

What's Happened to the Renewable Heat Incentive?

THE CARBON
CATALYSTS
GROUP

September
2010

'Last year, the latest Public Sector Net Borrowing forecast was the largest in Britain's peacetime history... According to the IMF, the UK has the highest budget deficit in the G7 and G20, and its latest forecasts project that public sector debt will double between 2007 and 2015, to around 90% of GDP'

This was George Osborne's preamble to his announcement of the savage cuts to come from the Comprehensive Spending Review (CSR). All, not merely new, expenditure is to be critically assessed. It must be "essential", provide "substantial economic value", "target those in most need", and be cost-effective to have any chance of coming from government funds.

How, in all this, does the Renewable Heat Incentive (RHI) fare?

Although the RHI was due to come into effect next April, there is no sign of any decision by government and everyone is asking whether the RHI will actually happen.

The reason it didn't happen earlier is the Energy Act 2008 and DECC's failure (yet again) to do its homework.

The Act provided for two new small-scale renewable-generation tariffs - the feed-in tariff for electricity (the FIT) and the RHI for heat. These new tariffs were to be funded differently. The FIT was to be funded by the big electricity suppliers- and the RHI was to be funded *either* by the fossil-fuel generators or out of general taxation.

After the Act came into effect, the fossil-fuel generators persuaded government that getting them to pay was not an option - probably because these generators are also the big suppliers so already paying under the FIT.

The government also decided to reconsider funding the RHI from taxation.

We have a new government and a tough CSR. Will the RHI make it?

Before we get to that question it's worth noting that each government department will appear before the Star

Chamber to defend its spending - *all* its spending - against a list of objectives. Once that department completes its defence, it will join the Star Chamber to put other departments under the same scrutiny. New spending will be hard to get through this process.

Any minister with new spending in view would do well to try and place the government in the position in which what he wants seems to be the very thing that government has committed itself to and from which it cannot resile.

That is exactly what Huhne has been doing, with a little help from his friends.

- Before the Select Committee last week he declared that, though subject to the CSR, he saw "heat as essential to meeting the 15 per cent [renewables] targets by 2020".

- A recent addendum to the RHI page on the DECC website reads: "This Government is fully committed to taking action on renewable heat; this is a crucial part of ensuring we meet our renewables targets ... The Government ... will set out detailed proposals ... through the Spending Review."

- The new annual report by the Climate Change Committee asserts: "A significant increase in the share of renewable heat from current very low levels (around 1.6% in 2009) is necessary to meet future carbon budgets." It adds that a financial mechanism is needed to ensure this happens.

- David Cameron, proclaimed the intention for his administration to be "the greenest government ever".

All these stated aims, intentions, desire should be put against the background of the 2010 Budget - it mentioned many features of climate change policies and did so in some detail, but the RHI got no mention.

What this all tells us, I think, is that there will probably be an RHI in some form or another but that its funding mechanism is not yet known and so the tariff levels we think we know are not certain.