RHI = Really Happy Industry

Delta-ee Press Release, 12 July 2013

The domestic Renewable Heat Incentive (RHI)* has finally been unveiled, and the industry couldn’t be happier. This is the end of the beginning – the RHI represents the first step on the path to meeting the UK 2050 carbon targets.

Tariffs of: 7.3p/kWh for Air/Water Heat Pumps, 12.2p/kWh for biomass, 18.8p/kWh for Ground-Source Heat Pumps and 19.2p/kWh for Solar Thermal, are to be paid over 7 years. In addition, hybrids (combined heat pump – boiler systems) are eligible, as is a metering bonus. This is great news – and will exceed the expectations of many in the industry who had started to think the domestic RHI might never happen. Delta-ee strongly believes that this could be a catalyst for significant market growth, with these tariff levels providing paybacks for some technologies of less than 5 years.

What does this mean for customers?

1) **Owner occupiers** are a diverse group – the RHI will provide a strong financial case for investment, with paybacks of less than 5 years for some technologies. Now industry needs to innovate to deliver the propositions which they are looking for.

2) **Self-builders** have been recognised as an important customer segment - small but central to the roll out of low carbon heat, and with an appetite for investment (our research shows over 25% of self builds come with some form of microgeneration).

3) **Social landlords** have a critical role to play in growing low carbon heat - they remain committed to reducing fuel poverty. And - with funding always a concern – the RHI gives them a guaranteed revenue stream which will have strengthening appeal as rent arrears are on the rise.

4) **Private landlords** have been recognised for the first time as having a role to play in uptake of low carbon heat.

What are the next steps for industry?

1) **Innovative customer propositions** – the industry needs to deliver innovative financing solutions, low cost loans, and potentially leasing options to deliver flexible options for customers. Owner occupiers in particular are diverse, and for many, up-front cost will remain a key barrier. Already in the UK and Europe, we have seen the market react with solutions – demonstrating that with the right mix of incentive and financing, customers will really have the confidence to invest.

2) **Streamlined customer journey** – a big challenge with the roll out of the RHI may be keeping the customer engaged through the whole process. Whilst no-one in the industry will disagree that it is important for properties to be energy efficient before renewable heat is installed, there is a danger that the link to the Green Deal could lead to a long customer journey, which could prove too much hassle for some. Industry needs to plan for how to mitigate this.

3) **Make some noise to customers and to installers** – awareness of incentives and low carbon heat technologies amongst owner occupiers especially is low (Delta-ee customer research 2012/2013). Customers need to understand what technologies and incentives are available for them, and the installer will have a critical role in this. This is a challenge given that the market is full of “one man bands” – smaller installers. Engaging these installers will be critical for getting the message out into the market.
Industry reaction:

“Daikin is very pleased that the RHI has finally been announced. It is particularly positive news for the Social Housing sector as they are now eligible for RHI. It is also good news for our installer partners who have already made the commitment to become MCS accredited”. Nancy Jonsson, Daikin UK

“The much anticipated launch of the RHI today marks a step forward for renewable heating. For installers, the launch of the domestic RHI means a growing need to embrace Green Deal assessments. In addition, installers should take steps to undertake adequate training on renewable products, in addition to credentials such as MCS accreditation, to take advantage of what we hope to be a spike in installations in the next 24 months” Jon Tedstone, BDR Thermea

“I am delighted to see that the domestic RHI has been announced today and I believe there are a lot of reasons to be optimistic. For the customer, we have seen a crisis in confidence over the last 18 months. In our latest in-depth interviews with owner occupiers, it was clear that low-carbon heating is considered high risk, and there was a belief that even Government didn’t really have faith in the technologies. The start of the domestic RHI will help the industry to offer reassurances to these customers, and it also provides an opportunity to develop some interesting propositions that should really get the market moving”. Jennifer Arran, UK Microgeneration Research Manager

“The RHI is fantastic news. The European heat pump industry has long-awaited confirmation of the scheme which is expected to drive significant growth of heat pump sales in the UK – a market which could potentially become one of the largest heat pump markets in Europe. The economic framework for growth is now in place. Hopefully the RHI will encourage the growth of financing offers, low cost loans for heat pumps to help the customer get over the initial upfront cost barrier. We have already seen examples of these sort of approaches in other markets such as France and Germany - GDF Suez and EDF in France both offer loans, and in Germany, Vattenfall is testing a model of owning heat pumps on customer sites and selling the heat back at a preferential rate.” Lindsay Sugden, Heat Pump Research Manager

Note

*The Renewable Heat Incentive (RHI) is the UK Government’s flagship scheme to incentivise the growth of renewable heat in the UK domestic building stock. It is due to be launched in Spring 2014 according to DECC’s statement today, 12th July. An RHI is already in place in the non-domestic sector.

About Delta-ee

Delta-ee provides commercial insight and market expertise in decentralised energy and low carbon strategies. With in-depth expertise of the European heating and energy industries, the company has been tracking decentralised energy markets and technologies since 2004. Delta-ee supports clients through providing strategic insight and rigorous analysis on market size, competitive landscape, regulatory environment, and potential for future growth. Clients include many of the major heating equipment manufacturers, energy companies, and technology developers from around the globe.

Contact Delta-ee:

Jennifer Arran, UK Microgeneration Research Manager Jennifer.arran@delta-ee.com, 0131 6251009
Lindsay Sugden, Heat Pump Research Manager lindsay.sugden@delta-ee.com +44 (0)131 625 1006