Metering and Monitoring Service Package (MMSP)**

1.28. A Metering and Monitoring Service Package (MMSP) is similar to a service contract and is a useful way of checking how well heating systems are performing. Participants who are successful in registering an MMSP receive financial support for installing the package.

1.29. The package is also designed to encourage consumer engagement with their heat pump and provide appropriate consumer protection against poor performance. It also allows the Government to gather detailed evidence on heat pump performance, which will support the development of heat pumps towards roll-out at scale in the future.

1.30. MMSP is only available for heat pumps or biomass boilers that burn wood pellets (not biomass pellet stoves or any other biomass boilers).

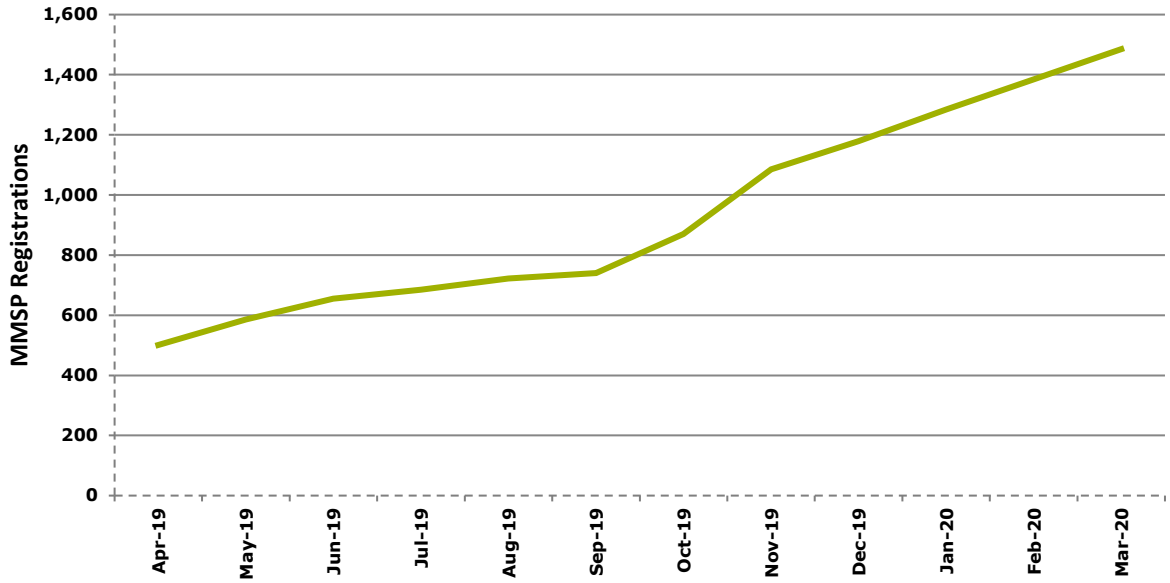
1.31. There is a set maximum number of MMSP registrations. The packages are available on a first-come, first-served basis.

1.32. There are 11,255 MMSP packages available in total. This limit refers to the lifetime of the scheme, not an annual limit.

1.33. At the end of SY6, 1,485 packages (13.2%) had been allocated, however 1,028 of these were approved in the last 12 months and we expect that the recent trend of uptake to continue into SY7.

[9] https://www.ofgem.gov.uk/publications-and-updates/essential-guide-assignment-rights

**Figure 1.6: Cumulative MMSP Registrations SY6**

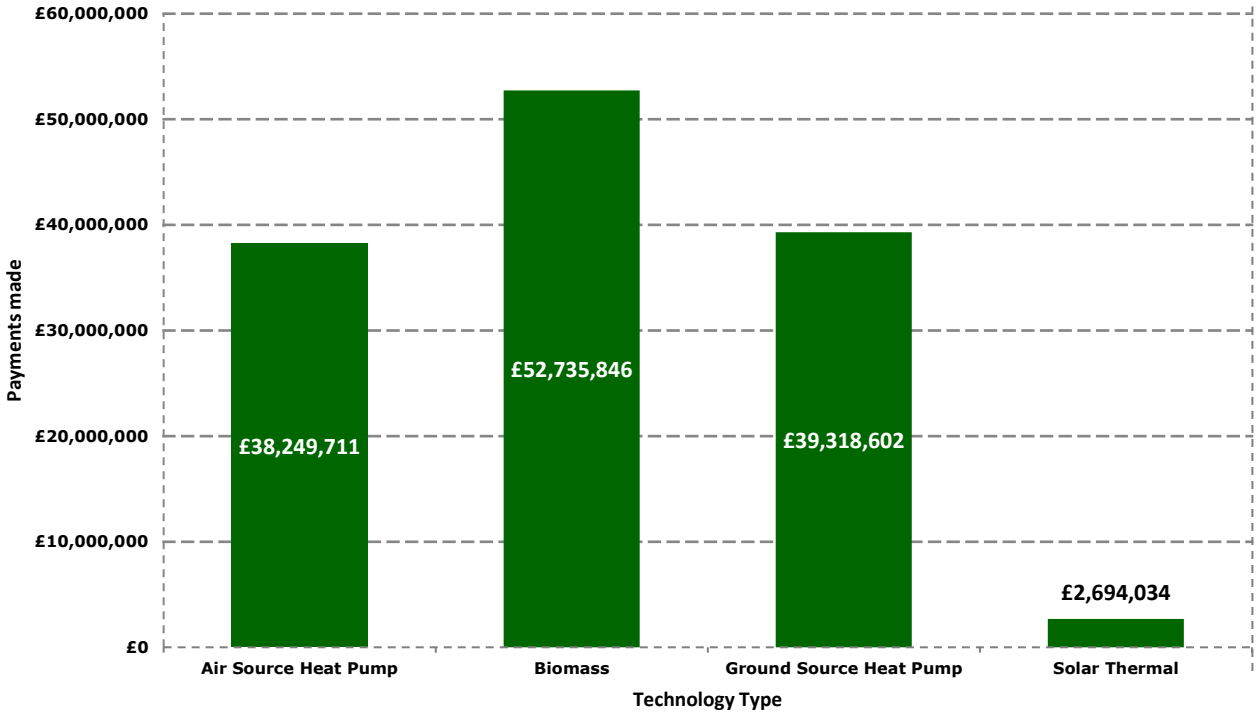


# 2. Payments

2.1. Domestic RHI payments are made quarterly for seven years, and vary based on the technology type of the heating system and the heat demand of the property in which it is installed. Payments are only made to accredited installations that continue to meet the scheme rules.

2.2. The tariff rates are set by the Department for Business, Energy and Industrial Strategy (BEIS) and are regularly reviewed. Any changes to tariffs must be announced at least one month in advance of the change.

**Figure 2.1: Domestic RHI Payments made in SY6**




2.3. As with previous years, payments to Biomass systems account for the largest proportion of payments in SY6.

2.4. The surge in Air Source Heat Pump accreditations has seen payments made in SY6 increase by almost £10m (25.5%) compared to SY5.

**Table 2.1: Lifetime Domestic RHI payments made**

| Technology Type | Lifetime Payments (£) | Percentage (%) |
|---|---|---|
| Air Source Heat Pump | £119,344,600.94 | 22.6% |
| Biomass | £248,871,647.50 | 47.0% |
| Ground Source Heat Pump | £148,872,115.04 | 28.1% |
| Solar Thermal | £12,150,066.47 | 2.3% |
| **TOTAL** | **£529,238,429.95** | **100%** |

2.5. Over the lifetime of the scheme Biomass boilers have accounted for almost half (47.0%) of the payments made.

2.6. This is due to their early popularity and the likelihood that they are installed at properties with a higher heat demand compared to other technology types.

2.7. Conversely, despite accounting for more than half of all current accreditations (58.6%), Air Source Heat Pumps account for less than a quarter of payments made (22.6%).

2.8. Again this is due to the generally lower heat demand of properties where Air Source Heat Pumps are installed when compared to Biomass boilers and Ground Source Heat Pumps.

# 3. Audit and Assurance

3.1. Our audit strategy has been developed in line with best practice from the National Audit Office (NAO). Our strategy is reviewed annually and a plan is produced to track delivery.

3.2. We undertake both statistical and targeted audits, with statistical audits undertaken at a 90% confidence level. This provides us with assurance that the results of audits will reflect the level and types of non-compliance within the population.

3.3. **Table 3.1** below details the outcomes of the 2019-20 audit programme.[10]

3.4. We conducted a total of 878 desk audits and 709 site audits during SY6, this is an increase from 697 desk and 611 site audits in SY5.

3.5. Due to the Covid-19 pandemic, completing site visits and attaining the required information and evidence has been difficult. This has led to a delay in us receiving this information and subsequently being able to complete the audit reviews.

**Table 3.1: Domestic RHI Audit Results 2019-20**

| Audit Type | | Closed Audits | Open Audits | Compliant Audits | Non-Compliant Audits | Compliance Rate (%) |
|---|---|---|---|---|---|---|
| **Desk Audit** | Statistical | 676 | 0 | 558 | 118 | **82.5%** |
| | Targeted | 202 | 0 | 93 | 109 | **46.0%** |
| **Site Audit** | Statistical | 565 | 13 | 439 | 126 | **77.7%** |
| | Targeted | 118 | 13 | 78 | 40 | **66.1%** |

3.6. The table shows that overall participant compliance with the scheme regulations is reasonably high.

3.7. We have seen an increase in both types of audit non-compliance, with the largest increase being recorded against the targeted audits. This signifies that the audit team is better able to identify areas of risks based on past findings/referrals and are taking the correct actions to ensure participants remain compliant.

3.8. As part of our ongoing work to tackle non-compliance, we have sought to identify the root causes. From this, we have started to implement improvements and further controls to our systems and processes, highlight issues to third parties (such as Microgeneration

[10] The compliance rate is based on closed audits only. A small number of audits remain open as some sites visits could not be conducted due to the Covid-19 pandemic.

Certification Scheme (MCS) or Energy Performance Certificate (EPC) accreditation bodies) and suggest possible amendments to regulations.

3.9. Some non-compliances will be resolved by participants providing the information after the audit. Others will result in recoupment of overpayments or, in the worst cases of non-compliance, revocation of accreditation.

3.10. The most common reason for non-compliance with the scheme regulations are as follows:

- Installation is not in working order
- Incorrect details on Microgeneration Certification Scheme certificate
- Evidence not provided during audit
- No metering where it is required
- Incorrect details on Energy Performance Certificate

3.11. **Table 3.2** below shows the monies we have protected (prevented) from being paid out based on our audits carried out for 2019-20.

3.12. Statistical audits comprise both an initial desk audit and a site audit. However, in some cases the site audit is not required if we find eligibility issues during the desk audit that result in revocation of accreditation. This is represented in the table below where the Desk Audit error figures are higher.

3.13. Through our audits, we have also identified installations where monies have been paid out in error (detected). To date we have recovered 27% of the detected value and steps are being taken to recoup the outstanding debt from participants.

**Table 3.2: Money Protected from Domestic RHI Audits 2019-20**

| Audit Type | | Prevented Error | Detected Error | Total Protected | Recovered Detected Error to Date |
|---|---|---|---|---|---|
| **Desk Audit** | Statistical | £252,687 | £100,835 | £353,522 | £26,842 |
| | Targeted | £346,310 | £282,880 | £629,190 | £42,739 |
| **Site Audit** | Statistical | £25,568 | £27,020 | £52,588 | £16,920 |
| | Targeted | £70,185 | £71,364 | £141,549 | £42,043 |
| **TOTAL** | | **£694,750** | **£482,099** | **£1,176,849** | **£128,544** |

3.14. As can be seen this year's audit programme has resulted in the protection of over £1.1 million of public funds.

# 4. Our Administration

4.1. As administrators of the scheme, Ofgem performs a number of functions such as the review of applications and amendments, calculating and making payments, responding to enquiries and ensuring participants ongoing compliance with scheme regulations.

4.2. In order to ensure In order to ensure that we are providing a good service, we track our performance monthly and publish details on the Ofgem website.[11] **Table 4.1** below gives an annual summary of this year's performance and a comparison to last year.

**Table 4.1: Ofgem DRHI Delivery Performance**

| | 18/19 | 19/20 | Change |
|---|---|---|---|
| No. of applications processed | 9,636 | 14,904 | +5,268 |
| Applications processed within 6 months | 93% | 96% | +3% |
| No. of telephone enquiries | 27,159 | 32,738 | +5,579 |
| No. of email enquiries | 1,536 | 3,434 | +1,898 |
| Emails responded to in 10 WD | 76% | 77% | +1% |
| Payments made | 249,615 | 285,799 | 36,184 |
| Payments made within 30WD | 98% | 97% | -1% |

4.3. As can been seen, we experienced a significant rise in volumes across many of our administrative functions this year.

4.4. Despite the sharp rise in application volumes, we were able to maintain and actually improve, our processing times. This was a result of ongoing process improvements and a move towards automation where possible.

4.5. Call and email enquiry volumes also saw a significant increase compared to last year. Despite the increase, we were able to maintain our service levels.

4.6. Although we remain below target on email enquiries, being able to maintain last years' service level, despite the volume of emails received more than doubling, actually shows the steps we have taken are working. This has all come despite challenges in 2019-20 around our budget and resource.

4.7. One of the steps taken was the creation of a 'One Ofgem' enquires team, where staff are trained across the multiple schemes we administer. This has increased our capacity to respond to enquiries within timescales and the ability to flex resource to areas when required. This should further improve our performance into 2020-21.

[11] https://www.ofgem.gov.uk/environmental-programmes/environmental-programmes-ofgem-s-role-and-delivery-performance

# 5. Looking Forward

The Government have announced that the Domestic RHI will be extended by a year and will now be open to applications until 31 March 2022. The Domestic RHI provides payments over a seven year period meaning that the scheme will still potentially be servicing participants up until 31 March 2029.

Deployment for SY7 (1 April 2020 to 31 March 2021) has been disrupted by COVID-19 with applications for April 2020 to May 2020 down by 21.7% in comparison to the same time period in SY6. Despite this lower deployment, we anticipate that deployment will pick up as we progress throughout the year and that the key trends from SY6 will continue such as increased Air Source Heat Pump deployment and the installation of Meter and Monitoring Service Packages (MMSP).

Within the financial year, we anticipate that the Department for Business, Energy and Industrial Strategy (BEIS) will run a consultation in preparation for the formal closure of the Domestic RHI scheme to new applicants on 31 March 2022.

Looking beyond the closure of the Domestic RHI, BEIS ran a consultation from 28 April 2020 to 7 July 2020 on the 'Future support for low carbon heat', which includes the proposal for a 'Clean Heat Grant Scheme'. This proposed scheme is considered to be a successor scheme to the Domestic RHI and is expected to open in April 2022. For more information on the development of this proposed scheme please see https://www.gov.uk/government/consultations/future-support-for-low-carbon-heat.