



House of Commons
Energy and Climate Change
Committee

**Renewable Heat
Incentive**

Volume II

Additional written evidence

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The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

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Powers

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Publication

Committee reports are published on the Committee's website at www.parliament.uk/ecc and by The Stationary Office by Order of the House. Evidence relating to this report is published on the Committee's website at www.parliament.uk/ecc

Committee staff

The current staff of the Committee are Farrah Bhatti (Clerk), Vinay Talwar (Second Clerk), Tom Leveridge (Committee Specialist), Marion Ferrat (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer (Committee Support Assistant) and Nick Davies (Media Officer).

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Written evidence

Written evidence submitted by Charles Hobson (RHI01)

This document is to support the case for some form of rhi for woodburning stoves. It is in the form of a “case study” based on my own circumstances.

Clearview woodburning stove 8kw output.

Usage: six months of the year, average 6 hours per day.

Heat generated: $182 \times 6 \times 8 = 8736$ kwh pa.

I am led to believe that a large domestic PV solar panel array will generate approximately 3,000 kwh pa.

In this case, the woodburning stove generates more than twice as much renewable energy.

While I understand the difficulties of monitoring the amount of heat energy generated, it is of such significance that in my opinion DECC should develop a RHI scheme to encourage this form of domestic heating.

February 2013

Written evidence submitted by Vicky Moller, Cilgwyn Community Group (RHI02)

I ran an RHPP communities scheme.

Over 40 members of the community wanted renewable heat under the scheme, about half will go ahead within the time and other constraints of the scheme.

I think having our community group to run the scheme ensured:

Only those who could benefit applied (weeding out those whose finances or lifestyle did not justify or for whom other solutions were obviously preferable).

Householders received the advice they needed.

They were hand held through the application which would have deterred about half of them.

Installers could be vetted for all the required qualities, not just MCS eg hard sell or cautious sensitive sell, long term around or possibly short term, good track record or problematic one. Also price comparisons as some households still do not do this and think twice the normal price is OK, ie get fooled.

It is also a pleasure and gives households a sense of community, being supported and supporting others.

Maybe I would say this but I can provide all the households as referees to confirm the value of working with a knowledgeable responsible local community organisation.

RHI is more complex than renewable electricity, involves more infrastructure investment and/or lifestyle adaptations, and there are major questions around house choice, occupancy choices, efficiency investment that come first.

Although the qualified green dealers are meant to fill this role they have limited role because a) they cost b) they are not one of the community therefore aliens! c) they are more technically than humanly trained and less likely to suggest eg getting a tenant, and if they did it would not go down well as it is not peer to peer advice.

Lack of heat and the cost of fuel is a real health, happiness and solvency problem for an increasing number. Support is needed, and a determination that there is an affordable solution for everyone even it means a radical or creative approach.

February 2013

Written evidence submitted by Robert Kyriakides, Genersys Plc (RHI03)

I write this in my capacity as Chief Executive of Genersys plc, a major supplier of thermal solar panels in the United Kingdom. Genersys is about 75% owned by UK shareholders who have invested £1.2 million and 25% by a German shareholder who has invested €500,000.

The consultation exercise for the RHI by Mr Yeo does no more than re-arrange the deckchairs on the Titanic, as far as the solar water heating industry is concerned. The solar water heating industry has been decimated by the on-going delays in implementing the RHI, which delays have been on-going since July 2009 and the government’s decision to subsidise photovoltaic panels at ridiculously high levels.

In 2008 Genersys was a healthy business turning over around £2.5 million in solar water heating equipment, employing nine people with a market share in the sale of thermal solar panels of about 25%. It served more than two hundred customers, mainly small plumbing installation businesses, most of which it trained in our

products. By 2012 the turnover had shrunk to £750,000 and the number of its employees had shrunk to just two with a market share of about 65% of a much smaller market. During the period from 2008 until 2012 our export sales had risen from about £50,000 to about £200,000, so the decline in business attributable to the UK market is far worse than the figures we have presented. If we take into accounts sales in Scotland (which operate under different conditions from those in England and Wales) the decline is even greater.

We are now faced with having to close the business at a loss of £1.8 million to shareholders and about £50,000 to creditors.

The repeated delays in implementing the RHI awhile subsidising PV have caused a complete loss of confidence amongst our German shareholder who has invested substantially in the business and amongst our bank, the state owned NatWest. Our German shareholder not unnaturally refused to believe that the RHI was more than a political gimmick as far as solar water heating is concerned. Despite having substantial security the bank refused to allow any overdraft facility for the business to tide it over until the domestic RHI has been implemented. The delays in implementing the RHI have made it impossible for Genersys to attract investment. I rather suspect this will be the case with such other businesses that are left in the market.

The government policy has virtually closed down the UK's domestic solar water heating business. Thousands of people have had to close their businesses or lost employment. It is a sorry state of affairs.

I rather suspect that as far as the questions that you ask about the RHI (and I answer only in relation to solar water heating) my answers will prove of no value as the market will take a substantial period of time to recover from the blows that the government has dealt it.

- Degression: probably makes no difference.
- A phased roll-out approach will be regarded by investors as simply another means of delaying the full implementation of the RHI which was promised for July 2009. This will be very damaging.
- Off-grid households living in fuel poverty would be best helped by having the incentive paid up front instead of being spread over seven years; this would then enable the households to afford financing the balance from other sources that might be available.
- The application process for domestic RHI has been politically publicised but no one outside Westminster believes that the incentives are real or will be given because the government has not explained how much these incentives will amount to. This is being kept a secret.
- There is no need to involve charities, consumer groups, community organisations, local authorities in developing and delivering the “customer journey” for RHI. These organisations are not experts and will have their own agendas. The solar thermal industry had a good record for honest practices.
- I cannot comment on how the proposals for domestic will interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO) until we know what the proposals actually are.
- The existing laws about consumer protection are perfectly adequate.
- I am unconcerned about the gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer because the RHPP never made any significant sales possible.
- What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?
- What lessons can be learned from the implementation of the non-domestic RHI scheme? None; our sales experience in 2012 was that few of our customers were interested in the non-domestic RHI scheme, as sales for non-domestic customers rarely included heat meters.

Ultimately, the answers to your consultation questions are not important and re-arranging the deckchairs on the Titanic does not stop the ship from sinking. I hope that you will not consider this communication as discourteous; it is a true account of how the politicians have by their decisions and broken promises killed important, profitable and innovative businesses and ended employment in the solar thermal water heating industry.

If renewable heat and solar water heating is a sleeping giant, then it is a giant that is now being put to sleep by government policies. Forgive me if I do not congratulate you for that.

Finally may I comment that it is typical of the government not knowing what it is doing in relation to the RHI that the website <http://www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/inquiries/parliament-2010/renewable-heat-incentive/> through which this consultation is launched shows under the heading “Commons Select Committee Renewable Heat Incentive” an array of electricity producing photovoltaic panels.

Written evidence submitted by Heating and Hotwater Industry Council (RHI05)

INTRODUCTION

The Heating and Hotwater Industry Council (HHIC) welcomes the opportunity to respond to the Energy and Climate Change Select Committee's inquiry into the Renewable Heat Incentive (RHI). HHIC is the representative body for the UK domestic heating and hot water industry, worth £3–4 billion. 93–95% of heating and hot water solutions in the UK are covered by HHIC's membership.

We would be happy to discuss any of the issues raised in this response and in the inquiry with the Select Committee.

EXECUTIVE SUMMARY

HHIC fully supports the use of incentives to stimulate the deployment of renewable heat. The introduction of the proposed Renewable Heat Incentive (RHI) scheme for the domestic sector will be an essential step in overcoming consumer inertia to the use of new technologies and to help prepare the market for the more extensive use of these products in the future.

Industry has been eagerly waiting for the RHI for a number of years and so they are very keen to see a timely, national introduction. Any further delays or decisions to limit the RHI to a pilot would be seen as a vote of no confidence for the renewables sector and could seriously damage future investment, jobs and skills development.

The RHI is often compared with the Feed in Tariff but in reality there are different factors to be considered when choosing renewable heating. The risks involved with Solar PV are largely financial whilst a heating system replacement has the added risk that if the technology does not work properly then basic comfort needs will not be met. It will therefore be much more difficult to persuade householders to switch to a renewable heating system even if the RHI helps to make a good financial case. Homeowners depend on the trusted advice of heating engineers, so it is imperative that this group is fully engaged and empowered to deliver uptake in the deployment of renewable heating.

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 A transparent degression mechanism will provide a degree of certainty for both investors and households.

1.2 However this information should be made publicly available as early as possible so consumers, investors and installers are aware of potential rate degression.

1.3 To help alleviate concerns an Enhanced Preliminary Accreditation (EPA) should be implemented for domestic RHI.

1.4 This is because there are different lead times for different technologies.

1.5 It is not uncommon for installations to take four to six months from planning to commissioning. In this time the tariff may have degressed.

1.6 Therefore to provide consumer confidence and to ensure the tariff advertised at the point of sale remains, EPA should be implemented.

1.7 Industry has expressed serious concerns over consumer confidence in schemes with degression and EPA would be necessary to overcome this.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 HHIC strongly believes that there would be no measurable benefit in phasing or piloting the domestic RHI. The RHPP and previous schemes have already piloted the deployment of domestic renewable heat and the commercial RHI has piloted the use of a tariff.

2.2 Through these schemes DECC should have sufficient information on which to make decisions on how to run a domestic tariff scheme.

2.3 A piloted or phased approach would suggest further uncertainty about the use of renewable heating of homes and would undermine investor and consumer confidence.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 HHIC believes that the main purpose of the RHI will be to facilitate the introduction of renewable heating technologies to the UK. It will help to build supply chains and to enhance the skills of installers and provide more information about product and system performance. There is learning to be done on how best to deploy and install renewable heat technologies and the RHI will help build the volume required to enable this.

3.2 While the deployment of renewables may have an impact on fuel poverty, HHIC believes the RHI itself should not be seen as a way of dealing with this problem. Fuel poverty is better dealt with through other schemes such as the affordable warmth element of the Energy Company Obligation and the Green Deal.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 As the scheme is still going through the consultation process it is too early to directly assess the application process and the publicity.

4.2 From the detail provided in the consultation, HHIC does believe that the process can be relatively straightforward. However a large majority of companies in the heating industry have expressed concerns that the requirement to have a Green Deal assessment in order to qualify for the RHI could be a serious barrier to uptake. As the required energy efficiency measures are likely to be simple insulation measures, HHIC would recommend that the installation engineer carry out any required assessment and recommendations. This will increase the simplicity and reduce the upfront costs to the consumer.

4.3 HHIC would expect DECC to inform stakeholders of any promotional campaign to advertise the RHI, especially as there will be a considerable number of legacy applicants that will need to be made aware of their ability to claim RHI tariff payments.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 DECC should consider all stakeholders in developing their customer journey. It is particularly important that they consult with the industry supply chain including both installation engineers and product manufacturers as they have direct contact with consumers.

5.2 The RHI is often compared with the Feed in Tariff but in reality there are different factors to be considered when considering renewable heating. The risks involved with PV are largely financial while a heating system replacement has the added risk that if the technology does not work properly then basic comfort needs will not be met. It will therefore be much more difficult to persuade householders to switch to a renewable system even if the RHI helps to make a good financial case. Homeowners depend on the trusted advice of heating engineers, so it is imperative that this group is fully engaged and empowered to deliver uptake in the deployment of renewable heating.

5.3 The risk of the heating system not delivering a warm home or hot water will also mean that renewables, even with the RHI, will be difficult to sell and it is unlikely that there will be a rush for funding.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 HHIC believes that beyond the current requirements to have a Green Deal assessment there will be limited interaction with the Green Deal and the ECO. However consumers must be made aware of the schemes available to them when purchasing energy efficient and renewable products.

6.2 There may be uptake of the Green Deal by RHI customers as a well-insulated property is a key requirement of most renewable technologies. This may also help with solid wall insulation uptake through the ECO.

6.3 However HHIC would advise DECC not to try and use the RHI as a way of increasing Green Deal uptake, this should be a natural decision based on need. An artificial push would create a degree of resistance and could in certain circumstances add unnecessary cost. This would reduce uptake of the RHI.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 The heating industry is among the most well-regulated industries in the UK. In order to qualify for the RHI an installer must be MCS approved. This certifies an installation company's quality and complaints procedure. It also requires them to sign up to the REAL code which is designed to protect consumers from the miss-selling of renewable technologies. Any additional protection would not be proportionally beneficial.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 If there is a considerable gap between the end of the RHPP and the RHI then this will naturally have a very detrimental effect on the industry, potentially halting all sales in this period.

8.2 HHIC would recommend extending the RHPP scheme until the RHI is available. It is unlikely that the existing RHPP budget will be spent by March 2013.

8.3 The market needs certainty now about the RHI including the mechanism, tariffs, qualifying criteria and timescales. In the event that funding for an extended RHPP is not possible, a clear announcement about the RHI would help overcome any difficulties created by a gap.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 The industry is ready, the supply chain is in place and the installation standards have been written and agreed.

9.2 Any delays now will arise from either a legislative perspective or the length of time required to gain the government's approval.

9.3 Any delay to this scheme will be seen as a further setback for the renewables industry and could have a serious effect on the level of future investment in the renewables industry in the UK. Investors are nervous after the changes to the FITS scheme and so will react very badly to any perceived reluctance by the government to introduce the RHI.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 The main lesson would be to get all tariffs and eligible technologies fully agreed before publicly launching them.

10.2 The other lesson is to ensure full and frank engagement with the heating industry prior to the launch. This will help to avoid the problems which had to be rectified after the launch of the non-domestic RHI. For example the error over the biomass tariff and the exclusion of air source heat pumps are the principal examples.

February 2013

Written evidence submitted by Wolseley UK (RHI06)

Wolseley UK is a subsidiary of Wolseley plc.

Wolseley plc is the world's largest specialist trade distributor of plumbing and heating products to professional contractors, and a leading supplier of building materials in North America, the UK and Continental Europe. Group revenue for the year ended 31 July 2011 was £13.6 billion and operating profit, before exceptional items and the amortisation and impairment of acquired intangibles, was £622 million. Wolseley has around 46,000 employees operating in 23 countries and is listed on the London Stock Exchange (LSE: WOS) and is in the FTSE 100 index of listed companies.

Further information on Wolseley is available on www.wolseley.co.uk

Plumb Center is a specialist supplier of domestic and commercial lightside products including central heating equipment, plumbing, drainage, bathrooms and showers.

Plumb Center is part of Wolseley UK which provides construction products and materials through a nationwide branch network, including Plumb Center, Pipe Center, Drain Center, Climate Center, Parts Center and William Wilson.

Wolseley is committed to meeting customer needs by providing the right products and services when and where they are needed, at competitive prices. Its customers are anyone who constructs and maintains buildings and range from the largest construction companies to government organisations to self-employed contractors.

Plumb Center is a major supplier of renewable heating products serving businesses large and small across the industry through a nationwide chain of 500 outlets. Plumb Center also provides access to 14 training courses on all the renewable technologies through eight strategically placed centres across Great Britain.

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 We believe that the degression mechanism is fair and will allow sufficient certainty for all participants.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

2.1 It is absolutely essential that the RHI is launched as a national scheme and in its entirety. The industry has suffered repeated disappointment and delays which has shaken confidence to the extent that tradesmen are now allowing their accreditations to lapse.

2.2 The untimely changes to the Feed-In-Tariff further eroded the confidence of both consumers and the industry. The renewables market struggles to grow in the face of these issues. The role of the installer is absolutely critical to the success of the RHI. They can both make and break the programme and a lack of suitable qualified AND convinced installers would be disastrous.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

3.1 The RHI would certainly help those off-grid to consider alternatives to oil, LPG or storage heaters, but it will not tackle the biggest issue of providing the capital to purchase the product and carry out the work.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

4.1 We do not know yet the details of the application process, however, our experience in the past shows that the more complex the scheme then the poorer the uptake.

4.2 We do not support the proposal requiring consumers to have installed energy efficiency measures before being eligible for RHI. We believe that one of the key trigger points for heating decisions will be appliance failures which will prompt a distress purchase of either a replacement or an alternative. In our experience the delay caused by the requirement would be a serious barrier to uptake.

4.3 The Green Deal assessment process requires the production of two EPCs, before and after installation, to act as proof of completion. We believe that the production of this second EPC could provide the necessary guarantee and prompt the start of the RHI subsidy whilst allowing the installation of the measure without undue delay. It may be that a maximum time period, perhaps six months, could be included to ensure that the measures are introduced within a reasonable time frame.

4.4 Although many in the industry will be aware of RHI, we are concerned that the scheme does not appear to have been publicised to consumers or installers yet. This represents a significant barrier to uptake.

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

5.1 We recognise that certain third parties—and in particular consumer groups—are trusted sources of advice for consumers looking to make improvements to their home or install energy efficiency measures.

5.2 However, when it comes to making a purchasing decision the group with most influence are without doubt the installation professionals, many of whom have long term relationships with their customers. In our experience their influence on the consumer far outweighs any other messengers. The Government should involve the installer trade and consider providing collateral to help them to promote the message.

6. *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

6.1 We support the “Green Ticks approach” requiring RHI applicants to have a Green Deal Assessment which we think is entirely appropriate and indeed, we would suggest that several of the key technologies will depend on the installation of Green Tick measures in order to work most efficiently.

6.2 Whilst RHI can be used in combination with the Green Deal it is highly unlikely that any of the current renewables will qualify for significant levels of Green Deal funding.

6.3 We believe that the integration of policies is key to the achievement of substantial improvement of UK building stock and the engagement of the supply chain.

7. *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

7.1 We believe that the existing consumer protection requirements already in place are appropriate for the scheme, and do not believe that there is need for further arrangements.

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?*

8.1 Whilst we would support continuity of funding the level of uptake for the RHPP has been so disappointing that it is unlikely to have a serious effect on uptake. However, since the budget is massively underspent there may be some consideration given to extending the RHPP scheme to the beginning of the domestic RHI scheme.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 We cannot perceive of any barriers preventing the planned launch by Summer 2013, particularly in view of the extended gestation period. We would repeat in the strongest terms that any delay would be disastrous for the industry with very serious consequences. Many companies, including a very high percentage of SMEs are struggling to survive in the face of flat markets and increasing costs.

9.2 The resulting fall out would set the industry back by years compromising the low carbon heating sector supply chain from end to end. We have already experienced circumstances where manufacturing investment has been diverted or delayed and where companies have wholly withdrawn from the market with consequential job losses.

9.3 One additional barrier for the industry is the cost of training. It would be extremely beneficial to help smaller companies with the high costs of training and accreditation through the Microgeneration Certification Scheme.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 The principle lessons from the non-domestic RHI is that metering of systems is complex and costly, plus the more complex the application system then the larger the margin for failure. Early days saw 90% of applications being returned. We cannot afford this to happen again.

February 2013

Written evidence submitted by Renewable Energy Systems (RHI07)

RES is a world leading UK based independent renewable energy project developer active in a range of technologies. These include solar, biomass, onshore and offshore wind, wave and tidal, as well as the delivery of on-site renewables. In the UK, RES offers a range of building-integrated renewable energy technologies and services for the industrial, public and commercial sectors. We are unique in our ability to deliver all the main forms of renewable energy technology (solar photovoltaic, solar thermal, biomass and wind energy) for the provision of heat and power. RES and its specialist technology partner companies, Wood Energy and Future Heating, have already delivered hundreds of commercial scale renewable heat projects.

RES in partnership with Wood Energy welcomes the opportunity to respond to the Energy and Climate Change Select Committee inquiry into the Renewable Heat Incentive (RHI). The answers to the specific Select Committee questions posed are outlined below:

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

Yes, we believe the proposed degression mechanism and triggers strike the right balance between value for money for the taxpayer and providing business and households with the certainty they need to invest in renewable heat technologies. We welcome the introduction of the degression mechanism to ensure against potential RHI overspend in the future which will provide certainty and stability to the RHI.

The proposed degression approach for managing the non-domestic RHI with automated responses to high levels of deployment is a reasonable approach. To date RHI spend has been significantly under budget, however, we welcome the introduction of the degression mechanism to ensure against potential RHI overspend in the future. Once this mechanism is in place it will provide security to the RHI budget and enable Government to truly support and publicise the RHI. We strongly welcome opportunities to promote the scheme.

There is concern currently among potential customers that the RHI is not going to be available after they have installed their system which is significantly impacting uptake. The lead times for commercial scale biomass heat projects can be lengthy due to the time required to obtain planning permission and procure the system. Additional certainty over these long lead times will increase uptake.

The introduction of clear triggers in tariff degression, will enable the tariff rates to reflect actual deployment needed to reach the 2020 renewables targets and provide stability to the scheme. Linking tariff degression to pre-set trigger levels allows degression not to occur in certain circumstances and protects against any stall in deployment. By using triggers linked to clearly defined renewables targets there will be an opportunity for the tariffs to take into account unforeseen circumstances. The inclusion of clearly defined triggers creates more investor certainty than a Government review process which may be subject to political influence.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

A geographically targeted approach would give some advantages such as awareness and understanding to the roll-out of the domestic RHI scheme. The uptake of technologies would be greater as neighbours and communities share information. Furthermore, it would provide more control for DECC over the roll-out of the scheme. However, it is likely that this approach will slow overall deployment and due to the pressing 2020 renewable energy targets we would advocate a national roll-out.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

Many forms of renewable heat have low running costs that are more stable and less prone to price shocks than fossil fuels. The RHI is a useful mechanism for compensating householders with high heating costs and therefore has the potential to move some householders out of fuel poverty.

Converse to this opinion, we have concerns with Air Source Heat Pumps (ASHPs) which can be associated with high electricity consumption on the coldest days, ASHPs have the potential to increase fuel poverty. We are concerned with the actual efficiency of ASHPs in the UK and would welcome a more stringent approach that takes into account the specific UK climate. It is our understanding that Seasonal Performance factors (SPFs) are particularly low in the maritime UK climate, as winter humidity leads to frosting of the systems.¹ ASHPs appear to work best in warm and dry climates. The assessment of domestic ASHPs under the Renewable Heat Premium Payment (RHPP) grant projects are only based on data collected from August 2011. This data sample happened to coincide with a relatively dry and warm winter according to the Met Office.² Furthermore, it is vital the scheme only supports installations that are designed, installed and used appropriately.

We support a cautious approach to the deployment of ASHPs and believe this would not be detrimental to the achievement of 2020 renewable energy targets. A cautious approach would ensure that ASHPs really deliver efficiency. It will also allow the markets for technologies in which deployment is more complex and require more time are not adversely damaged by a potential “runaway” ASHP market.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

We find the RHI application process for non-domestic projects complex and we are concerned that this will be replicated in the domestic scheme. We are particularly concerned that the link to the Green Deal will slow take-up and over-complicate the process, although we understand the reasons for this link.

Endorsement and promotion has been lacking in the non-domestic scheme to date, which has created more uncertainty over the scheme. Anecdotally people have either never heard of the RHI or believe it has been a failed mechanism with poor take up. We have potential clients who are not progressing with installations because they have no confidence or certainty in the continuation of the RHI.

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

Using a trusted third party or parties as a messenger for promoting the RHI scheme would be useful. The third party chosen needs to have sufficient knowledge of the scheme and resources to support customers otherwise they may be integral to the scheme process and unwittingly become a barrier or a hindrance. It is important that potential RHI customers have direct and fast access to expert technology installers and are not subjected to mixed messages.

6. *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

The interaction between the Green Deal and ECO occurs in various ways and is clearly defined in their respective guidance documents. These schemes will drive energy efficiency improvements and to a lesser extent will drive renewable energy.

The Green Deal will be a barrier to the RHI, which is a concern but ECO and Green Deal are also complementary to overcoming the capital hurdles related to renewable heat. We welcome a simple process that enables measures and technology applications to proceed in parallel (rather than a long process with the application of renewable heat at the very end).

7. *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

Yes, consumer protection needs much greater focus. The MCS, Ofgem intervention and Green Deal accreditation should provide sufficient consumer protection. Codes of conduct need to be enforced.

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year; what impact might this have?*

We are anticipating a period of decline in the installation of energy efficiency and renewable energy measures in the domestic sector, whilst all the new mechanisms bed in.

¹ Energy Saving Trust, Getting warmer: a field trial of heat pumps, 2012, <http://www.heatpumps.org.uk/PdfFiles/TheEnergySavingTrust-GettingWarmerAFieldTrialOfHeatPumps.pdf>

² Met Office, Temperature and rainfall historical data, <http://www.metoffice.gov.uk/climate/uk/anomalygraphs/>

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

There are several significant areas of the RHI domestic scheme which have been out to consultation but remain to be resolved, including the use of metering, the requirement for back-up fossil fuel systems and houses requiring over 45kW of heating. Whether the tariff levels are high enough to drive take up and whether different technologies need different tariff structures to match their attributes has also been questioned.

10. *What lessons can be learnt from the implementation of the non-domestic RHI scheme?*

It is imperative that the government and MPs are seen to be actively endorsing the RHI scheme. This endorsement and promotion has been lacking in the non-domestic scheme to date, which has created more uncertainty over the scheme. Government need to be seen to truly support and publicise the RHI to drive uptake, akin to the initial £2.9 million funding for the Green Deal communications campaign.

We are concerned by the disproportionate backing for ASHP technology over other technologies supported under the RHI. We believe the budget for ASHPs should be ring fenced to ensure there is no possibility to encroach on the cost control budgets for other technologies. We do not wish to see the experience of PV under FiTs in 2011 to be repeated. This will guarantee that the markets for technologies in which deployment is more complex and require more time are not adversely damaged by a potential “runaway” heat pump market. Our concern stems from the proposal to deem the support for heat pumps, thereby not putting in place any controls or verification of performance on a technology which has such a low skill threshold for deployment. Therefore, the risk of installing an inadequate system is substantial.

February 2013

Written evidence submitted by E.ON (RHI11)

INTRODUCTION

1. We agree with the principles of the domestic Renewable Heat Incentive and feel that it can contribute to achieving the UK's legally binding target to decrease carbon emissions by 80% by 2050.
2. However, we believe that the Government can achieve the decarbonisation of heat at a lower cost to the taxpayer through greater incentivisation of District Heating schemes (especially with regard to domestic retrofit).
3. Despite the natural gas component of many District Heating schemes, the ability to achieve swift decarbonisation for a large number of customers should make community scale district heating a vital component of the UK's heat strategy.

QUESTIONS

Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

4. We believe that the proposed degression mechanism will ensure value for the taxpayer and an appropriate level of certainty for households and businesses wishing to invest in renewable heat technologies. It is clear that the Department of Energy and Climate Change has learnt from previous schemes such as the FiT, ensuring that modelling is fundamentally correct and robust.

Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

5. We believe that a phased roll-out targeting off-gas grid customers in rural areas is appropriate. This approach would offer a higher value than going nation-wide, as in most cases the scheme would help customers that do not have access to natural gas change their higher carbon emitting and more expensive to run oil boilers to new renewable heat sources. Focussing the scheme on these properties that have the greatest potential for both fuel cost and carbon savings is the correct approach.

How could the RHI be used to help off-grid households living in fuel poverty?

6. The Affordable Warmth element of the Energy Company Obligation (ECO) provides support to households living in fuel poverty. Together with the Green Deal, the ECO will facilitate access to energy efficiency measures which will help to reduce bills and improve levels of comfort. The most important aspect for the RHI is to ensure that it dovetails appropriately with existing policy. It is therefore desirable for renewable heat installations to qualify for inclusion within a Green Deal Loan, while remaining within in the boundaries of the Golden Rule.

Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

7. In principle we feel that the Green Deal Assessment process may be appropriate for the domestic market, although the Government should ensure that the application process is flexible and kept under review.

8. However, for the non-domestic RHI it is essential to note that the same approach must not be adopted for District Heating schemes. Sufficient barriers already exist for those looking to develop retrofit District Heating. If developers were prevented from accessing funding to build such schemes until each connected property had undertaken a Green Deal Assessment, developers would be overly reliant on third parties (ie Green Deal assessors). We feel this would increase project risk substantially, putting at jeopardy the creation of vital low carbon infrastructure.

9. In terms of publicising the scheme, while renewable heat providers will promote their own products, there is a role for greater levels of publicity from the Government, especially in the early years of the scheme. In the interests of efficiency and given the interaction between the two policies we believe that the RHI could be promoted alongside Government communications on the Green Deal.

Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

10. We believe that involving third-party messengers in publicising RHI would increase the trustworthiness and awareness of the scheme. We feel that the best way to achieve this would be to increase awareness of the scheme within local authorities, who in turn could ensure that RHI was well publicised among community organisations and local charities.

How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

11. Interaction will occur both in terms of access to funding (customer will be required to have a Green Deal Assessment) and the ability to secure a proportion of a renewable heat investment via a Green Deal (subject to the golden rule). It is important that the Government monitor these interactions to ensure that the existing Green Deal and ECO policies do not hinder the efficient deployment of domestic renewable heat installations. It is also essential that the Green Deal and ECO support the retrofit deployment of District Heating. ECO already contains a supportive element but the Government must be careful not to undermine retrofit District Heating by requiring Green Deal Assessments to be carried out in advance of access to the non-domestic RHI.

Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

12. Due to the absence of a heat regulator, it is important that consumer protection exists to protect those connected to and reliant upon a heat distribution network. Whilst a dedicated regulator does not currently cover such networks, we would argue for the introduction of a voluntary industry-initiated district heating code of conduct. This could cover concerns such as the treatment of vulnerable customers, transparent and fair pricing, ensuring quality of supply/maintenance and robust customer complaints procedures.

13. The Combined Heat and Power Association have been developing proposals in this area that we would support.

Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

14. It is important that there is no gap in support for renewable heating technologies, including domestic heat pumps. An extended period between the end of the RHPP and the start of the RHI could be detrimental for what is an emerging market.

15. It is therefore important that the RHPP is extended until the start of the domestic RHI scheme, so as to sustain some installation momentum until summer 2013.

What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

16. The heat pumps industry has made significant investment in improving the quality and efficiency of its products, building its supply chains and developing necessary skills and installation capacity. With the right support, the industry is ready to deliver the uptake required.

17. During the consultation period Government and industry have worked together to ensure the information necessary to develop an effective scheme.

18. The delayed commencement of the domestic RHI scheme has already had an adverse effect on investment and certainty. Continued delay will be damaging for the renewables sector as a whole.

What lessons can be learned from the implementation of the non-domestic RHI scheme?

19. The non-domestic RHI scheme has been significantly under-spent. This has been caused by a failure to set the tariffs at high enough level to provide an incentive for customers. In order to ensure that tariffs are set at the correct level for the domestic RHI they must reflect actual costs that customers are likely to incur when purchasing products covered by the RHI.

February 2013

Written evidence submitted by Consumer Focus (RHI13)

EXECUTIVE SUMMARY

Consumer Focus welcomes the Renewable Heat Incentive (RHI) in principle although we want to ensure that taxpayers get value for money from the scheme while ensuring it has wide enough reach to benefit fuel poor consumers. We also stress the importance of: linking the RHI to energy efficiency, pilot and demonstration schemes, consumers' access to impartial information, and simple and effective consumer protection and redress.

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 Consumer Focus supports this mechanism in principle, and feel it is important to apply a firm downward pressure on pricing, while providing for a flexible response if demand rapidly increases.

1.2 However, we remain concerned about how easy such a calculation mechanism will be for consumers to understand, and whether it will provide certainty required in relation to the validity of any quotes they receive.

1.3 We think a longer period of notification for rate reductions would help ease consumers considering installations, and would support an even longer rate of planned reductions than currently outlined. We think quarterly would give enough scope for this, as well as guard against overspend of the policy. However, if there was an introduction of an enhanced preliminary accreditation (EPA), this could give greater scope and certainty to consumers.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 We anticipate that the take up of the RHI will be gradual to start with, and initial consumer reluctance act as a natural buffer for any initial adjustments that might need to take place in regards to tariffs.

2.2 We feel that the Renewable Heat Premium Payment (RHPP) scheme results should already give a good indicator of issues around take up, as well as the indicative costs involved and efficiencies achieved by heating systems installed. We suggest that an evaluation of the RHPP should be carried out and published to inform the main scheme. Much of the industry already has nationwide delivery capacity which has developed over a number of years in preparation for full implementation of the RHI. However, we suggest that DECC undertake an initial review after the first six months, to evaluate participation, as well as value for money.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 We feel that the RHI will have a limited appeal to those in fuel poverty due to the high up-front costs. We would therefore like to see more direct help from Government for those households. Ideally current policies aimed at the fuel poor, such as the Energy Company Obligation (ECO), should complement the RHI to help deliver affordable renewable heat for this consumer group. However, it seems unlikely that Affordable Warmth ECO (the fuel poverty component of ECO) will support the installation of renewable heating measures due to their high upfront cost. DECC should clarify how RHI can interact with Green Deal and ECO and consider further steps to enable ECO to promote affordable renewable heat.

3.2 Ensuring social housing is an active participant in the scheme will also help the RHI scheme have a wider socio-economic reach, as well as benefit more homes living in fuel poverty as shown by research published by Consumer Focus Scotland.³ We would welcome a tariff aimed at social landlords, as well as a plan to introduce a future community aspect to the RHI.

3.3 The Department for Communities and Local Government (CLG) also has an important role to play in encouraging social landlords to install renewable heating and by promoting best practice.

³ <http://www.consumerfocus.org.uk/scotland/publications/21st-century-heating-in-rural-homes>

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 According to our 2011 research,⁴ the largest cause of consumer confusion and dissatisfaction with Feed-in Tariffs (FiTs) was that payments were made from the registration date, rather than installation date. We therefore consider that the RHI should be payable from the date the installation is completed, rather than the date the registration is completed to avoid similar problems. We support the approach to only allow payment of the RHI once installation of energy efficiency measures is completed, but this must be clearly communicated to consumers.

4.2 While industry should be the first point of contact for consumer queries or concerns, Government also has a number of roles, in cooperation with industry and other stakeholders, including ensuring that relevant advice is available and accessible for consumers; even if not actually producing that advice. Consumer Focus advocates an integrated approach to consumer information provision and we recommend that impartial information on renewable heat should be provided alongside information on energy efficiency by the Energy Saving Advice Service (ESAS, run by the Energy Saving Trust). Our 2011 research showed that for consumers installing FiTs technologies, at each stage of the consumer journey the Energy Saving Trust was the most trusted source of advice.

4.3 The RHI should learn from the experience of FiTs, where we consider that the information available has not always been sufficient and consumers have not always known where to go for it. The extent to which the information sources used answered consumers' questions varied significantly between various topics. We have some concern that there has been a lack of easy to find and accessible consumer information on the existing renewable heat support policies which may have affected take-up.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 We envisage that local participation and promotion will be key. With the need for the RHI to be demonstrated, best practice in Scotland has seen "showhomes" be used, and that local organisations, such as housing associations, local authorities, fuel poverty groups and local charities are well informed and confident in the end product.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 We welcome the potential for consumers to use Green Deal finance to reduce the upfront cost of renewable heat installations. However, the Green Deal will only be applicable for a small proportion of consumers: those who are happy to take on this form of debt; have a sufficient credit status; cannot afford the full upfront cost of measures; and do not have access to cheaper forms of finance.

6.2 An integrated approach for energy efficiency measures and the RHI is welcome to minimise hassle and we expect the market to develop integrated solutions, for instance to avoid the consumer having to have multiple assessments of their property. However, particular care is required where Green Deal finance is used.

6.3 The Green Deal consumer journey is already particularly complex. While an integrated approach is important to minimise hassle and maximise consumer engagement and uptake, it must also ensure there are appropriate breaks in the process, for instance cooling-off periods, to allow consumers to shop around and reduce the potential for mis-selling.

6.4 With the Green Deal consumer journey as currently designed, consumer groups have raised concerns about the mismatch between the cooling-off periods for measures and finance, and the potential lack of appropriate breaks in the process for shopping around more generally. A consumer journey that includes RHI and Green Deal finance will be long and more complex. Care must be taken to ensure consumer choice is not limited at any stage in the journey.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 Better enforcement of mis-selling is required through the Microgeneration Certification Scheme (MCS, the industry industry-led quality assurance scheme) in co-ordination with other bodies, particularly Trading Standards. There needs to be improved communication to consumers of their rights and the REAL (Renewable Energy Assurance Limited) consumer checklist from Ofgem, DECC and EST, as well as accessible impartial information on the wider aspects of renewable heating (for instance, on expected rates of return and carbon emissions).

7.2 There should also be monitoring of consumer awareness and understanding of their rights and the responsibilities of other organisations in the consumer journey.

⁴ Keeping FiT <http://bit.ly/SbFY4N>

7.3 Consumer Focus wants a much clearer entry point to the complaints and dispute resolution process than is currently available under FiTs. REAL Assurance and MCS offer the service required of them, but it is very difficult to communicate in concise terms to the media and public what these services are, and when the consumer should contact them. Consumer Focus has advocated for a single assurance brand for renewables.

7.4 We want a simple consumer-friendly entry point, with clearly signposted single point of contact when the installer lets you down. For example, the new ESAS must be able to signpost consumers through the complaints process, and ideally provide in-call referrals where the consumer has not been able to come to a mutually agreeable outcome with the installer after eight weeks from the complaint being lodged.

7.5 A key potential cause of consumer complaint with heating systems is under-performance. It is unclear what happens in terms of redress, for example, if a system runs at seasonal performance factor (SPF, a rating of system performance) of 2 when it was sold as 2.7. This could be caused by a faulty system, in which case it is the installer's responsibility, it could also be an issue with the consumer not using their controls effectively. DECC needs to make it clear how disputed complaints in this area will be handled.

7.6 Government should enable monitoring of consumers' experience by seeking permission from RHI applicants to be contacted for research purposes. This was not done with FiTs which has increased the difficulty and cost of monitoring consumer experience with the scheme.

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year; what impact might this have?*

8.1 No answer.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 No answer.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 No answer.

February 2013

Written evidence submitted by John Pennell (RHI14)

1. I am a Parish Councillor of a small village in Norfolk, a trustee of the Norfolk Playing Fields Association and a member of our Neighbourhood Board as well as an executive committee member of The Norfolk Association of Local Councils which represents the 500 or so parish councils in Norfolk and I have, over the past few years, run a number of events concentrating on renewable energy for all of these organisations. The generic title for these events is "Saving Money by Going Green". As such I have developed a detailed understanding of how most of these technologies work—and perform—when installed. I have no affiliations to any company that manufactures or installs such products/technologies. I have become increasingly aware of the difficulties in the journey from thinking "I might do this to actually implementing it".

2. I have become increasingly aware of the difficulty most people face with the installation of these technologies from the first thought "that looks interesting" to actually doing it because the whole process is difficult for the inexperienced.

3. I believe the "biggest bang for our bucks" is by installing Air-to-Water systems to replace electric heating in off-gas rural areas and that if there is a phased introduction this should be the first phase. Next comes Air-to-Water systems to replace oil heating in rural areas.

4. Summary of views:

- RHI primary purpose is to reduce carbon emitted by UK concomitantly:
 - reducing imports of fuel; and
 - putting money back into a local economy,
- and possibly:
 - reducing loads on generating capacity; and
 - helping to reduce fuel poverty—particularly as the poorer amongst us use expensive electric fires when they have the cash to run them.
- There are secondary objectives of the RHI one of which is to help develop the relevant technologies.

5. To achieve the maximum reduction in carbon emissions the money should be targeted at or concentrated on the most efficient technology while still allowing the development of other technologies.

6. The most cost effective supported technology is the Air-to-Water heat pump (but actually the excluded air-to-air heat pump is even more effective).

7. The development of other technologies might be better supported through the commercial RHI.

8. Quick wins could be in:

- rural areas—external temperatures are lower in winter here by as much as 2 or more degrees;
- off gas areas;
- where electricity is the primary or secondary heating fuel; and
- “easy to install” properties.

9. Fuel poverty—a massive problem country wide but acute in some rural areas (detached houses, lower winter temperatures) could be targeted in the rural areas via the District and Parish Council tier of local government.

- Easiest way is to allow these local authorities to borrow money from the PWLB for this specific purpose (at, say under 3%) for the purchase of Air-to-Water systems and effect repayment via the RHI which they could partially share with the home owner/tenant): a sort of Super Green Deal.

10. The take up for air-to-air heating would be greatly enhanced by:

- Giving it the same exemption as that allowed for Air-to-Water systems.
- Grant aiding its installation (typically an installation big enough (4 KW) to heat the main living rooms of a house costs about £1,000 and can save $\frac{3}{4}$ of the electricity used—and $\frac{3}{4}$ of carbon emitted.

11. The four technologies supported are:

- **Biomass:** expensive to install and really only suitable for use in large buildings—is there enough fuel out there? Said to burn fuel at 35% moisture (which seems an awful waste of fuel just boiling the water off) but there are only limited amounts of this fuel available nationally and it is better reserved for the commercial sector.
- **GSHP:** expensive to install—often used for under floor heating which can mean a lot of wasted heat as this is not responsive to instant demand. Costs about 3.5 pence per KWhr output and reduces carbon output to about 0.038 Kg per KWhr. Doesn't need backup system. If widely installed in rural areas as oil replacement could increase demand on power lines. Cheaper to run than air-to-water particularly in very severe weather.
- **ASHP:** a very good technology—only bettered by air-to-air. Comparatively cheap to install as it is almost a “drop in” replacement for any kind of central heating boiler and responds quickly. 11 Kw unit can be installed these days for less than £5,000. Costs about 3.5 pence per KWhr output and reduces carbon output to about 0.038 Kg per KWhr. 11 KW unit can produce up to 40,000 KWhr per year. This saves approximately 3,000 Kg of carbon and about £2,700 on electricity charges. If widely installed in rural areas as oil replacement could increase demand on power lines but the reverse is true for electricity replacement.
- **Solar Thermal:** expensive to install and doubtful whether the capital cost will ever repay the investment—even with the proposed RHI payments. Only provides hot water. Doesn't do a lot to reduce winter load on electricity supplies. Needs a backup system for when sun doesn't shine. Essentially replaces immersion heaters or gas heaters which cost about 6p per KWhr to run. For £3,000 you generate about 1,000 KWhr per year worth £60 (night rate) in saved electricity costs and 113 kg of carbon.

12. Most of our villages are “off gas” in Norfolk. Therefore the most common way of heating houses is by oil or night storage heaters—with a little bit of bottled gas use where people can afford it. Summarising these:

- **Gas** from a tank—comparatively expensive say nearly 10 pence and 0.068 Kgs Carbon per KWh but works on demand.
- **Oil**—quite expensive 0.059 pence and 0.074 Kg of Carbon per KWh but works “on demand”.
- **Night rate electricity:** Comparatively expensive £0.06 and 0.113 Kg of Carbon per KWh and does not work on demand and much heat is “wasted” by being used at the wrong time.
- **Day rate electricity:** very expensive £0.12 and 0.113 Kg of Carbon per KWh but very responsive:
 - For comparison the price for gas is 3.68 pence per KWhr.

13. To answer specific questions:

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

Yes—the technology costs are reducing anyway and once there are sufficient systems installed word will spread of their efficacy.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

Yes: see above.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

See above and also allow Housing Associations to borrow from PWLB for these works.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

No and No: the whole process is complicated. My experience is that there are very few people who even know what they are paying for electricity—more understand oil prices. The only way to simplify the process is via the trusted messenger—see below. Only a few have actually seen the publicity

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

Yes—I rural areas please include parish councils.

6. *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

The Green Deal is not popular—the money is very expensive—and seen to be expensive by consumers. I have not been able to persuade even one person to take this up—and I certainly wouldn't advise them to and I certainly won't.

The Energy Company Obligation could be used to provide a new lower tariff for householders who have installed heat pumps.

7. *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

Yes: In the same way as there is a standard for pension providers to give information in a standard way.

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year; what impact might this have?*

The gap in support will obviously occur and the longer the delay in the start of the domestic RHI scheme the worse it becomes. “First movers” who have taken up the RHPP grants were shocked to hear that it will be clawed back later and as such.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

The same as have dogged this project from the start: confusion, worry about overspend and uncertain of duration of tariffs. Even the Which web site says (today) “After joining the RHI scheme, homes will receive a quarterly tariff payment for every kilowatt hour (kWh) of renewable heat they produce and payable for 20 years.” Trying to achieve “perfection” which is always the enemy of the good. The regression mechanism can cope with over pricing the tariffs but cannot cope with under pricing.

The sector is already suffering; cannot scale up and prices are still unnecessarily high.

10. *What lessons can learned from the implementation of the non-domestic RHI scheme?*

None—because the putative scheme is so different for the domestic RHI.

Sources: OVO for energy prices and <http://www.decc.gov.uk/en/content/cms/statistics/source/prices/prices.aspx> for details of kWh per fuel type etc.

February 2013

Written evidence submitted by Carillion (RHI15)

Carillion welcomes the opportunity to respond to the Energy and Climate Change Committee Inquiry into the Renewable Heat Incentive. In order to put our comments into context, it may be helpful to outline briefly our role in the provision of energy services across the UK and Ireland.

Carillion is one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. The Group has annual revenue of over £5 billion, employs around 46,000 people and operates across the UK, in the Middle East, Canada and the Caribbean.

Carillion Services, a division of the group, is a leading facilities management and energy services provider and one of the largest installers of renewable technologies and domestic heating services in the UK. We currently operate within the private domestic, social and commercial market sectors offering a wide range of energy efficient renewable technologies and domestic heating services to our customers. We have the ability to source responsive funding solutions, design and implement a customer centric offering and deliver the installation of required measures with the support of an established supply chain network.

We are a pioneering Green Deal and ECO provider, working in partnership with Birmingham City Council to deliver the flagship Birmingham Energy Savers programme, which aims to retrofit 60,000 homes and public buildings in the City by 2015, lifting up to 40,000 out of fuel poverty.

For more information on Carillion's work, please visit <http://www.carillionplc.com/our-markets/energy.aspx>

RESPONSES TO INDIVIDUAL QUESTIONS

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1. Carillion is broadly supportive of the proposed degression mechanism, however, it is important that tariff reductions are communicated with as much notice as possible to allow industry sufficient time to plan and adapt and to maintain investor confidence. We would also support a flexible approach to degression, for example if an individual technology exceeds deployment triggers but overall deployment is within budget the specific technology should not be penalised.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

2. Carillion does not believe that a pilot phase is necessary for the RHI as Government has previously signalled its intentions for a universal RHI. Furthermore industry is already familiar with the programme as a result of the RHPP and non-domestic RHI. Any further delay to establishing a comprehensive scheme would be unwelcome and would undermine confidence in Government's commitment to the scheme.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

3. Carillion believes that the RHI could have some positive effect on reducing fuel poverty for off-grid households, particularly when combined with Green Deal and ECO funding. We support the proposals for the Affordable Warmth element of ECO to work alongside the RHI, provided the measure fulfils additionality criteria—ie it would not have been installed without ECO subsidy.

4. Dependent on the eventual nature of the proposal for social landlords to access the RHI, there may be potential for them to utilise the programme to tackle fuel poverty in their off-grid housing stock, provided the tariffs enable the development of financially attractive schemes.

5. However, generally we concur with Consumer Focus' view⁵ that the impact of RHI on fuel poverty may be limited, given that there remain high capital costs associated with installing eligible technologies, which could pose a significant barrier to uptake among fuel poor households.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

6. Though it is too early to comment fully on the proposed application process, our understanding is that the process should be reasonably straightforward based on the consultation proposals.

7. Despite this however, the scheme remains relatively unknown by the majority of consumers and additional publicity will be needed in the build up to the launch to ensure consumers not only know how to apply for the scheme, but that they have confidence in and understanding of the eligible technologies, since installation could otherwise be perceived as too much of a risk.

8. We do have some concerns regarding the requirement for applicants to provide proof to Ofgem that green tick measures have been installed prior to installation, since this could cause delays. RHI eligible appliances will be competing with existing fossil fuel appliances and anything that makes installing RHI technologies

⁵ Consumer Focus response to the DECC consultation on the domestic RHI, 2012.

more hassle could tip the consumer's decision in favour of a replacement fossil fuel appliance. We would therefore welcome a grace period post-installation for consumers to submit proof to Ofgem.

9. It is also important to consider the treatment of legacy applicants to the scheme and we look forward to DECC's response regarding the management of these applications.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

10. We strongly support the use of trusted third-party messengers to develop and deliver the RHI customer journey.

11. We hope that central government will utilise the funding for Green Deal marketing to maximise awareness of schemes that can work in conjunction with Green Deal, such as RHI.

12. Local government also has a role to play, particularly raising awareness in rural off-grid areas, and by working with other public bodies, ALMOs, RSLs and third sector organisations. These groups are well placed to promote the scheme through developing exemplar projects, which can act as case studies to demonstrate the benefits of the scheme to the wider public. A plurality of third parties should be involved with the scheme using existing relationships to engage a broad spectrum of different consumers.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

13. As highlighted in our response to the DECC consultation, we agree with the green tick approach for homes that are unlikely to already meet the energy efficiency requirements. However, this requirement could be a barrier to applicants who are aware that their property already achieves a reasonable level of energy efficiency (for example those who already have the recommended levels of basic insulation measures installed and whose property consequently achieves a D or above EPC rating).

14. Whilst the relatively low one-off cost of a Green Deal assessment may not be enough to completely deter RHI applicants it may be seen as an unnecessary and bureaucratic process by those households who are unlikely to have any green tick measures recommended—especially if the same proof could have been provided in an existing valid EPC.

15. Generally, notwithstanding the blanket requirement for a Green Deal assessment, we believe Green Deal and RHI could work well together, provided industry develops and communicates attractive funding packages.

7. Does consumer protection need to be strengthened to combat potential mis-selling and how should this be done?

16. We are supportive of the consumer protection arrangements within the MCS, however, it is important to consider how these proposals will interact with additional consumer protections associated with Green Deal when measures are installed utilising both sources of funding.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

17. If there is likely to be a gap in support, we would recommend an extension of the RHPP scheme, subject to budget constraints. We also look forward to early announcement on the commencement of the domestic RHI in order to give consumers, industry and investors a clear understanding of timeframes allowing them to plan ahead.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

18. Carillion does not foresee any barriers preventing the scheme from being implemented except for the legislative timetable. Any further delay would be frustrating and disappointing for industry and would have a negative effect on investment in the wider microgeneration renewables industry, especially in light of previous policy changes in this arena, such as to FITs.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

19. We would urge DECC to ensure it has accurate data to determine tariffs and technologies prior to launch. Whilst we appreciate that deployment levels and product performance will evolve as the scheme progresses, we would hope to avoid the issues the non-domestic scheme has encountered regarding setting an appropriate biomass tariff and eligibility of AWHPs.

Written evidence submitted by B&ES (RHI16)

B&ES represents organisations ranging from most of the largest multi-service national companies, to single discipline specialists who deliver engineering services directly, or indirectly, to commercial and domestic customers across the UK. Combined, they have a turnover of approximately £6 billion.

Within B&ES, groups of members provide focus on key specialisms, enabling them to keep up-to-date with their work areas and giving direct access to the knowledge and expertise of fellow professionals. Their expertise helps to produce industry-accepted guidance and standards, including ductwork manufacture, installation and cleaning; refrigeration design and installation; and the specification for the maintenance of engineering systems.

As well as serving the needs of associated specialists, B&ES integrates them into a single entity that recognises and supports much of the inter-dependence necessary to deliver comprehensive engineering systems within buildings and elsewhere.

All members understand the wider engineering community and its needs and operate to the same criteria and codes.

With this background B&ES welcomes the opportunity to give its members' views on the technical consultation on the Renewable Heat Incentive. Input has been invited from all our members, but in particular from those members participating in our Emerging Technologies Group.

1.0 Question 1: *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 B&ES supports the process described and hopes that it will prevent the operational and communication disasters surrounding the FITs.

1.2 However, the B&ES believes that it is important that any finance mechanism supports and encourages the adoption of cost effective and energy efficient technologies that rewards system efficiencies over the lifetime of the equipment. Careful management and targeting of funds is required to ensure that inappropriate and inefficient technologies are not adopted which consequently wastes taxpayer's money and discourages take up through poor performance of equipment in the long term.

2.0 Question 2: *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

2.1 The B&ES believes that there is no advantage in a phased approach to the scheme as this could lead to confusion, a lack of take up and a delay in the economic benefits to installers.

3.0 Question 3: *How could the RHI be used to help off-grid Households living in fuel poverty?*

4.0 Question 4: *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

4.1 B&ES considers that for RHI in general, and for the domestic scheme in particular, successful implementation and universal adoption depends on the scheme being simple and easily understood.

4.2 The straightforwardness of the application process will depend on:

- (A) The adoption of the recommendations made by the B&ES in its response to the RHI consultation regarding issues such as legacy applications, meter ready installations and the penalty structure for non compliance and, annual consumer declarations.etc
- (B) The provision by Government of a comprehensive consumer awareness campaign to:
 - ensure correct installation of RHI technologies;
 - ensure that the most cost effective and energy efficient options are chosen by the consumer for their property; and
 - ensure that the correct operational requirements of equipment are effectively communicated to the consumer.

4.3 The B&ES believes that lessons should be learned from the recent launch of the Green Deal where the lack of an awareness campaign could be a reason for poor take up of the initiative.

5.0 Question 5: *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

5.1 Local authorities have a significant role to play in the dissemination of information within private sector housing and the commercial sector. They are also crucial to the development of the Green Deal. The Green Deal should be used to encourage take up of the RHI.

6.0 Question 6: *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

6.1 Renewables remain a small contributor to our national power generation and an even smaller part of our heat generation. To really make progress we must shift our focus from generating capacity to reducing demand. That way renewables will be asked to plug a much smaller energy gap.

6.2 By making sure buildings do not require so much power and by generating more of what we need at a local and individual building level, we can both reduce energy costs for end users and speed up the replacement of carbon intensive power generation.

6.3 This presents a series of new challenges that requires a multi-skilled workforce to solve. But if we are going to use carbon saving technologies and if building owners and operators are going to get a good return on their investment, then we must focus on the whole process of “integration”. Partial and stand-alone adoption of products will not work and will not deliver.

6.4 Integration is the process that allows us to make the technology part of the overall design solution rather than just an add-on, but integrated projects are still the exception rather than the rule. We hope that the focus on RHI (and Green Deal) will start to bring about improvement because pressure to deliver better value for money is increasing and this will engender behavioural change in installers and clients.

6.5 Installing renewable technologies is not particularly challenging technically for competent engineers, but to deliver a truly successful installation the project team needs a wide range of practical skills plus a deeper understanding of how the systems interact with buildings. There is not much to a solar panel, for example, and they are getting cheaper all the time, but to get the most out of them you need a broad understanding of how they should be installed and where they should be positioned for all year round effective performance.

6.6 The problem is that integration is often not considered until later in the process—it has to be part of the design. You can’t separate the decision to put in a renewable from the overall energy strategy for the building. There are countless examples of buildings up and down the country where the very best in renewable solutions are installed, but because there was no clear strategy in place they have been operating well below their optimum efficiency, which drastically increases the payback period for the client. We know the technology itself is fine, but it is how it is deployed, commissioned and operated that counts.

6.7 The Green Deal and the Renewable Heat Incentive (RHI) put this issue of performance fully in the spotlight and this scrutiny will only intensify as these funding initiatives develop. Our industry is technically capable of keeping its promises. If systems do not perform as promised then the right level of payments to end users will not be forthcoming and these flagship government policies will fail—not to mention the collapse of a fragile emerging market. .

6.8 The one thing all the technical solutions have in common is the need for robust commissioning and expert integration of technologies as part of an overall building energy saving strategy. Detailed engineering work at the mechanical and electrical level, allied to an ability to integrate different technologies and systems, is what building services firms do best and is the key to successful operation of buildings both now and far into the future.

7.0 Question 7: *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

7.1 B&ES considers that the MCS and REAL have been ineffective in policing renewable installations. There is no evidence to suggest that a further accreditation system would make any difference. In our view, consumers need to be better protected and this could be achieved by ensuring they have better information on how to procure the system and how to recognise that there is a problem before a huge energy bill is received. Currently consumer protection is provided by accreditation systems that are centred on installer processes and offers no guarantee on the installation performance. The process is seen as costly and an administrative burden by bona fide contractors, who largely ignore them. The market is therefore flooded with new entrants to the market.

7.2 The focus should therefore be on outputs, not box ticking accreditation systems that offer false reassurance about the quality of an installer.

7.3 The consumer should be able to audit the performance of the installation against that initially quoted.

7.4 An effective metering regime would allow the system to be audited. If the system does not perform as predicted the consumer would then be able to pursue redress through the legal structures already in place.

8.0 Question 8: *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?*

8.1 The system is already confused and totally under the radar as far as consumer awareness is concerned so yes this is a real danger.

9.0 Question 9: *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 Further delays in the implementation of the RHI Scheme would have a negative impact on the ability of the UK to meet its renewable energy targets, reduce carbon emissions, to ensure energy security and help to build a low carbon economy.

9.2 A delay would also prevent equipment manufacturers and installers from benefitting from the increased business opportunities which are badly needed in the depressed construction/building engineering services sector.

10. Question 10: *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 You need to let people know about the scheme if you are going to create any consumer demand.

10.2 It also suffered from delays and uncertainty and was badly tainted by the argument over FiTs.

February 2013

Written evidence submitted by ICAX Ltd (RHI17)

ICAX provides Interseasonal Heat Transfer which integrates Renewable Energy Technologies to double the performance of ground source heat pumps.

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

The proposed degression mechanism could be helpful in achieving the right balance. However, the Domestic RHI should start with tariffs that do not discriminate against Ground Source Heat Pumps.

The initial tariffs for Commercial RHI are severely unbalanced: 98.5% of the original RHI payments have gone to biomass boiler installations (see figures from Ofgem).

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

The RHI has already been grossly delayed: it is time to start the full national scheme for domestic installations without further delay. It is time to correct the tariffs for Commercial RHI so that there is encouragement for more than just biomass boilers—on which 98.5% of RHI payments have gone so far.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

GSHP systems enjoy the lowest running costs and the lowest carbon emissions: the Renewable Heat Premium Payment system could be extended to assist with the higher capital cost of GSHP installations.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

The Domestic RHI has not yet started!

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the “customer journey” for RHI and what would be the best way to do this?*

It could be useful to encourage “third party messengers”, but the priority should be to increase the Commercial RHI tariffs for GSHP to allow uptake. The Domestic RHI tariffs also need to reflect the up-front cost of GSHP installations and the expertise required to install GSHP systems.

Once correctly installed, GSHP systems have low running costs, low carbon emissions and a very long life.

6. *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

DECC needs to reduce the barriers to uptake of renewable technologies. It is correct to provide encouragement for energy saving measures such as loft insulation, but there is a danger of imposing restrictions and bureaucracy that may inhibit uptake of renewable energy technologies.

Knowledgeable owners will already know about loft insulation and whether cavity wall insulation is relevant to their houses: they will resent having to pay for information they already have as a pre-condition for investing in carbon saving technology.

7. *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

There are already a set of consumer protection measures in place. These include MCS requirements which are designed to raise the standard of renewable technology installations, both as to equipment and as to installers. These are backed up by the REAL Assurance Code which is already compulsory for all installers selling to consumers (if RHI is to be payable).

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?*

Yes, there will be a gap between the end of RHPP and the start of Domestic RHI. The key problem is *prolonging the uncertainty*. Everyone needs to know what the tariffs will be and when they will start. The RHI has been in discussion for over four years—it is time to publish the rates and to start promoting carbon saving technologies.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

The delays have been a disaster for carbon saving technologies and UK employment in carbon saving industries. Government needs to implement the RHI plans as soon as possible. The Government needs to actively promote innovation and open the scope of carbon saving technologies. If DECC defines the RHI too tightly then it will only promote yesterday's solutions AND discriminate against innovation.

For example, the Statutory Instrument says that a ground source installation is eligible for RHI “if the plant is a heat pump and ... it generates heat using naturally occurring energy stored in the form of heat from ... the ground ...” Unfortunately, DECC and Ofgem have interpreted this to mean that heat must originate in the ground, instead of just being “stored in the form of heat from the ground”. This interpretation is unsustainable—because heat does not originate in the ground—and this interpretation by DECC and Ofgem prevented accreditation of any GSHP systems that had any element of ground source cooling incorporated in it for over a year from the start of the Commercial RHI on 28 November 2011. When Ofgem eventually arrived at a “compromise solution” in December 2012 of allowing RHI for a *discounted* percentage of ground source heat generated by ground source, if ground source cooling was also employed, it effectively discriminated against use of a system which saves carbon. It also discriminates against innovation and employment in UK based carbon saving technology.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

Government ministers, and politicians of all parties, have stated that the intention of the RHI is to reduce carbon emissions, support innovation, and encourage employment in renewable energy companies in the UK. Unfortunately the non-domestic RHI scheme is failing badly on all these counts.

The lessons to be learnt are that the tariffs for the RHI must be balanced to provide incentives to support a range of carbon saving technologies. If the tariffs are not balanced then the RHI will push the market toward the technologies with the highest tariffs instead of those that save the highest amount of carbon.

DECC has adopted an approach that assumes that if a technology is more expensive to implement it needs a larger incentive. This is fundamentally wrong: if you subsidise inefficient technologies you thereby block efficient technologies and hold back progress. This is what DECC has been doing since 28 November 2011.

February 2013

Written evidence submitted by BEAMA (RHI18)

The following paper outlines the views of BEAMA members. BEAMA is a trade association representing the interests of domestic heat pump manufacturers and a broader collection of heating industry sectors eg electric heating, heat and hot water controls, underfloor heating and water treatment.

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

No response.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

We are against phasing the scheme as this does not inspire confidence in the market. Any mention of pilot or phasing acts as a barrier to market activity as installers, for example, require more certainty to invest. We would add here that we do not support any legacy payments to the new build sector which is driven by other

policy mechanisms such as building regulations and the Code for Sustainable Homes. All legacy payments must be cleared within three months and ring fenced to ensure it does not affect the degression structure.

3. How could the RHI be used to help off-grid households living in fuel poverty?

It is our belief that DECC is introducing the RHI with a single policy aim ie to grow the market for renewable heat and make a contribution to the overall renewable target. However there will be associated CO₂ and energy savings.

We have identified significant fuel bill savings in typical off grid dwellings, comparing heat pumps to oil and LPG. For example, a 3 bed semi detached dwelling with four occupants currently using a non condensing oil boiler will save over £960 per annum if replacing the boiler with an air source heat pump with a system performance (SPF) of around three. The savings are greatly reduced when replacing electric storage due to the off peak tariffs available to customer. Bear in mind also that connecting a heat pump to an existing heat system will be a lower cost than replacing a “dry” electric system with new heat and hot water distribution pipework. The additional “system” cost could be as much as £2,000–3,000 when targeting electric storage so with this extra cost burden and a savings gap of some £400 per annum we would assume fuel poverty households on oil and LPG will be early adopters. Clearly fuel poverty customers have access to seven years of income which, when combined with savings can produce significant net benefits. Despite the absence of assignment rights as seen in FiTs, we see the net benefits as an opportunity to open up the market for low interest renewable heat finance, possibly offered by existing Green Deal Providers or other leading houses against the lower risk security of a guaranteed RHI income. This will help fuel poverty households to cover the upfront costs of renewable heat technologies.

In our consultation response to DECC we made it clear that subsidising fuel payments for biomass can promote fuel poverty where payments are not passed to tenants who then in turn have to pay full price for fuel.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

We are very strong advocates of deeming renewable heat to simplify the scheme and reduce the costs and complexity of metering. However, we are opposed to imposing additional Green Deal related “entry” requirements on the RHI in the early stages. Let us remember that neither scheme has a track record on which to depend on for each other.

We agree totally in the principle of promoting energy efficient fabric but have reservations with a customer journey that may create multiple contacts for the homeowner. It is imperative that customer leads are not lost in a bureaucratic chain.

Our preference would be to enable an installer to demonstrate a competency to complete a checklist of insulation measures without a full Green Deal Assessment. The customer must have at least cavity wall and loft insulation to building regulation standard. If they do not, then a GDA is called in (or maybe the installer will be a trained assessor) and the measures undertaken. The heat pump is sized on the assumption that minimum levels of insulation are present.

From an end user perspective there has been little or no Government publicity and we did not support some of the messaging within the RHPP scheme which has continued to cast doubt over whether applicants will be eligible—without reservation—for the RHI when launched.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

Yes.

An “additional” impetus could be provided via the creation of local authority lead Renewable Heat Zones in which five year renewable heat growth plans are central to a regional growth strategy. This would provide financial and supply chain focus to develop customer packages and skills upgrades that track the market potential for an area. Such an approach can bring together third party messengers. These groups have a broader role as well through their extensive network of contacts.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

See response to question 4.

In addition to this response we do foresee some customer confusion when trying to combine the schemes, or indeed if they are not combined. On the latter point we advocate that all Green Deal assessors have sufficient RHI and technology training so that even if the EPC recommends an oil boiler replacement (condensing for non-condensing), the assessor can additionally promote the non EPC related benefits of heat pump savings and significant RHI income potential. If this is not properly managed, customers may end up buying oil boilers then finding out down the line that they could have had much higher net benefits by buying a heat pump. We can

forsee some problems when combining the schemes. For example, if a customer has a Green Deal assessment, it will provide very standardised house and occupancy data that will differ from that provided by the competent installer who will undertake a full heat loss calculation and use specific heat pump data. This performance gap may prove a turn off for customers who will question the validity of opposing data.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

BEAMA has informed DECC that there needs to be a ramping up of product standards within MCS to ensure poor performing products are not brought in to the market opportunistically. Our concern is that disreputable product manufacturers will claim performance levels that are unachievable across the UK. A product standard review exercise is ongoing to ensure this is managed properly within MCS.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

Yes, there is real danger unless the Government urgently publish eligibility criteria for the scheme prior to the closure of the RHPP. Officials and Ministers have been warned of the risks of missing this cut off date by BEAMA. A funding gap without eligibility can reduce investor confidence... not just back in the supply chain but also with customers. Heat pumps are planned expenditure as opposed to boiler failure/quick replacement, and as such we rely on the spring summer months for customer orders.

We would not expect to sell heat pumps in the private domestic sector at all if there is a gap between RHPP and RHI eligibility publication.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

Any further delays would have a very worrying impact on a sector that has already been waiting since July 2009 for certainty. At the time of launch of the RHI under the past Government, heat pumps were beginning to grow dramatically as a market. However, since that time the market has flattened out and has been sustained not by private domestic sector investment but by new build, self build and social housing schemes.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

The correct calibration of the tariff is critical to the success of RHI. Major faults in the non-domestic scheme have seen a skew towards biomass and this has had a marked impact on larger scale heat pump deployment. Industry has provided very detailed information on costs and savings to DECC both directly and through the Sweett Group and we hope that this information is used effectively to promote a tariff at the right level with extra incentives to promote higher efficiency systems.

February 2013

Written evidence submitted by BSW Timber (RHI19)

(i) BSW Timber is the UK's largest domestic sawmilling group, processing around 15% of the UK's annual timber harvest. The group has an annual turnover in excess of £175 million, directly employing over 900 people; indirect employment in timber harvesting and haulage accounts for another 2,500 jobs. The company has six mills across the UK (and one in Latvia). It has been involved in sawmilling since 1848.

(ii) BSW is currently implementing a five-year capital investment programme, worth £52 million, in modernising the mills and expanding capacity to produce more than 1.3 million m³. As such it is one of the largest buyers of timber in the UK.

(iii) Renewable heat generation is an important part of BSW's sawmilling process. BSW currently has six biomass boilers (26MWth), five of which (21MWth) have received accreditation under the non-domestic RHI. The company hopes that it will be able to enhance its contribution to the UK's renewable energy targets in the future through the installation of further biomass boilers at its sites.

(iv) BSW is unable to comment on whether or not the proposed degression mechanism will strike the right balance between ensuring value for money and investment certainty. Regardless it is important that all stakeholders (those with accreditation and those looking at future accreditation) are kept actively informed by DECC on deployment data and that this is published sufficiently in advance of formal degression announcements. This will allow stakeholders to make proper judgements about potential tariff reductions.

(v) The main lesson to be learned from the non-domestic scheme is the need to ensure adequate resources are available to deal with enquiries and applications. It took a significant amount of time for non-domestic applicants to receive decisions on accreditation which delayed investments and progress being made on

implementing renewable heat generation. These decisions need to be made more efficiently so that applicants can implement their plans sooner rather than later.

February 2013

Written evidence submitted by the Solar Trade Association (RHI20)

The Solar Trade Association is the leading voice for the solar industry in the UK, and the only trade body representing both solar thermal and PV. With over 350 members we reflect the whole solar supply chain with manufacturers, developers, distributors and installers through to consultancy firms and training bodies. Established in 1978 as a not-for-profit organisation, the STA's primary objective is to ensure the sustainable growth of the share of solar energy in the UK energy mix.

A number of our members will be directly affected by the changes proposed in this consultation and therefore we are able to give an accurate commentary on the proposals.

EXECUTIVE SUMMARY

The STA, its members and the industry have been patiently waiting for the introduction of the domestic RHI since 2010. We feel it is an imperative incentive to help kick start the industry, and with the right tariffs we believe that solar thermal could become the leading hot water heating technology over the next few decades. The supply chain is now ready to deliver the product, and we are keen to get the right level of communication to the market place. The STA is in full support of the domestic RHI and we have been working closely with DECC to secure an effective structure for the solar thermal industry.

There are a number of issues and concerns that were presented through the STA's response to the recent domestic RHI consultation, and we urge the ECC SC to reference these points during their review process. We have attached this as part of our submission. We have not provided a summary of that consultation response, as there was a limitation on the word count.

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 The key priority for the domestic RHI is to provide the right level of incentive to ensure we have sufficient uptake to support the growth in the market. By doing this, the RHI from Governments perspective will be a success as it will have delivered the mechanism by which the market switches over to renewable heat in the most cost effective way for the taxpayer. This is particularly important for the solar thermal sector as this market has been on a steady decline since 2010, with 2012 being just over 50% of the installs since the peak in 2010.

1.2 If the right level of tariff has been set, deployment should increase and it will promote financial investment in to the market and will lead to reduction in costs due to scalability and innovation. It should be noted that solar thermal is very different to the PV market and thus the scale of cost reductions will be more limited.

1.3 Degression mechanisms are seldom popular, however the current mechanism set up under the FIT scheme is proving successful, although there is a concern that despite low deployment, the forced degression every nine months is problematic.

1.4 The STA would accept a degression mechanism provided there was NO forced degression if deployment was low.

1.5 We conclude that a degression mechanism is a fair way to set the balance, but there should be a mechanism that avoids any forced degression if uptake is low, and even a mechanism to raise tariffs if there are unforeseen market events.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 Any phasing would be a problem for the market—a soft launch would not be beneficial to the industry, particularly as it has waited for nearly three years for the domestic RHI. A full scale, hard launch with solid promotion from DECC and the industry would be the best mechanism to get the end customer buying in to heating technologies under the RHI.

2.2 The STA would recommend that if there is any unforeseen delay, then there needs to be a mechanism to extend the RHPP.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 The domestic RHI was clear that it was targeting properties off the gas grid as the returns for these will be higher due to their higher current fuel costs. In order to assist households living in fuel poverty we believe

that the tariffs for social landlords should be the same as for private homeowners; this would help to target support towards lower income households.

3.2 Whilst the deployment of renewables may impact on fuel poverty, the RHI should not be seen as a way addressing with this problem which is better dealt with under other schemes such as the affordable warmth element of the Energy Company Obligation and the Green Deal.

3.3 It should be noted that some properties that are off-grid, can be old properties, in rural areas. These properties may not be able to achieve Green Deal ticks, and therefore would not be eligible for using the RHI to install heating technologies.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 We have not seen sufficient details on the application process as the scheme is still going through consultation.

4.2 We do not think that the scheme has been sufficiently advertised. However there is a trade-off between communication and confusion, and there are still some uncertainties around the level of Green Ticks which will be required to make a property eligible. Communicating that installing now, subject to the ticks, will make you eligible for RHI. This would give an enormous boost to the solar thermal industry.

4.3 DECC should also inform stakeholders of any promotional campaign to advertise the RHI, especially as there will be a considerable number of legacy applicants that will need to be made aware of their ability to claim RHI tariff payments.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 Yes, this would be a good idea. DECC should consider all stakeholders in developing their customer journey and I believe they are doing so already. It is particularly important that they consult with the industry supply chain including both installation engineers and product manufacturers as they have direct contact with consumers.

5.2 Solar Thermal is a rather complex technology, and using it effectively is critical to maximise its benefit. We would suggest that engaging industry experts such as the STA would help to communicate the message more effectively.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The Green Deal and the ECO have only just been implemented so it is difficult to judge how their interaction with the RHI will work. Given that a Green Deal assessment followed by implementation of “green tick” measures are likely to be prerequisites to receive RHI support, some interaction with the Green Deal is assured.

6.2 There may be uptake of the Green Deal by RHI customers as a well-insulated property is a key requirement of most renewable technologies. This may also help with solid wall insulation uptake through the ECO.

6.3 However we would advise DECC not to try and use the RHI as a way of increasing Green Deal uptake, this should be a natural decision based on need. An artificial push would create a degree of resistance and could in certain circumstances add unnecessary cost. This would reduce uptake of the RHI.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 In order to qualify for the RHI an installer must be MCS approved, which certifies an installation company’s quality and complaints procedure. It also requires them to sign up to the REAL consumer code which is designed to protect consumers from the miss-selling of renewable technologies (a similar code is now also being implemented under the Green Deal).

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 If there is a considerable gap between the end of the RHPP and the RHI then this will naturally have a very detrimental effect on the industry, potentially halting all sales in this period.

8.2 The STA would strongly recommend extending the RHPP scheme until the RHI is available. It is unlikely that the existing RHPP budget will be spent by March 2013, and it is likely that the RHPP will be offset against the RHI so there is no real risk to this budget.

8.3 The market needs certainty now about the RHI including the mechanism, tariffs, qualifying criteria and timescales. In the event that funding for an extended RHPP is not possible, a clear announcement about the RHI would help overcome any difficulties created by a gap.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 The industry is ready, the supply chain is in the place and the installation standards have been written and are agreed.

9.2 Any delays now will arise from either a legislative perspective or the length of time required to gain government approval.

9.3 Any delay to this scheme will be seen as a further setback for the renewables industry and could have a serious effect on the level of future investment in the renewables industry in the UK. Investors are nervous after the changes to the FITS scheme and so will react very badly to any perceived reluctance by the government to introduce the RHI.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 The principal lesson would be to get all tariffs and eligible technologies fully agreed before publicly launching them.

10.2 For the Solar Thermal industry, the non-domestic RHI scheme has had a very poor uptake. Primarily this is due to the tariff level, but it is also to do with the large amount of paperwork, plus the lack of incentives for the building market to include solar thermal in new builds.

February 2013

Written evidence submitted by the Combined Heat and Power Association (RHI21)

INTRODUCTION

1. The CHPA welcomes the Committee's inquiry into the Renewable Heat Incentive (RHI). Despite accounting for 49% of the UK's energy use,⁶ heat has been widely ignored in most areas of the energy debate and Government policymaking. We welcome the Committee's first inquiry into heat policy in this Parliament. We would highlight that this inquiry into the domestic RHI accounts for a very narrow portion of the heat policy discussion. With the publication of the heat policy document anticipated in March, we strongly encourage the committee to consider a full enquiry into decarbonising heat in the coming months. As a narrowly defined inquiry, the CHPA has restricted its comments to some of the higher level principles within the RHI.

2. The creation of DECC's heat directorate in 2011 and the subsequent publication of *The Future of Heating: A strategic framework for low carbon heat in the UK* have been welcome shifts and provided an economy-wide consideration of the importance and challenges of decarbonising heat supply. If the UK economy is to decarbonise in a cost-effective way, integration of policy across heat, transport and electricity is vital.

THE RENEWABLE HEAT INCENTIVE

3. The Government designed the RHI to achieve the UK's obligations under the EU target of 12% renewable heat by 2020. The scheme soon be fully open to domestic as well as commercial and industrial schemes. Overall, the policy has much to commend it:

- The tariff rates under the RHI broadly deliver lower-cost renewable energy than renewable incentives in the electricity sector, representing good value to the tax payer; and
- As the RHI is funded through direct taxation, it does not impact consumer energy bills, protecting consumers, including those at risk of fuel poverty.

4. The policy does have some limitations, however. As with all new schemes, there have been teething troubles, such as overly stringent and administratively costly metering requirements for operators. In addition, the UK's renewable heat industry is in its early stages and the quality of some installations has been limited. The policy needs further time and stability to ensure that these initial problems can continue to be ironed out, and to ensure creation of a robust renewable heat supply chain and skilled workforce.

5. The key limit to the RHI policy is uncertainty of funding past the current Spending Review period, which ends in 2015. Large renewable heat schemes can often take four years to build. Without a firm commitment on RHI funding beyond 2015, a company cannot rely on Government when making an investment decision.

⁶ DECC (March 2012) *"The Future of Heating: A strategic framework for low carbon heat in the UK"*

This absence of clear funding hinders the deployment of (cost effective) large scale schemes and the establishment of a stable supply chain across the wider RHI market (including domestic).

DISTRICT HEATING

6. Renewable heat supplying district heating, a network of highly insulated pipes carrying heating or cooling water (or occasionally steam) from a central heat source⁷ to homes and buildings, is eligible for the RHI. District heating is widely deployed in urban areas across Europe, Asia and in North America as a more efficient, lower carbon method of delivering heating to consumers than individual solutions. Whilst the Committee's inquiry is focussed on the domestic RHI scheme, renewable district heating serving homes is covered under the RHI's non-domestic scheme. This is because district heating is not an individual home solution but a community-wide solution. As a source of household heating in the UK and given that DECC's has identified the potential for 50% of heat demand to be met through district heating,⁸ the CHPA encourages the Committee to consider RHI's effect on the deployment of domestic district heating within this inquiry.

7. The Government's strategic vision for heat envisages a major shift towards district heating in urban areas and electrically-driven heating for those homes off the gas grid. However, the RHI has not been developed in line with this vision. There is a risk that the RHI could undermine the wider aims of the Government's wider heat strategy. For example, incentivising individual renewable installations in an urban area ideal for district heating could reduce the efficiency and viability of a renewable district heating scheme and increase the overall cost of delivering renewable heat.

8. DECC's follow up to the strategic heat document, expected in March 2013, should hopefully provide clarity on how district heating, whose infrastructure is not explicitly supported under the RHI, will itself be brought forward. There will also need to be further consideration of how the incentives for renewable heat technologies' interact, so that district heat and individual solutions can be deployed for an optimal outcome.

CONSUMER PROTECTION

9. The committee rightly raises concerns about consumer protection. The viability of the RHI as a scheme will depend on the quality and cost (capital and operational) of the installation meeting the customer's expectations. Unlike electricity, which can be grid sourced should any onsite generation fail, domestic heating systems generally meet all the space and hot water demands without back-up. Should installations repeatedly fail to deliver either the heat quality (ie sufficient temperature throughout the year) or reliability, at the expected cost the RHI scheme is likely to lose credibility within the domestic sector.

10. Anecdotally, the commercial sector has suffered more from poor installations than from miss-selling and, as an emerging market, this is a substantial risk for the RHI. For domestic customers, the microgeneration certification scheme should provide some measure of protection. In the case of district heating, it is vital that consumers are confident that they are being sold heat at a fair price and have recourse to complain should an installation prove unsatisfactory. The CHPA is working with both industry and Government to develop a consumer protection scheme for district heating, and further information on this work can be made available to the Committee.

February 2013

Written evidence submitted by the Renewable Energy Association (RHI22)

The Renewable Energy Association (REA) is pleased to submit this response to the Energy and Climate Change Select Committee's Inquiry on the Renewable Heat Incentive. The REA represents a wide variety of organisations involved in renewable energy in the UK, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 1,100 corporate members, making it the largest renewable energy trade association in the UK. The REA's main objective is to secure the best legislative and regulatory framework for expanding renewable energy production in the UK. The Solar Trade Association is affiliated to the REA.

The Inquiry's terms of reference focus mainly on the domestic RHI, hence our answers are directed towards that sector, for which the RHI has yet to be launched, though we expect the Government to be in the final stages of making decisions. It has been a long wait since DECC's original RHI consultation in Spring 2010 and the industry has struggled in the meanwhile.

⁷ Heat sources include boilers and combined heat and power both renewable and fossil, heat pumps, geothermal and solar energy.

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48574/4805-future-heating-strategic-framework.pdf

EXECUTIVE SUMMARY

- The REA welcomes the extension of the RHI into the domestic sector and mainly wants to see its early implementation followed by a period of stability. We believe that DECC must endeavour to keep the scheme as simple as reasonably possible on launch; there will be opportunities to refine the operation when the scheme is reviewed in 2014 (though this should be put back to 2015, given the delays).
- Tariff depression must be structured to address the possibility of unexpected take-up of individual technologies but should aim to be flexible within the overall budget envelope.
- The RHI is an essential support measure if the UK is to achieve the 12% contribution of renewable heat by 2020 foreseen under our National Renewable Energy Action Plan. In 2011 the figure was only 2.2%. In order for the industry to have the confidence to invest the resources needed to achieve the required growth it is also essential for Government to explicitly state its intention for the scheme to remain open to new accreditations until at least 2020 and to allocate a budget commensurate with the 2020 target.
- We believe that underspend from the current RHI year should be carried forward to 2013–14 to cover the cost of historical heat production from eligible legacy projects (implemented since 15 July 2009).
- What the market needs more than anything is a stable and supportive framework that allows long term planning. This needs to cover both incentives and the regulatory regime, supported by clear and consistent messaging.

1. Will the proposed depression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 The heating market is significantly different from the electricity market so we would not expect the kind of runaway deployment that took place for PV under the FiT scheme. However there clearly needs to be a mechanism to correct tariffs if deployment proves to substantially exceed projections.

1.2 This must be balanced against the uncertainty that tariff depressions cause for consumers and suppliers. The proposed mechanism provides a degree of visibility of future tariff changes but there remain many uncertainties about the way it will work, especially the possible impact between technologies.

1.3 Given the need to kick start a new market and achieve significant year on year deployment growth the main goal should be to ensure that sufficient budget is allocated to allow a strong market to develop, without the uncertainties that have so often beset renewable energy support schemes.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 The domestic RHI should be a national scheme from the start. We believe that the domestic RHI should be allowed to grow organically rather than specifically phased or piloted.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 The domestic RHI is already targeted at properties off the gas grid as the returns for these will be higher due to their higher current fuel costs. In order to assist households living in fuel poverty we believe that the tariffs for social landlords should be the same as for private homeowners; this would help to target support towards lower income households.

3.2 Note that the RHI is also foreseen to work with other schemes such as the affordable warmth element of the Energy Company Obligation and the Green Deal in targeting support towards households living in fuel poverty.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 It is too early to comment on the application process and publicity as the consultation process is still underway and decisions have not been published. We believe it is crucial for DECC not to over-complicate the application process, especially in the scheme's early stages.

4.2 Many heating system replacements are made as distress rather than planned purchases and this is a very important factor that must be taken into account. The application process must allow for this, especially with respect to energy efficiency requirements. Installers are a key group that will influence purchase decisions so it is important that they play a central marketing role.

4.3 There is a large number of domestic renewable heating systems that have been installed since the Government's original announcement of the scheme on 15 July 2009 and many of these will be eligible to receive support under the RHI. It will be important to inform them of their eligibility to apply and we believe

that underspend from the current RHI year should be carried forward to 2013–14 to cover the cost of historical heat production from these, so as not to restrict budget for new projects.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 DECC should consider all stakeholders in developing the customer journey. It is particularly important that it consults with the industry supply chain as these players have direct contact with consumers.

5.2 The risk of the heating system not delivering a warm home or hot water will also mean that renewables, even with the RHI, will be a harder sell than solar PV and it is unlikely that there will be a rush for funding.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The Green Deal and the ECO have only just been implemented so it is difficult to judge how their interaction with the RHI will work. Given that a Green Deal assessment followed by implementation of “green tick” measures are likely to be prerequisites to receive RHI support, some interaction with the Green Deal is assured.

6.2 The REA has been lobbying hard for proper integration of the Green Deal with FiTs and RHI, such that income from these support schemes can be recognised under the “golden rule”. We understand that progress has been made with regard to state aid clearance and that Ministers are currently considering the way forward. Such recognition could be a major breakthrough in achieving a joined-up approach between the three schemes, which would be very welcome.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 In order to qualify for the RHI an installer must be MCS approved, which certifies an installation company’s quality and complaints procedure. It also requires them to sign up to an OFT-approved consumer code. The only current example is the REAL consumer code,⁹ which is designed to protect consumers from the miss-selling of renewable technologies (a similar code is now also being implemented under the Green Deal).

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year; what impact might this have?

8.1 If there is a considerable gap between the end of the RHPP and the RHI then this will clearly cause a hiatus, potentially halting sales in this period. This would be particularly severe if the RHPP ends before DECC announces its final decisions on the full domestic scheme. DECC has proposed subtracting any support received under the RHPP from an installation’s eventual RHI support, so applying for the RHPP will not change its overall remuneration, however homeowners will be inclined to wait until the details of the RHI are made clear.

8.2 We would therefore recommend extending the RHPP scheme until the RHI is available. The RHPP budget is currently well underspent so extending the scheme by say six months would not create an overspend. Having said that, extending the RHPP is no substitute for making a timely announcement of the full terms under the domestic RHI.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 The industry is ready, the supply chain is in the place and the installation standards have been written and are agreed.

9.2 We recognise the challenge faced by officials with respect to certain aspects of the domestic scheme and their desire to cover all bases. However there is a danger that this could lead to an over-complication of the scheme, thereby depressing uptake. We believe that DECC must endeavour to keep the scheme as simple as reasonably possible at launch; there will be opportunities to refine the operation when the scheme is reviewed in 2014 (though this should be put back to 2015, given the delays in launching the domestic RHI).

9.3 The industry has been waiting a considerable time for the domestic RHI to be launched and confidence during that period has been steadily eroded. Any further delays in implementation can but exacerbate the loss of confidence.

9.4 We are also concerned about the potential impact of the announcement made on 21 January.¹⁰ Although we believe that the driving force behind this is evidence that some tariffs may currently be too low, the effect

⁹ The REAL consumer code is operated by a wholly-owned subsidiary of the REA.

¹⁰ https://whitehall-admin.production.alpha.gov.co.uk/government/uploads/system/uploads/attachment_data/file/68728/RHI_announcement.pdf

is to extend a blanket threat of review in tariffs for all technologies. This will act as a blight until DECC confirm which technologies are affected and which tariffs, if any, risk being reduced. Even if the impacts of any changes are entirely benign, it is clearly unhelpful for a further major piece of work to be added to an already-challenging work programme for DECC's RHI team.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 We reiterate that DECC must resist the urge to over-complicate and micro-manage the scheme, as has occurred under other programmes such as FiTs and the RO. The non-domestic RHI has got off to a slow start partly for the same reason. It is important to keep the domestic scheme as simple as possible in its early days to kick start a functioning market; if anything the danger is under-reaction by the market rather than over-reaction.

10.2 Apart from the obvious drawbacks of complexity, there is also the danger that a policy can become so complicated that even those working on it begin to lose sight of the principles underlying the policy. This results in neither stakeholders nor government feeling any responsibility to the cumulative effect of individual changes. When this happens, a descent into over-complexity and incoherence is all but inevitable. The original design of the non-domestic RHI was able to pursue a certain logic in the choices made, and it is vital that DECC does not lose track of the wider picture while making the large number of individual changes that are planned.

February 2013

Written evidence submitted by the Ground Source Heat Pump Association (RHI23)

INTRODUCTION TO THE ASSOCIATION

The Ground Source Heat Pump Association (GSHPA) aims to encourage the growth and development of the ground source heat pump industry in the UK and help to set and safeguard standards. For more information about the GSHPA visit www.gshp.org.uk

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

The proposed degression mechanism could be helpful as a secondary mechanism to help refine the system. A key point is that once a tariff rate has been established for a project, that rate must be held for the full implementation timescale of the project.

The primary need is to correct the RHI commercial tariffs which currently favour biomass boilers to the point where 98.5% of all RHI has been paid for biomass installations. The GSHP RHI tariffs need to be raised to allow this low carbon technology to recover, instead of DECC encouraging almost all renewable initiatives to be directed toward biomass.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

RHI should be a national scheme from the start. GSHP technology is the only renewable heat technology that is cheaper-to-run than gas condensing boiler technology making it the cheapest to operate central heating system available. A phased roll out could restrict eligible householders from qualifying for RHI Phase 2 Domestic.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

Fuel poverty can only be decreased if cheaper-to-run technologies are installed. Fuel prices change but the typical running cost order from low to high is: GSHP, Gas boilers, ASHPs, Biomass pellets, Oil, LPG, and finally direct Electricity. Therefore, in an off-grid situation, an ASHP or Biomass pellet system if well designed & installed should assist in relieving fuel poverty and a GSHP system should make a more significant impact on any household's fuel poverty, whether that property is on or off grid.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

It is difficult to comment on the simplicity of the application process until the final model is revealed. However, we note that RHI is using MCS installation companies and products and this improves both RHI quality and simplicity because the system is fitted to industry standards and the MCS company database is in one location on the web. As an Association, we will continue to work with DECC to make sure the customer journey is as smooth as possible.

We also note that if the RHI scheme is carefully positioned by DECC and the RHI tariff rates are corrected, it will receive the right amount of publicity through the mainstream media to make sure uptake is at suitable

levels. This is what has happened in the past with previous grant schemes such as Clear Skies and the Low Carbon Building Programme (LCBP).

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

Yes, each “trusted messenger” group has their own role to play in delivering the message. Charities & NGOs such as the National Energy Foundation and the Energy Saving Trust are useful in disseminating clear and concise messages. Consumer groups offer householder reassurance. Low carbon regional groups promote the uptake of high quality affordable systems and have a history of successful implementation. Local authorities are known to be well trusted by local citizens and because of their proximity, can significantly enhance the customer experience and benefits. Constructive engagement between Government, industry especially through trade bodies and local & regional groupings is the best way to cover this task.

However, the RHI tariffs need to be altered to realistic levels for GSHP systems, otherwise the “trusted messengers” will have to say that the RHI is not working.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

Before an RHI can be obtained, all the Green Deal green tick measures such as cavity & loft insulation and draught proofing should be considered. The Association and its members have long recommended that full energy efficiency measures are implanted alongside GSHP systems. ECO’s support for Solid Wall Insulation is particularly welcome because it is preferable to implement this when fitting a GSHP system. However, we are pleased to see that it is not an essential requirement because fitting Solid Wall Insulation is a major renovation to the property whilst the other green tick measures are relatively minor interventions.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

MCS and the Consumer Code, REAL are already in place. They just require further support and implementation. MCS needs to train the assessor and make sure the training sector has train the trainer schemes in place. The REAL Code needs more drive. Basically, the schemes are in place; they just need more teeth.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

Alas, industry is used to stop-start Government interventions. They are far from ideal. However, there is a long track record of stop-start Government interventions which include Clear Skies, LCBP and all the subsequent financial interventions. Industry adapts and looks for alternative business models until the main line of business returns. However, these stop-start interventions cause a break down in trust between Government, industry and the general public and only time and clear, long-term & transparent policies restore this faith. We know that certain Association members will either leave the sector or go out of business during this lull between different schemes. Hopefully, if it is just a short lull, it will only affect about 15% of the Association’s membership which tends to be a typically fall out from most lull’s in the sector.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

The RHI legislation was passed in late 2008 alongside the Feed-in-Tariff (FiT) legislation. FiTs was implemented first because DECC had many examples of similar schemes from around the world to use as templates whilst no funding body had yet implemented an RHI scheme. The Fits were introduced with unbalanced tariffs (PV rates were far above those needed to generate interest) and the major concerns about repeating the same story delayed the introduction of RHI Phase 1 commercial. In spite of this the initial RHI commercial tariffs were equally unbalanced (the GSHP rates are far below those offered for biomass boilers and the ground source industry has ground to an abrupt halt).

The further delays in RHI Domestic have been in the main part caused by deeming which was only addressed with a look-up table in Annex 2 of the 2010 RHI consultation and no further significant work was implemented on deeming until DECC engineers were seconded in late 2012. There are three main elements which make up the incentive formula:

$$\text{Domestic RHI} = \text{Tariff Rate} * \text{Deeming (or metered) quantity} * \text{No of years of payment.}$$

Unfortunately, as the Deemed Quantity is only now being reviewed by DECC engineers, it is the element of the scheme most likely to cause delays and disruption. As an Association, we have been working with the DECC engineers on various design and assessment deeming methodologies with design methods being based around BS EN 12831 and BS 6700 and assessment methodologies being based around SAP in all its various forms including occupier affected versions of SAP such as Green Deal SAP. If deeming and the other fine

details of the scheme are not set out and settled upon in the very near future, Domestic RHI will struggle to launch in 2013, five years after the original legislation was passed.

Further delays will cause significant increases in the 15% of the sector lost in most lulls.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

Non-domestic RHI in its current form is a virtually commercial biomass only scheme. At over 98% biomass uptake, the RHI is damaging the other renewable heat technologies by diverting all renewable heat interest toward biomass. This has further eroded the market in these vitally important-for-the-future technologies. From the GSHP perspective, these omissions have been compounded by a lack of understanding of the technology within DECC and Ofgem.

DECC's consultants made inaccurate assessments of the market and so the tariff rates were set too low for all technologies apart from biomass. The consultants' work lacked sufficient peer review.

Allied to this, Ofgem initially refused to certify any heating and cooling GSHP systems, only paying out RHI on heat-only systems. At a commercial level, the majority of GSHP systems are both heating and cooling and these systems are fundamentally more efficient and so much lower carbon than heat only GSHP systems. Ofgem have now released a "compromise solution" whereby they pay a discounted rate of RHI on the heating element of ground source heating and cooling ("GSHC") systems. Ofgem urgently needs to change this to providing a *premium rate* of RHI on GSHC systems in order to reflect the additional carbon saving of well-designed GSHP systems.

February 2013

Written evidence submitted by Mitsubishi Electric (RHI24)

EXECUTIVE SUMMARY

Mitsubishi Electric is a global producer of energy saving and generating technologies, and a UK market leader in the manufacturer of Air Source Heat Pumps (ASHP) for domestic and commercial applications as well as Ground Source Heat Pumps (GSHP) for commercial applications.

Over the past few years we have been developing our network of installers, supply chain partners and of course products. We like many others in the marketplace are anticipating the implementation of the Renewable Heat Incentive Scheme this Summer 2013. Mitsubishi Electric's European manufacturing factory in Livingston Scotland employs over 400 people and produces 3,000 award winning Ecodan air source heat pump units each year. This factory has the potential to produce over 70,000 products a year if demand allows. As well as our manufacturing plant in Livingston, our main office is based in Hatfield which employs over 400 people and houses a recently renovated training centre.

We join with industry in calling for the Domestic RHI to be implemented on schedule with a simple application process and faster payment times for consumers. It is also important that the "new" technologies being consulted on in the Air to Water Heat Pumps and Energy from Waste Consultation are rapidly integrated into the Non-Domestic RHI to ensure innovation and market creation in these sectors.

However, we do not believe in calling for unsustainable tariff levels- and suggested a tariff level of around 17pence for Domestic Air Source Heat Pumps in our recent consultation even after calculating the impact of the Addendum to the RHI from 9th November 2012. Our ultimate goal is for the UK Heat Pump market to be sustainable without subsidy, with the support of relevant Building Regulations. We see the RHI as a necessary market creation intervention.

In addition, provided that DECC can find a simple and clear way of calculating the tariff, we would be in favour of paying a higher RHI tariff to heat pumps which performed more efficiently. We believe this would help small installers, protect consumers, and encourage manufacturers to drive UK standards above the EU minimum SPF of 2.5. However, care should be taken not to create a barrier to uptake by pre-empting testing all heat pumps to EN14825 standards as this would be expensive and inefficient for consumers and installers alike. This testing will take place in line with the new ErP regulations coming into force over the next few years.

SPECIFIC QUESTION RESPONSES

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 We support degression as a mechanism for ensuring that there will not be an overspend on the RHI budget; we see this as having a quarterly review period with a one or two months' notice period, as was typical under the Government FiTs Scheme.

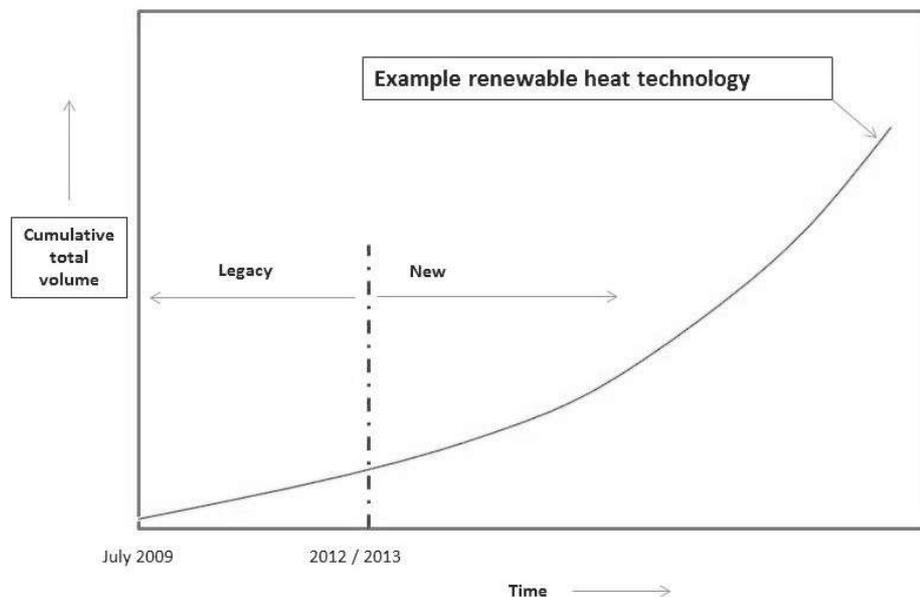
1.2 We disagree with the proposal to reduce the tariff of any single technology if it is outperforming others in the market. We particularly disagree with the proposal of a 10% higher tariff reduction to Air Source Heat

Pumps (ASHPs) which are predicted to have high uptake levels under the Domestic RHI scheme. Mitsubishi Electric believes in a multiple-technologies marketplace for renewables but does not believe individual systems should be punished for success provided the overall RHI budget is not threatened.

1.3 The approach across various Heat Pump technologies needs to be consistent. We manufacture ASHPS in the UK and Ground Source Heat Pumps (GSHPs) and our experience is that if installed correctly they are comparable in terms of cost effectiveness. Therefore it would make sense to have a single degression trigger. We would strongly recommend a review of the cost-effectiveness of heat pumps if DECC wish to proceed with differentiation.

1.4 We would also like to suggest that, as heating costs to the consumer are seasonally variable; the consumer could be paid a higher level of tariff in Q3 and Q4 of any year than in Q1 and Q2; for instance, paying the consumer 15% of their annual tariff allowance in Q1 and Q2 and 35% in Q3 and Q4. This would offer consumers value for money in real terms.

1.5 The government made a commitment that all systems installed after 15 July 2009 would be eligible for the RHI scheme and we believe they should honour this commitment in the retrofit sector. We feel that applicants should not be differentiated into legacy or non-legacy for the purposes of calculating trigger points for degression. A fairer way of doing this is to base predicted volume uptake and include legacy volume from July 2009 as the starting point (as shown in figure below). If legacy installations volume is above the volume predicted at the start of the RHI then it would be fair to consider degression based on the total RHI budget.



2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 There is no advantage to be gained from phasing the national roll out of the RHI and to do so may in fact cause a loss of investor confidence. With the RHPP scheme coming to an end and ECO and the Green Deal launched, it is vital for market growth the RHI is implemented on schedule

2.2 We could see two possible reasons for phasing aspects of the scheme. We agree that Solid Wall should be excluded from the energy efficiency requirements of the RHI- and would extend this to include Floor Insulation which is also expensive and disruptive to install. However both these technologies will be needed for the Government to meet its carbon reduction and energy efficiency targets, so they could be phased into the scheme later. The second possible reason for phasing is to ask Legacy Applicants to apply for the RHI in stages, to protect the budget and reduce administrative burdens; these applicants must be subject to the same conditions as regular applicants to the scheme.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 The indication from the Non-Domestic RHI, where a new GSHP tariff was recently announced, suggests that DECC are aware that some of their costing figures for these technologies are currently inaccurate and that tariff levels may have to rise. With the Sweett Group review of the DECC dataset and the impact of the RHI Addendum affecting tariff calculations, we believe that this is even more true of the Domestic Scheme. The first step, therefore, to ensuring that the RHI can revolutionise the off-gas grid market is to make sure tariffs are sufficient to promote consumer interest.

3.2 There is no question in theory that the RHI could revolutionise heating in homes which are off-gas grid and fuel-poor. ASHPS, with their relatively low installation cost and high rates of consumer savings compared

to a replacement “A Grade” efficient oil boiler, could offer real change to this kind of consumer: we would be happy to share modelling of this on request. The Green Deal should also allow consumers to offset some of the upfront costs of putting in an ASHP or GSHP against the savings they make on running costs and energy bills, further increasing the financial viability of changing to a renewable system for fuel-poor consumers.

3.3 Related to this, we would like to see a tariff paid for Social Housing developments. According to the National Housing Federation, there are over five million people living in, or on waiting lists for, social housing rental properties in the UK. Social Housing represents a significant percentage of the housing stock in the UK, and many of these properties are fuel-poor or Affordable Warmth households. We think that social landlords be brought into the RHI non domestic scheme being categorised in a similar way to community systems, as they function in a similar way to this sector.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 Mitsubishi Electric already have some concerns as to the clarity of information and the simplicity of the proposed process for the Customer Journey. Information on the Customer Journey should be offered to all applicants in a streamlined and simplified way wherever possible. Specifically, consumers applying for Green Deal Funding and the RHI, Legacy Applicants and Distress Purchasers will need the Customer Journey mapped effectively, and the relationships in the supply chain clarified as soon as possible.

4.2 Some of the money being spent on the Green Deal and Eco Campaign (some £2.9 million in Jan–April 2013) could be shared to promote the RHI scheme, which is expected to integrate with the Green Deal on some level. Certainty in the market will be the real factor in the successful marketing of the RHI; until there is an implementation timetable then it is hard for industry to sell the scheme to their consumers.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 We propose that some of the £2.9 million national campaign for the Green Deal is spent on publicising the RHI. However, the experience of the Birmingham Energy Savers scheme, where the Green Deal Policy was “piggybacked” onto the existing logo and operations of the public interest group and benefited from an existing consumer trust of the brand,¹¹ suggests that regional workshops could also be successful for the RHI. We would support a local or target group based marketing approach, providing it was supported by DECC. We would also be willing to work with Government to host or arrange such events.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The Green Deal Assessment is expected to provide the minimum energy efficiency standard that RHI applicants must obtain before they can access the scheme through its “green ticks” mechanism. We see energy efficiency measures as vital to the successful performance of a Heat Pump in any property. For example, the disappointing results of the 2008 EST field trials for GSHPs and AHSP and the DECC led heat pump trials reported on in 2011,¹² suggest that many reasons for the failure of a Heat Pump actually related to the quality of installation and end user knowledge. We therefore support the integration of the Green Deal Assessment and installation of “green tick” measures into the RHI Scheme.

6.2 If the Green Deal and the RHI are to integrate, then consumers in these kinds of exceptional circumstances could be allowed to install their “Green Ticks” energy efficiency measures after installation of the new heating system. For instance, a Distress Purchaser will want to install their boiler before they install energy efficiency measures. They would not receive the RHI until installation of the “Green Tick” measures were in place, but could receive conditional approval for the receipt of the RHI once Ofgem received proof of installation.

6.3 There is a financial incentive to the RHI and Green Deal integration. This is that the RHI offers more attractive returns on investment to the consumer if they can offset an initial capital cost with a Green Deal Loan. If the RHI and Green Deal are not successfully integrated, consumers may just opt to subsidise a more efficient fossil fuel boiler through the Green Deal scheme.

6.4 If the Green Deal and the RHI are integrated, consumers in the RHI scheme may benefit from some of the Consumer Protections built into the Green Deal scheme- for instance, the monitoring of the Green Deal Mark Scheme by Gemserv (ORB) or the EST helpline.

¹¹ <http://www.birminghampost.net/news/west-midlands-news/2012/10/09/carillion-lands-600m-birmingham-energy-savers-contract-65233-31993261>. Also: information from presentation given by Marksman Consulting LLP & Birmingham Energy Savers during “Local Authorities and the Green Deal”, PRASEG Seminar, 23 October 2012, Westminster.

¹² <http://www.decc.gov.uk/assets/decc/11/about-us/science/2915-decc-sag-meeting-minutes-150711.pdf>; David Mackay report to IEA Heat Pump Conference, Business Innovation & Skills, 13 November 2012

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 When calculating the tariff, after using MIS 3005 v3.1a of the RED to deem the heat loss and renewable heat generated for a system, an installer must then have an option to use a default SPF (2.5 is the EU minimum standard) for the calculation, or to use a higher SPF where one can be proven for a given installation. This will protect consumers from a market which could otherwise install the cheapest and least efficient system without compromising the RHI payment.

7.2 We agree that the proposal to use the existing MCS certification scheme will prevent consumer confusion. However, MCS & the REAL schemes need more power in dealing with installation reporting problems, and we would expect Ofgem to take an active role in spot-checking RHI eligible installations. Consumers should be made aware that certification bodies can be utilised in the event of installation and performance issues.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 Provided the Government commits itself to a firm timeline and implementation dates for the RHI in the summer of 2013, then we do not believe that a gap between the ending of the RHPP scheme and the beginning of the Domestic RHI will present a problem. If the Government is unable to make firm commitments, or delays the RHI scheme in any way, the damage to investor confidence will be considerable.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 Since the publication of the original Consultation documents on the RHI in September 2012, both the impact of the Addendum to the RHI which changes the way renewable heat is calculated, and changes to the DECC dataset after the initial Sweett Group review means that DECC has a considerable amount of work to recalculate tariffs and iron out problems- particularly for Heat Pumps.

9.2 The delayed announcement from DCLG on the new Building Regulations Part L means that the industry does not yet know what the proposition for New Build should be in 2013 and beyond. With the rest of industry we do not think the RHI scheme, or any subsidy, is the proper place to drive energy efficiency and renewable heating improvements in the New Build sector, and we think New Build's inclusion in the RHI could place the budget under threat. Therefore we would like to see DCLG announcing their plans for Part L soon, and hope that the approach they go for is at least the "Halfway to Zero Carbon" option outlined in their recent Consultation. The alternative will have dramatic consequences for subsidy schemes and for the Government's ability to meet carbon targets.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

10.1 It was positive to see that after engagement with Industry, DECC have moved to include new technologies in the Non-Domestic RHI and released the Air Source Heat Pumps and Energy from Waste Consultation alongside the Domestic RHI Consultation in September 2013. We hope that this will mean a fast integration of Air Source Heat Pumps into the existing Non-Domestic scheme.

10.2 The low uptake numbers under the Non Domestic RHI until January 2013 are a reflection that policy uncertainty can undermine market growth. The biggest lesson from the Non-Domestic RHI scheme is that the more clarity, certainty and commitment to timelines the Government can offer industry, consumers and investors on the Domestic RHI, the more chance of its success.

February 2013

Written evidence submitted by the Heat Pump Association (RHI25)

The Heat Pump Association (HPA) is the trade association that has the majority of suppliers of heat pumps to the UK within its membership. The HPA is delighted to provide its expert opinion to the Energy and Climate Change Committee's call for evidence on "Renewable Heat Incentive".

The HPA has been informing DECC and other interested parties throughout the RHI process and we welcome the opportunity to clarify the points raised and would gladly assist the Select Committee in this process.

We believe the RHI is a unique initiative and opportunity to responsibly promote Renewable Heat Energy and propel the UK into a leading role. However, for this to be achieved it must be initiated promptly, with full support, covering all available and recognised technologies, thus ensuring the market is not distorted.

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 It is not possible to comment specifically at this stage as DECC have not communicated their preferred degression mechanism, however we believe the proposals are mostly along the right lines but probably slightly favour the taxpayer (ie underspend). However we have pointed out that it is unreasonable to have different degression percentages for different technologies (eg ASHP).

1.2 However, the success of any degression mechanism much depends on whether or not EPA will be applied to Domestic or not—we do not know DECC's leaning on this aspect. Care will be needed to avoid the problems of previous voucher systems such as LCBP where low numbers were actually redeemed because in the case of EPA this could unnecessarily trigger degression.

1.3 In all workshops and responses the HPA and other interested parties have emphasised the need for information to be transparent and timely, ie as close to real time as possible.

1.4 The need for and extent of degression will very much depend on the methodology of how the original tariffs are set and the budget allocated for each technology. This is not at all clear to industry and concern remains over the validity of the information gathering of the Sweett Group.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

2.1 To learn from the lessons of past experience with RHI phase 1, Domestic RHI must NOT be geographically phased and MUST unequivocally be rolled out nationally.

2.2 There has been sufficient information gathered plus consultations to form an accurate picture. This is in addition to the experience gained from Non-Domestic RHI phase 1 and is much greater than was available at the launch of FIT (which is quite different in nature to heat). A phased roll out could call this evidence into question and fuel a lack of confidence in the market place.

2.3 If the roll out was to be phased this could cause serious geographical market distortions and would be detrimental to enabling a clear information programme.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

3.1 Primarily RHI is designed to improve awareness amongst communities, experience within the industry, create and develop routes to market and provide opportunities for cost savings due to economies of scale rather than specifically reduce fuel poverty.

3.2 To a limited extent it will assist once the Renewable energy measure is funded but it is the initial funding that is the significant issue. The Green Deal may have assisted but the interest rates are probably too high. The RHI favours those who have capital resources and can invest in more expensive technologies for future benefit and who are, therefore, unlikely to be in fuel poverty (although we accept there will be a small number of exceptions to this).

3.3 The Green Deal and in particular ECO is in a better position to initiate the step towards dealing with fuel poverty. For this reason RHI funding should be available to renewable heating technologies installed as part of Green Deal measures.

3.4 Market forces should make this attractive in terms of running costs, therefore, the focus needs to be on making the investment capital available at an affordable rate. Using this logic it would be better to offer the state aid with the loan rather than the running cost—perhaps an option should be given as an either/or (state aided interest rate + no RHI, OR commercial interest rate + RHI funding).

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

4.1 Since we are awaiting the final details of the scheme it is difficult to comment in detail on the process and, consequently, also the publicity.

4.2 The HPA has consistently expressed concern over the link between Green Deal and RHI, the level of knowledge available to GD assessors, and the possible conflict in responsibilities between a GD assessor and an installer under the MCS requirements. The HPA would favour that the MCS installer be responsible for assessing thermal integrity using a GD methodology (or mapped alternative) and highlight potential Green measures that should be adopted.

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

5.1 Funds will need to be dedicated to communicating this message to the 3rd parties. They may be trusted but are they adequately resourced and informed? A task force could be set up linked to a help desk—

organisations should include DECC/Ofgem/EST/Gemserv. These 3rd parties would need to know and be seen to have specific central support from DECC (ie not act as disparate self interest groups). An RHI advocate and team would need to be assembled.

5.2 Each 3rd party would need to receive initial training and then on-going support—perhaps regular scheduled visits from task force members would provide a mechanism.

5.3 Caution is required to ensure that the 3rd parties are truly independent, that they do not have undue influence from their funding stream, membership or key operating staff, yet receive the support of specialist organisations.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 This very much depends on the outcome of any State Aid application, and assuming it is possible to have a Green Deal loan and still receive RHI with no fiscal penalty, the interaction is likely to be positive.

6.2 As identified above (4.2) the HPA would prefer that Green Deal assessment by a GD assessor will not be a requirement for RHI, however, it would appear there is a preference for this from the government and hence there will automatically be some interaction between the schemes. However, the schemes have quite different objectives and the RHI should not be used as a promotional vehicle for the Green Deal, but rather both should be presented as potentially complimentary with GD assisting with capital cost and providing legacy investment, and the RHI assisting with barrier and running costs.

6.3 The current thinking on keeping SWI out of the qualifying requirements for RHI makes a lot of sense but consumers with SWI will still have the option of additional funding via the ECO, which will be encouraged for and by the heat pump market as dwellings should be made to be as efficient as possible.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 Quality and consumer standards exist (MCS & REAL). Care needs to be exerted in not overwhelming the consumer and through keeping processes simple. Therefore, we would like to see additional support given to the existing schemes such as MCS and REAL assurance. In particular the REAL scheme needs to be extended.

7.2 Additional work is required for Training the Trainers and also the Certification bodies. This should be as independent (ie technology neutral) as possible to prevent conflicts of interest.

7.3 Consideration should be given to forming & funding a Task Force to deal with any consumer issues that arise. This will give some teeth to the policing of the existing schemes and make miss-selling less attractive. It should be noted that it is not possible to eradicate all routes for miss-selling hence there must be some other disincentives put in place. Feedback via the MCS certification bodies could be utilised. CB's must be obligated to deal with customer complaints and the process must be open to 3rd party expert scrutiny.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 Many of the recent incentive schemes have been adversely effected by uncertainty largely due to their stop/start nature. Although in reality the gap in timeframe between RHPP and the start of Domestic RHI should not have a significant fiscal impact, the impact on perception and government commitment to these schemes may be very significant. We assume that any installations that are likely to qualify for domestic RHI in tax year 2013–14 have already been accounted for in the funding announced to date and that extending RHPP into this tax year will effectively be cost neutral because the funding would have come from Domestic RHI in the same tax year (but just towards the 2nd half) in any case. We, therefore, can see no reason why RHPP could not be extended again and there are the drivers of continuity and commitment that demand it.

8.2 The gap which will exist unless RHPP is extended will almost certainly create a highly undesirable “wait and see” situation by consumers which will result in many businesses struggling, almost certainly having to release personnel and possibly worse, ceasing trading. The result will be to fuel uncertainty in the market place. There are many detractors who still do not believe Domestic RHI will happen and even among the believers there is a suspicion it will not be 2013!

8.3 It's biggest impact will be a failure in maintaining any limited momentum that currently exists. Any gap will be considered as vacillation further raising suspicions about the intentions of government to put these measures in place and, once again, fuelling uncertainty. Uncertainty remains the biggest barrier to moving forward; what measures will be introduced; what tariff will be provided; whether they will continue for the full term; and whether the same tariff will be available when the project is completed (eg depression).

8.4 RHPP should be extended on the caveat that it will be suspended when the RHI is introduced.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

9.1 Developing an EPA scheme that ensures both customer confidence without log jamming the system.

9.2 Completion of work on load factors.

9.3 RHI was announced in June 2009. Industry in general and Trade Associations in particular have given a great deal of time and focus on attending workshops and taking part in consultations etc. There has been considerable sharing of knowledge and data, and much experience has been gained by all parties and government in particular from RHI phase 1. We, therefore, see little reason to delay outside of issues relating to legislative process or other procedural issues (eg state aid applications). Any delay now would be very serious for the sector and completely erode the already fragile confidence in the ability to deliver a meaningful and useful incentive.

9.4 We would urge the government, in the strongest terms, NOT to delay Domestic RHI implementation beyond summer 2013.

9.5 However we also realise the issues associated with Non-domestic RHI phase 1 need to have been addressed along with issues raised during the consultations and workshops. If it is felt that if there is a significant risk of delay we believe the following steps should be followed:

9.5.1 Immediate engagement with all significant parties who have taken part in developing the proposals and consultation to date.

9.5.2 A clear, full and transparent declaration of the issues causing the delay.

9.5.3 Develop a strategy with those participants of how this will be tackled and a clear programme for resolution.

9.5.4 Immediately extend the RHPP in terms of timescale and technologies to fully cover the intended RHI and make an absolute commitment to continue it until such time as RHI is introduced.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

10.1 That launch of such a scheme with only part of the technologies available causes massive market distortions. It must be ALL technologies or Nothing.

10.2 That industry/trade association warnings that the incentive will massively underspend should be heeded as this has proved to be absolutely true.

10.3 Delay undermines confidence and creates further distortion in the market (peaks & troughs).

10.4 Imperative to keep the industry stakeholders who have contributed to the development in the scheme fully informed of the process and situation, as they are also the greatest advocates of the system who will greatly assist in the wide-scale roll out and education work to be done.

February 2013

Written evidence submitted by a Group of Heat Pump developers (RHI26)

EXECUTIVE SUMMARY

The Government's Carbon Plan and Heat Strategy consider heat pumps as the key solution to enable decarbonisation of heat supply in the domestic sector. The Committee on Climate Change in the 4th Carbon Budget projects that the deployment of 2.6 million domestic heat pumps by 2025, rising to 6.8 million by 2030 is necessary to attain decarbonisation targets.

An industry *report* supported by all member of this industry group demonstrates that these uptake targets are both necessary and realistic. However considerable investment to develop the necessary infrastructure, technology improvements, supply chains and skills base is essential. Industry investment has to be accompanied by effective policy support.

The domestic RHI is the core element of an effective policy framework for domestic heat pumps. At this early stage of market development, the success and timely commencement of this scheme is key to encourage consumers to take up heat pumps, start the market and allow the technology to play its full strategic long term role.

To achieve these objectives, this group considers that domestic RHI support for heat pumps should be based on the below overarching principles:

- The off-grid boiler replacement market is relatively small and very well established. The RHI therefore needs to be simple to understand and access if installers are going to be successful in promoting it in the core target market.

- The domestic RHI is designed to encourage replacement of a boiler with a renewable heating installation. The financial and non-financial barriers faced by consumers remain unchanged as a result of any re-assessment of the renewable generation of a heat pump (see Addendum to the RHI). Therefore the RHI must aim to deliver equivalent returns to the consumer through any alternative approach if it wishes to see take-up.
- In striving for continual improvements in performance, the policy should be designed with in-built incentives to encourage higher performing and more reliable heat pump installations. Tariff calibration attributing a higher return to better performing products is therefore appropriate.

SUBMISSION OF WRITTEN EVIDENCE

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 The system of tariff degression, proposed under the RHI consultation, is a viable way to attain budgetary certainty and maintain value for money. A transparent degression mechanism is necessary.

1.2 This group considers that heat pumps are a mature technology and therefore the cost down curve should not be as steep as anticipated by DECC. Hence a 5% degression rate would be sensible for heat pumps on par with other supported technologies.

1.3 Given the prominent role of domestic heat pumps under the Heat Strategy, degression would only be meaningful if based on a deployment rate that adheres to the uptake projections of the 4th Carbon Budget.

1.4 Based on the medium abatement scenario of the 4th Carbon Budget, the deployment of 6.8 million heat pumps by 2030 is an essential target. The degression triggers for domestic heat pumps should be based on a deployment rate that remains in line with 4th Carbon Budget projections and allow the technology to fulfil its role.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 This Group believes that stability and certainty are what the market needs and that this can best be achieved by implementing a simple scheme and without the need for phasing which might lead to a more complicated consumer proposition. The market will deliver if the RHI provides the necessary consumer incentive and industry certainty.

2.2 Given the delayed commencement of the domestic RHI, any further postponement or complexity as a result of an incremental scheme deployment would be detrimental. It would also add to the uncertainty caused by the finalisation of the RHPP scheme end of March 2013.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 The Energy Company Obligation (ECO) and the Green Deal are the two key policy instruments to enable low income households at risk of fuel poverty to heat their homes more affordably to an adequate level.

3.2 The remit of the domestic RHI is to kick start the renewable heating market in the domestic sector, drive deployment and build necessary skills supply chains. This is necessary to drive down costs and render renewable heating accessible for all.

3.3 The domestic RHI predominantly focuses on the off gas grid sector where fuel poverty is concentrated and fuel costs are high. The installation of renewable heating technologies in this sector will bring significant on-going costs reduction.

3.4 The effective combination of the RHI with the Green Deal opens the potential for Green Deal packages in the off-grid sector that include the installation of RHI supported renewable heating technologies. That would allow households to benefit from the RHI at low or no upfront costs.

3.5 It is important that during the Green Deal assessment, consumers are notified of the possibility to cover part of the up-front cost of a renewable heating technology via Green Deal finance as well as the potential linkage to the RHI

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 There is limited information on the RHI application process as yet. Maintaining the application process as simple as possible is critical to maximise consumer accessibility and engagement.

4.2 There is now ample experience with the implementation of similar schemes, including the non-domestic RHI and the FITs. Lessons learned should be fully utilised to improve scheme administration, including the application process.

4.3 Some aspects of the current domestic RHI consultation may generate unnecessary complexity for perspective RHI applicants. For instance, if the customer demonstrates efficiency eligibility based on recent EPC check evidence then a Green Deal assessment should not be required for RHI payment commencement.

4.4 Publicity for this scheme is necessary prior to its commencement to raise awareness and to publicise particular aspects of the scheme, such as its interplay with the Green Deal. Publicity is also important to notify consumer that installed eligible installations installed post 15th July 2009 of their entitlement for RHI payments.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 The Government should involve trusted third-party messengers to publicise the RHI to ensure that there are as many channels as possible used. An important trusted messenger is the installer and therefore effort needs to be made to ensure installers are informed.

5.2 100,000 boilers are replaced annually in the off gas grid sector, the core target market segment for the RHI, providing installers corresponding number of occasions to liaise with home owners and promote the installation of RHI supported heating products. Therefore the potential for installers to act as advocates of low carbon alternatives, including heat pumps, is immense.

5.3 Raising awareness, or indeed creating incentives, for installers to advocate RHI supported low carbon heating uptake in the domestic sector is important. The combination of the RHI with the Green Deal enhances this opportunity and magnifies the role of the installer as an advocate.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 State Aid clearance has been received that confirms the mutual eligibility of the Green Deal with the RHI. However there is significant uncertainty among the industry, including the members of this group, as to how the two schemes will work together.

6.2 The group considers that it is of utmost importance that the Green Deal does not end up rewarding the uptake of conventional heating alternatives over renewable heating solutions, including heat pumps.

6.3 It is key that consumers are fully aware of the opportunity to combine Green Deal financing with RHI support when engaging with either of these two schemes.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 This group believes that MCS installers and product standards eligibility, which is a prerequisite for RHI support, has the potential to provide necessary consumer protection as well as combat any miss-selling and gaming.

7.2 However the group has concerns that the current MCS product standard does not provide robust enough guarantee that the majority of systems will meet the minimum SPF requirement of 2.5.

7.3 Rendering the current MCS product performance standard more robust to ensure that the significant majority of air source heat pump installations will achieve an operating SPF of 2.5 or above, especially when connected to heating distribution systems requiring higher water flow temperatures (eg 55°C), is therefore necessary.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 It is important that there is no gap in support for renewable heating technologies, including domestic heat pumps. An extended period between the end of the RHPP and the commencement of the RHI could be detrimental for what is an emerging market.

8.2 It is therefore important that the RHPP is extended until the commencement of the domestic RHI scheme, so as to sustain some installation momentum until summer 2013.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 The heat pumps industry has diverted significant investment in improving the quality and efficiency of its products, building its supply chains and developing necessary skills and installation capacity. With the right support the industry is ready to deliver the uptake required.

9.2 Continuous and constructive discussion and collaboration has taken place between the Government and industry stakeholders to provide the information necessary to develop an effective scheme during the consultation period.

9.3 The delayed commencement of the domestic RHI scheme has had an adverse effect on investment and certainty. Continued delay will be damaging for the renewables sector as a whole.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

10.1 The non-domestic RHI scheme has been significantly underspent as the tariffs set under this scheme did not prove adequate to generate necessary consumer incentive and trigger uptake. Tariff calibration based on actual costs incurred by consumers in the market is key.

10.2 This group has provided detailed information on system and installation costs during the consultation process. Tariff calibration to yield a solid incentive, particularly for well performing heat pump products, can kick-start the market. The degression mechanism, now in place, provides necessary budgetary assurance to do that.

February 2013

Written evidence submitted by a Group of Domestic Biomass developers (RHI27)

EXECUTIVE SUMMARY

The RHI domestic consultation presents a unique opportunity to allow domestic biomass to play the significant role in decarbonising building-level heating described in the 4th Carbon Budget (100,000 domestic biomass boilers by 2020; rising to 1m by 2030). This is vital if the decarbonisation agenda is to reach across the wide range of housing types and heat needs found in this country.

Solid support for domestic biomass that would effectively kick-start this market, would deliver unique benefits under the RHI scheme because:

- This technology is uniquely placed to readily transform building-level heating in larger and older properties, currently using carbon intensive oil or LPG;
- domestic biomass boilers have the lowest policy cost per kWh of renewable energy generated and the lowest resource costs of all technologies supported under domestic RHI; and
- manufacturers and suppliers will accommodate demand swiftly and reliably and are ready to deliver renewable gains now.

Necessary elements of effective RHI support for domestic biomass are set out below:

- *RHI support calibrated to deliver appropriate incentive*
It is crucial that the tariff for domestic biomass is calibrated based on accurate system costs and system specifications targeting the core market of 10kW to 25kW so as to generate meaningful incentive and uptake.
- *Eligibility of domestic biomass boilers over 45kW will unlock an important market segment*
The 45kW eligibility threshold under the RHI is problematic for biomass as a significant number of larger homes in off-gas areas use boilers greater than 45kW. Under current drafting this significant part of the domestic market would be excluded from RHI support altogether.
- *Effectively regulated efficiency and sustainability arrangements to protect consumers*
Proposals on establishing an approved fuel supplier list, and setting maximum permitted emissions limits is a positive move towards establishing good industry practice and consumer and industry confidence.

SUBMISSION OF WRITTEN EVIDENCE

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 The system of tariff degression is a viable way to attain budgetary certainty and maintain value for money for taxpayers. The degression approach proposed in the consultation appears to be in the right direction.

1.2 The group would like to see degression trajectories apportioned to each technology and supporting domestic biomass boilers in line with 4th carbon budget uptake objectives.

1.3 Proper tariff calibration is necessary to generate adequate support that will generate take up and render degression meaningful. Moderate tariff support has led to an under spending of the commercial RHI and this should act as a guide for the domestic version of the scheme.

1.4 Greater flexibility is required as reference should be made to progress made in practice (eg deployment levels and expenditure). Flexible tariff reviews, in case of limited or minimum take up of a technology, should be rendered possible.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 Given the significant delay in launching the domestic RHI, any further postponement or extended uncertainty concerning the commencement of the scheme would be detrimental for the scheme's success.

2.2 A phased launch of the domestic RHI will discredit current marketing efforts which introduce the potential of RHI payments as an incentive. Members of this group have made significant investment in the expectation of a growing market for renewable heat. In the current economic climate there would be a concern as to how much longer these businesses will remain with dormant capacity.

2.3 At the same time, consumers may delay their investment pending availability of the RHI scheme; the accumulative effect of which will delay the take up of biomass boilers and impact the achievement of deployment targets in the 4th Carbon Budget.

3. How could the RHI be used to help off-grid households living in fuel poverty?

3.1 The RHI has the potential to kick start the renewable heating market driving down the cost of novel renewable heating technologies in the domestic sector and rendering them accessible for consumers. The scheme focuses on the off gas grid sector where fuel costs are substantially high as a result of the domination of LPG and heating oil.

3.2 Biomass prices are substantially lower and less volatile than LPG and heating oil. Relevant research demonstrates that LPG and heating oil prices are expected to remain higher than biomass in the long term future.

3.3 The effective association of the Green Deal with the RHI has the potential to allow the development of Green Deal packages that combine the implementation of energy efficiency measures with the installation of low carbon heating technologies including biomass. That would allow consumers to benefit from low carbon heating at limited or no upfront cost.

3.4 To take full advantage of this opportunity, it is important that Green Deal assessors mention the possibility of covering part of the up-front cost of a renewable heating technology via Green Deal finance as well as the potential linkage to the RHI.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 There is not sufficient information at this stage to assess the effectiveness of the RHI application process. However aspects of the domestic RHI consultation may create unnecessary complexity.

4.2 The requirement for a Green Deal assessment in order to qualify for RHI payments could be a source of concern. This group holds that if a property already fulfils efficiency eligibility requirements, given that this can be sufficiently demonstrated, then the consumer should not be required to receive a Green Deal assessment.

4.3 Publicity for the RHI, emanating both from Government and the industry, would be necessary in order to generate necessary traction with consumers. Some relevant publicity would also be required to notify those that have installed renewable installations as of July 2009 of their scheme eligibility.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 The involvement of third party trusted messengers in developing and delivering the RHI would be beneficial in maximising the potential and outreach of the scheme.

5.2 The role of installers is particularly important as they are the main point of contact with consumers (1.6 million boilers installed annually in the UK). Installers by liaising directly with consumers can act as active advocates and drivers of the switch to renewable heat in the domestic sector.

5.3 The effective education of installers to present the possibility to consumers of securing an amount of Green Deal finance towards their renewable heating system and combining it with RHI payments is also key.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The mutual eligibility of the Green Deal with the RHI was recently legally established. However the exact nature of the interaction between these two schemes has not yet been clarified. Given that the Green Deal scheme has already commenced, it is important to provide prompt clarification as to the scope of its combination with RHI support.

6.2 It is vital that the Green Deal does not end up having the adverse effect of incentivising the uptake of conventional heating solutions over renewable heating solutions that are supported under the RHI.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 MCS standards and Real code installers' membership ensure that appropriate processes are in place to provide a quality service to consumers. Additionally existing warranties, provided by manufacturers provide sufficient consumer protection—over and above that provided for a conventional heating system.

7.2 In the case of domestic biomass, proposals on establishing an approved fuel supplier list, also contained in earlier RHI consultations, and setting maximum permitted emissions limits is a positive move towards establishing good industry practice and consumer confidence.

7.3 Additional consumer protection may add complexity and cost with minimal additional benefit to that already in place.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 An extended period between the end of the RHPP and the commencement of the RHI could prove damaging for an emerging market, such as that of domestic biomass.

8.2 An extension of the RHPP scheme until summer 2013 is essential in order to avoid a harmful gap in demand for renewable heating products as a result of uncertainty regarding the eventual commencement of the RHI.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 Perceived political risk and uncertainty, as a result of the experience with the FITs scheme, could lead to protracted deliberation and further delay in the announcement of the implementation of the domestic RHI.

9.2 All participating domestic biomass stakeholders have undertaken significant investment in developing high quality products and efficient supply chains to deliver these to market. Any further delay would compromise this investment.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

10.1 The non-domestic RHI scheme has not been successful in attracting the anticipated level of investment in renewable heating as a result of lower than required tariff levels.

10.2 Calibration of the tariffs for the domestic RHI scheme in a way that reflects actual costs incurred by consumers in the market and realistic system specifications is key towards generating meaningful incentive and uptake.

10.3 The proposed degression mechanism offers certainty against any perceived budgetary risks. This degression mechanism was not in place when the non-domestic RHI scheme was launched in 2011.

February 2013

Written evidence submitted by the National Farmers' Union (RHI28)

1. The National Farmers' Union of England and Wales (NFU) represents 47,000 farm businesses in England and Wales, involving an estimated 155,000 farmers, managers and partners in the industry. We also have about 40,000 members with an interest in farming and the countryside.

2. With 75% of national land area in the agricultural sector, NFU members are well-placed to capture renewable natural energy flows, while maintaining our traditional role in food production as well as the delivery of other environmental and land management services. It is the NFU's aspiration that every farmer should have the opportunity to become a net exporter of low-carbon energy services.

3. The NFU is already engaged with DECC, Defra, DfT and other government departments and advisers in directing climate change and renewable energy policy into real economic opportunities for rural diversification and job creation. Agriculture and horticulture can help to mitigate climate change, while contributing to both energy security and food security. The NFU works closely with other trade associations and non-government organisations with an interest in renewable energy, including the Renewable Energy Association (of which we are associate members) and RenewableUK (representing the wind power industry) and the Anaerobic Digestion and Biogas Association.

4. Deployment of renewable energy goes way beyond just managing UK carbon emissions—the land-based sector, in particular, will contribute to domestic supply chain development, supporting rural diversification and job creation, and will help with environmentally-sound management and utilisation of organic wastes and co-products (manures, crop discards, agricultural residues, food processing and packing waste).

5. In responding briefly to this call for evidence, the NFU expects to agree with and support the detailed answers provided by the Renewable Energy Association. Renewable heating needs to grow from around 1% to 12% of heat supply, in order to make a significant contribution to the binding targets in the EU Renewable Energy Directive. The NFU has previously expressed its satisfaction that the Government recognises the potential benefits of the RHI to farm businesses and rural communities, many of which are not connected to the gas grid and are reliant upon more expensive heating fuels. We anticipate significant business opportunities for farm businesses to provide heating services and renewable fuels (solid, liquid and gas) to rural communities, eg where new development and refurbishments are made to affordable rural housing. In other EU member states such as Austria, heat from wood fuels, agricultural residues such as straw and farm biogas plants is supplied to large local heat users and local communities through district heating networks. The NFU would like to see such new business opportunities for bulk heating supply from about 200 kW to 3MW actively encouraged by the RHI.

February 2013

Written evidence submitted by British Gas (RHI29)

1. British Gas strongly welcomes the proposals for a domestic RHI scheme, and its expected launch date of late summer 2013. This will provide much needed (and over due) clarity and support for the domestic renewable heat industry.

2. Renewable Heat has many benefits. As well as delivering CO₂ savings, it will also help create a diverse energy mix, reducing reliance on fossil fuels, and will ensure energy security.

3. We have answered your specific questions below, but also wanted to comment on your first paragraph of the introduction, which discussed the disappointing uptake of renewable heat to date across all sectors.

BROADER COMMENTS ON THE SLOW UPTAKE OF RENEWABLE HEAT IN THE UK

4. British Gas has had substantial discussion with DECC both directly and via trade associations such as MPC and REA about the RHI over the past four years. In 2012 we installed nearly 15MW of commercial renewable heat and over 6MW of individual domestic renewable heat. This included 6 biomass community heating schemes serving 1400 homes, over 1000 individual air source heat pumps, 40 individual domestic biomass boilers and many other small and medium sized commercial installations (mainly biomass with a few heat pumps & solar thermal).

5. The RHI was originally anticipated to be launched alongside the FIT in April 2010. However, the non-domestic RHI was delayed several times. The domestic RHI continues to be delayed with a planned launch date of summer 2013.

6. There remains concern in the industry of the setting and delivery of renewable heat policy framework in the medium term. Many potential customers are concerned about whether rates will be reduced in the short term. Much effort and emphasis has been placed over cost control concerns for the RHI, introducing an emergency suspension mechanism soon after the launch of the domestic RHI, and a detailed cost control consultation in summer 2012 (the results of which have still not been published). With the background of drastic FIT tariff reductions, this has made some potential customers and investors very nervous about investing in renewable heat installations. This has served to reduce the amount of investment.

7. A typical (non domestic) RHI project can take six to 12 months from commitment to commissioning. There is great concern that rates or eligibility could be changed or budgets cut within this timeframe. (We hope that this is now being dealt with through the proposed enhanced preliminary applications process.)

8. The non-domestic complex metering requirements were only finalised less than a month prior to the Non Domestic RHI launch. This meant that many of the schemes installed since July 2009 were retrospectively non-compliant with the new rules. This has caused a lot of re-work and delay to payments. For schemes where there is a simple replacement of a gas or oil boiler within a plant room which serves a district heating scheme, the requirement for metering of the whole heat distribution scheme were unnecessary and stalled many systems. This was recognised in a consultation last year and we hope much of this is now being addressed (but await proposed final details).

9. Within the Ground Source Heat Pump area, the government failed to understand the prevalence of heating and cooling applications. This is now partially addressed.

Qn 1: Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1.1 We understand the constraints around the RHI budget. We also understand the desire to prevent a repeat of the FIT scheme, where most of the support has gone towards one technology, Solar PV.

1.2 We are concerned that the base proposal for tariff degression may not be strong enough, yet the suggestion of a standard 10% (rather than 5%) cut for ASHPs may be too strong.

1.3 As an alternative, in our response to the Domestic RHI consultation, we proposed a system of two trigger lines. If the first trigger line was met at any three month date, this could trigger the 5% cut. If the second trigger line was breached, it could instead trigger a higher cut of 10–15%. This could be a simple solution to the concerns of run-away demand, whilst also keeping the simplicity and equal treatment (across technologies) that we consider important for the RHI launch.

1.4 Finally, whilst the RHI budget should not be exceeded, it is equally important that it is actually spent. As currently proposed, the degression mechanism guarantees a substantial underspend of the RHI as each technology is degressed independently. We believe it is equally important to prevent automatic degression if overall deployment levels are low. Periodic reviews to the budget split between technologies and sectors will be required. The initial budget split should be divided as equitably as possible taking on board advice from industry, and the budget assumptions should be updated periodically, especially if, say, one technology is clearly under-delivering its projected deployment levels.

1.5 As regards providing the necessary certainty to businesses and households to encourage investment in renewable heat technology, our biggest concern is for there to be no further delay to the Domestic RHI scheme launch.

1.6 As regards tariff structure, we are supportive of the proposed seven year tariff (for 20 years renewable heat), and consider it a reasonable compromise between an up-front grant and a full-life time tariff. As outlined in our consultation response, we consider that all technologies will have an underlying cost incentive to continue renewable heat generation once the seven year tariff support ends, and do not consider switch-back a risk.

1.7 As regards the 17.3p cap (linked to the marginal cost of offshore wind), we understand the rationale, but are concerned over its implications. We consider there should be some flexibility, especially if it can be shown that supporting the technology now will lead to future cost savings, bringing the tariff required to below this 17.3p level. For comparison, Solar PV received support substantially above this level initially, and it seems unreasonable to not allow other renewable technologies a similar opportunity.

1.8 We particularly consider that Solar Thermal should have some form of additional support, especially when installed alongside a Heat Pump or Biomass boiler. This could most simply be in the form of a “bonus” tariff rate for the Heat Pump or Biomass boiler to recognise their better overall performance if a Solar Thermal system is also available.

1.9 As regards Legacy Applications, we understand the importance of striking the right balance between the limitations of the fixed RHI budget and Government ensuring that the market can have confidence in previous commitments being honoured. We believe that those households who have installed eligible renewable heating systems since 15th July 2009 should be eligible for the RHI, subject of course to meeting the requirements (including energy efficiency requirements) and their installations being MCS registered within (say) 12 months of commissioning. The value of any government grants already received should be removed from the RHI payment, and would be happy with either of DECC’s proposed approaches.

Qn 2: Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

2.1 We strongly believe that the scheme should be universally launched as a national scheme, from Day One, especially given the delays to the scheme to date. We would therefore advise against a phased introduction or pilot scheme process.

Qn 3: How could the RHI be used to help off-grid households living in fuel poverty?

3.1 As outlined in the Hills Report, whilst the proportion of households in fuel poverty is fairly consistent between urban and rural areas (and rural areas of course constitute the majority of off-gas grid areas), the extent of the fuel poverty gap is considerably greater in urban areas. We therefore agree that enabling the RHI to help off-grid households living in fuel poverty is a key target.

3.2 However, RHI alone can not tackle fuel poverty. RHI provides support for the additional costs of a renewable heating system over and above a normal heating system, and this is in the form of a seven year tariff, not up front allowance. With some amendments, we see a potential key role for RHI to work alongside ECO, and this is explored further in our answer to question 6 below.

Qn 4: Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

4.1 The proposed RHI scheme is not well publicised at present. The industry is understandably reluctant to spend money on this until they are confident that Government will launch the scheme on time (or at all), and that the details for eligibility and application are confirmed and published.

4.2 Details of the domestic RHI scheme need to be published as quickly as possible. Due to the various delays to the Domestic RHI scheme, RHPP has been used as a bridging support for Domestic renewable heat, however consumer faith in the RHPP payments leading to future RHI support has reduced substantially. April to November 2012 RHPP numbers are 50% lower than those for the prior seven month installations.

4.3 We would also suggest simplifying the Energy Efficiency requirements to just a Green Deal Assessment and Loft/Cavity Wall insulation if recommended.

Qn 5: Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.1 The Government must simply launch the scheme as soon as possible. It is better to learn from and develop an operating scheme, than spend too long trying to create the perfect scheme prior to launch.

Qn 6: How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The RHI and Affordable Warmth components of the RHI may possibly lead to off grid renewable heat installations for priority groups. However, the RHI is much more likely to have greater take up in the able to pay market as there needs to be a certain amount of education and desire to switch beyond just financial reward.

RHI & GREEN DEAL

6.2 We agree with the principle that the property should be appropriately thermally insulated before the Renewable Heat installation is installed, and that confirmation of this should be received before the RHI tariff can be claimed. We propose that the requirement should be simplified, at least initially, to just a Green Deal Assessment and Loft/Cavity Wall insulation if recommended. The imminent availability of Green Deal finance means that this should be possible at zero upfront cost.

6.3 We understand the broader industry concerns over the requirement for a household to undertake a Green Deal Assessment (at a cost of around £100) even if they know there are no further insulation measures required. Whilst this helps to support Green Deal, this could hinder the renewable heat market. An alternative compliance approach should be considered, for example if the property already met EPC Level D it could be exempt from the Green Deal Assessment requirement.

6.4 We consider there could be useful cross-promotion between RHI and Green Deal, but we are concerned about making any mandatory requirements too onerous, before Green Deal fully reaches scale. We believe there will be Renewable Heat finance packages available independent of Green Deal finance, and in many cases, this may be simpler. We particularly note the Nationwide Green Additional Borrowing loans, from as little as 2.29% for existing Nationwide mortgage customers, announced early February 2013, and assume other mortgage lenders may follow. We also envisage some financing support to come from Green Deal, although with the current restriction on excluding RHI payments from the Golden Rule calculation (see 6.5), this is unlikely to ever provide full funding.

6.5 The RHI should be permitted to count within the Golden Rule for the Green Deal. This would strengthen both policies.

RHI & ECO

6.6 We see some interesting ways in which ECO and RHI could work together.

6.7 ECO and RHI should be expected to work very well together in renewable district heating projects, in off-gas grid areas and also on grid when replacing electric heating). ECO Carbon Saving and ECO Carbon Saving Communities funding would be able to support the district heating infrastructure (from whatever technology) alongside the commercial RHI which would be able to fund the incremental cost of a heat pump or biomass boiler over gas or oil.

6.8) Under ECO Affordable Warmth, there is the option of installing renewable heating, however it would not (under ECO alone) be sufficiently cost effective versus alternative heating measures (in terms of Lifetime £ savings per £ ECO spent, as this segment of ECO is measured). If a mechanism could be found enabling the supplier to claim the RHI funding stream (perhaps could the supplier own the renewable heat installation, and received the affordable warmth payment (of particular interest to rural landowners for their tenants).

6.9 Extending ECO Affordable Warmth to cover Renewable Heat social housing projects would significantly improve uptake. It is generally much simpler to undertake a social housing project, rather than a private sector project. There is potential for projects under the ECO CSCO Rural sub-cap, although the proportion of suitable social housing projects in this very rural target group is uncertain.

Qn 7: Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 We do not anticipate any particular problems with the proposals.

7.2 We consider that MCS (or equivalent schemes) will provide sufficient consumer protection for the RHI. However, this situation should be monitored periodically and it is important to ensure that MCS audits are rigorous. REAL is currently the main recourse for consumer protection. It has already had to allocate large amounts of resource on the Solar PV industry, which is technically much simpler than, say, heat pumps.

7.3 Currently funding for REAL is linked to the number of installers, yet the number of claims would be expected to be linked to the number of installations, so will increase significantly as the market takes off. In addition, whilst with Biomass (as with solar PV) any problems are visible right away, it may take several years for problems with heat pump installations to come to light, leading to a potential deficit of funding for any compensation claims.

7.4 This should be kept under continuous review by DECC and should be outside of regulations. It is important that a major consumer protection gap can be plugged without recourse to legislation by ensuring MCS has the funding and insurance in place that it requires.

Qn 8: Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year; what impact might this have?

8.1 There is already an effective “gap” due to continued delay. The most important thing is to move ahead as quickly as possible with the domestic RHI and to learn from experience.

8.2 With the various delays to the Domestic RHI scheme, RHPP has been used as a bridging support for Domestic renewable heat, however consumer faith in the RHPP payments leading to future RHI support has reduced substantially. April to November 2012 RHPP numbers are 50% lower than those for the prior seven month installations.

8.3 The issue is not so much the gap to the launch of the domestic RHI scheme, but the gap to the date at which there is full regulatory clarity on the scheme launch.

8.4 For example, if in early June the scheme details are fully known and confirmed, then consumers could go ahead with an install confident that they will be able to successfully apply for their seven year RHI tariff in September, and know the exact terms and tariff rates. The gap in this case would be from 31st March until early June.

Qn 9: What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 This is a question for the Government to answer. It is very disappointing that the Committee feels that this is a possibility. Consumers and industry are becoming increasingly disillusioned with the Government’s commitment to domestic renewable heat. The Domestic RHI scheme is already very overdue, and we would be extremely concerned by any future delays.

9.2 Is there potentially a requirement for the tariff levels to be subject to a further consultation? The tariffs published in the autumn consultation were only indicative ranges and were based upon assumptions that were quickly admitted to be out of date. If a further consultation on tariff levels was considered necessary, this should be undertaken as quickly as possible.

Qn 10: What lessons can be learned from the implementation of the non-domestic RHI scheme?

10.1 We strongly consider it important to *keep the Domestic RHI scheme as simple as possible* for its launch. Specifically in our response to the DECC consultation we proposed a two tier trigger line degression for all technologies, rather than treating the ASHP degression differently. We do not consider biomass needs different treatment on preventing switchback. We would advocate sticking to a single GSHP tariff at least initially (rather than splitting into borehole and array types) and to keep the Social Landlord tariff aligned with the seven years approach offered for all other household types.

10.2 This is partly to help understanding of the scheme in the market and for consumers, and partly to make compliance and monitoring smoother. It is important for DECC to consider the practicalities of any proposals and avoid unnecessary administrative burdens for Ofgem and consumers.

February 2013

Written evidence submitted by EDF Energy (RHI30)

ABOUT EDF ENERGY

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy is a wholly-owned subsidiary of the EDF group. In France, around 6% of the Group's electricity production is generated through hydropower. Together with its nuclear portfolio, this enables the EDF group in France to produce over 95% of its electricity without carbon dioxide emissions, and helps make an essential contribution to the country's security of supply. EDF group's key role is to generate and retail affordable low carbon electricity.

SUMMARY

EDF Energy has long advocated early incentivisation of renewable heat, as we believe it can make a significant, and cost effective, contribution to meeting the UK's renewable energy targets, especially through the use of heat pumps.

We also believe that Government should extend the non-domestic scheme to include air to water heat pumps as an eligible technology.

We support the introduction of a universally available tariff scheme to incentivise the uptake of renewable heat technologies in the domestic sector. This will build on the success of the non-domestic scheme.

RHI tariffs for renewable heat should be set in such a way that they are technology neutral and do not incentivise one technology over another. A key risk is that demand will not be as high as the Government has estimated, suggesting that the scheme must be kept under review. The risk arises because customers need a high level of confidence in the incentivised technology before they will trust this as the primary heating system for their home. This is particularly significant where boiler replacements are made as distress purchases. The tariff incentive needs to be sufficient to encourage boilers to be replaced before the point of break-down—at the time of breakdown; consumers are more likely to replace a broken boiler with the same technology.

THE COMMITTEE WILL HOLD AN EVIDENCE SESSION ON 26 MARCH AND INVITES SHORT SUBMISSIONS OF EVIDENCE (WHICH WILL BE USED TO IDENTIFY WITNESSES FOR ORAL EVIDENCE) ON ANY OR ALL OF THE FOLLOWING TERMS OF REFERENCE

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

1. DECC has developed a comprehensive budget management approach which will quickly reduce any tariffs where demand proves to be on the high side of estimates. However, unlike micro-generation systems supported by the Feed in Tariff, there is likely to be a far greater reluctance on the part of householders to shift their primary heating source to a renewable heat technology of which they have no experience.

2. As a result, EDF Energy has significant concerns that the level of uptake DECC estimates for the scheme will not be achieved. To mitigate this risk tariffs should not be set too conservatively and if levels of uptake are below those estimated then a mechanism should be developed which will increase tariff levels to stimulate demand.

3. Support should be time limited and only required until eligible technologies are competitive in price and gain acceptance from consumers. Once there is increased awareness and an ongoing reduction in manufacturing and installation costs then tariffs should not be required in the medium to long term.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

4. EDF Energy strongly supports a national scheme launched from the start in the domestic sector. It is expected that off-grid customers will self select themselves to the scheme at launch. The proposed method of RHI application and the length of the sales and installation cycle are expected to filter any initial "registration rush" to the scheme.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

5. The upfront capital costs are still expected to be a barrier to potential customers, as is the potential access to low cost finance. If installers could benefit directly from the RHI payment then customers may benefit from better access (or lower cost finance) to the technology. This would also encourage the market to look at alternative finance schemes to support customers and build product take up.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

6. Final application processes are still unclear. Consumer awareness is still very low both in terms of the RHI scheme and the suitable renewable technologies. Customers are looking for clarity from independent sources and the Government, rather than just the industry, to add independent validation and to support wider mass market interest and take up. The Government should allocate adequate resources to publicise the scheme. Even in a time where funds are in short supply it could be counter-productive not to make an appropriate investment in this area.

5. *Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?*

7. We would welcome any third party involvement which would help to build awareness of the technologies and understanding of policy funding through RHI. We would welcome a clear strategy on how DECC expects to build awareness during the launch of the new policy to the domestic sector.

6. *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

8. EDF Energy continues to believe that the affordable warmth aspect of ECO, which is focussed on delivering free heating and insulation measures to low income households, should include an incentive on suppliers to provide free renewable heat measures to vulnerable householders in off-gas areas. However, this has not been included in the scheme design and we would request that this decision is reviewed.

9. As the domestic RHI design has not been finalised there is as yet no guidance on how this will interact with Green Deal. However, the Government should ensure that these complementary policies can work effectively together to maximise support for the installation of renewable heating systems.

7. *Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?*

10. One of the biggest risks of potential miss-selling is whether the RHI is based on “deemed” or “metered heat demand”. There are a number of risks of fraud or gaming if a deemed approach is adopted and therefore we recommend that all installations have a meter installed to ensure that accurate payments can be made. Should a deemed approach be adopted, a clear, robust and consistent approach is required to ensure that potential benefits cannot be overstated by installers (an increased heat demand calculation would deliver a high RHI return).

8. *Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?*

11. As long as there is full clarification of the new RHI scheme in the domestic sector there is not expected to be a gap between installation and RHI payments.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

12. We would not welcome any further delays as this would further damage customer and industry confidence. There is also a significant volume of customers who are delaying installations due to the uncertainty of the RHI launch. In addition there is clear evidence that the industry needs to make significant investments to support market growth, any delay in RHI may further damage industry confidence in making this investment.

10. *What lessons can be learned from the implementation of the non-domestic RHI scheme?*

13. Implementation of the non-domestic scheme supports our view that a key risk for the domestic scheme is that there will be lower levels of uptake of renewable heat measures than DECC estimates. Therefore, lessons should be learned from this and tariffs should not be set too conservatively.

Written evidence submitted by Rockwool Ltd (RHI31)

Rockwool is delighted to have the opportunity to respond to the Energy and Climate Change Committee call for evidence on the Renewable Heat Incentive.

Rockwool is the world's largest producer of stone wool insulation and its second largest insulation producer. Rockwool has 9,300 employees in 40 countries throughout Europe, the Americas and Asia. Rockwool insulation products are made primarily from renewable volcanic rock and are used in a diverse range of industrial, commercial and residential settings.

We very much hope that you will find this submission helpful. We should be pleased to discuss our submission with you, if you would find this useful.

EXECUTIVE SUMMARY

Rockwool strongly supports the prompt introduction of a domestic Renewable Heat Incentive (RHI) scheme with energy efficiency conditionality to encourage uptake of renewable technologies while ensuring that public funding is not used to subsidise wasted heat from inefficient homes that could be cost effectively improved. The proposed integration of energy efficiency related policies such as RHI, Green Deal and the Energy Company Obligation (ECO) will greatly improve the progress of the common and mutually convergent objectives; maximising energy efficiency, eradicating fuel poverty and reducing CO₂ emissions.

Furthermore, we wish to see solid wall insulation included as a required energy efficiency improvement where an ECO subsidy is available, to ensure the opportunity of these policies to work together to deliver large scale uptake of improvements to solid wall properties is not missed.

1. *How could the RHI be used to help off-grid households living in fuel poverty?*

1.1 A higher proportion of off-grid households are in fuel poverty (32% compared to 15% of on-grid properties) with the cost of heating a typical three bedroom house around 50% higher with heating oil and 100% higher with LPG than with mains gas.¹³ The introduction of the RHI linked to the Green Deal offers a means to support these households to switch to more affordable and sustainable heating sources while also improving the energy efficiency of their property. However the current proposed exclusion of solid wall insulation from the required energy efficiency improvements could mean these households miss an invaluable opportunity to lock in long term energy efficiency to the fabric of their homes.

1.2 It is estimated that 731,000 homes in England¹⁴ are in off gas grid areas and have solid walls. A further 101,000 homes in Scotland¹⁵ are both off the gas grid and hard to treat (the majority of which are solid wall dwellings.) and 92,000 homes in Wales¹⁶ also fit this category. This means that almost a million homes in the key target group for the RHI have solid walls. Where solid wall insulation is a technically practical measure for the house under assessment and where an ECO subsidy is available and makes the installation cost effective, then this should also come under the energy efficiency requirements.

1.3 Solid walls allow twice as much heat loss as cavity walls¹⁷ and so their exclusion contradicts one of the stated aims of the energy efficiency conditionality requirements—to ensure that public funding is not used to subsidise wasted heat.

2 *How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?*

2.1 Using a “Green Tick” approach to applying energy efficiency requirements within RHI connected to a Green Deal assessment means that each homeowner will receive advice specific to their house and only the most cost effective measures will be required. This is a very fair and balanced approach. Applying a minimum EPC rating would unfairly impact on those homeowners who cannot cost effectively raise the energy performance of their homes to that threshold level. Instead the “Green Tick” approach recognises and takes account of the energy efficiency potential of each home while not excluding those most in need of help.

2.2 It is important that the energy efficiency of a property is improved prior to a renewable heating technology being installed. Such an approach ensures that the renewable heating technology is appropriately sized for the property. Placing the requirement to undertake energy efficiency improvements before the payment of the incentive also acts as a strong early driver for the Green Deal.

2.3 ECO is targeted at supporting households suffering from fuel poverty and hard to treat homes. Linking the RHI scheme to ECO, by including solid wall insulation as an energy efficiency requirement if an ECO subsidy is available, ensures that these two mutually complementary policies can work together effectively to deliver their common objectives.

¹³ http://www.ofr.gov.uk/shared_ofr/market-studies/off-grid/OFT1380.pdf

¹⁴ http://www.bre.co.uk/filelibrary/pdf/rpts/Hard_to_Treat_Homes_Part_I.pdf

¹⁵ <http://www.scotland.gov.uk/Resource/0039/00398667.pdf>

¹⁶ <http://www.consumerfocus.org.uk/files/2011/10/Off-gas-consumers.pdf>

¹⁷ <http://www.energysavingtrust.org.uk/Insulation/Solid-wall-insulation>

3 *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

3.1 Rockwool supports the prompt introduction of the RHI scheme in accordance with the estimated timelines previously published. To facilitate the large scale uptake of renewable technologies and energy efficiency measures, industries in this sector need confidence to invest in skills and capacity. Further delays to the implementation of the RHI scheme will be a deterrent to this investment while having a particularly detrimental effect on those organisations that have already acted as pioneers in preparing themselves for the introduction of the scheme.

February 2013

Written evidence submitted by the Plumbing Trade Supplies—part of The Travis Perkins Group—(RHI32)

INTRODUCTION

PTS welcomes the opportunity to respond to the Energy and Climate Change Select Committee's inquiry into the Renewable Heat Incentive (RHI). PTS was chosen by DECC as the launch pad of the RHI consultation last year. This was primarily due to the significant investment which PTS has put into a renewable heating business focused on the deployment of renewable heating technologies. PTS is also acknowledged as UK's leading merchant in supplying renewable energy products and providing independent advice to the UK installer market.

PTS would be happy to discuss any of the issues raised in this response and in the inquiry with the Select Committee.

EXECUTIVE SUMMARY

PTS (and TP) fully supports the introduction of a RHI tariff to stimulate and accelerate the deployment of renewable heating technologies in the UK. Therefore the introduction of the Renewable Heat Incentive (RHI) this year is seen as a crucial and vitally important development milestone in moving to a low carbon future.

UK industry has been waiting for the RHI for a number of years. PTS are very keen to see a timely, national implementation of RHI this year, 2013 with confirmed tariff rates agreed with industry. Any further delays or decisions to limit the RHI to either a pilot scheme would be seen as a vote of no confidence and provide uncertainly yet again for the renewables heating sector and could seriously damage future investment, jobs and skills development.

The RHI is compared to the Feed in Tariff but this is not entirely accurate. There are different factors to consider when choosing a renewable heating system primarily the risk of basic comfort needs not being met. Homeowners depend on the advice of their installer, so it is important that this sector including manufacturers and merchants alike is fully engaged and empowered to deliver uptake in the deployment of renewable heating. PTS has realised this issue with the creation of a Renewable Heating business.

1. Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?

A transparent degression mechanism will provide a degree of certainty for both investors and households and is highly recommended. However this information should be made publicly available as early as possible so consumers, investors and installers are aware of potential rate degression.

To help alleviate concerns an Enhanced Preliminary Accreditation (EPA) should be implemented for domestic RHI. This is because there are different lead times for different technologies. It is not uncommon for installations to take four—six months from planning to commissioning, in this time the tariff may have degressed.

Therefore to provide consumer confidence and to ensure the tariff advertised at the point of sale remains, EPA should be implemented. PTS has serious concerns over consumer confidence in schemes with degression and EPA would be necessary to overcome this.

2. Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?

PTS strongly believes that there would be no benefit in phasing or piloting the domestic RHI. In fact, PTS believes that phasing the scheme will be detrimental. We have the RHPP and previous schemes which have already been piloted for the deployment of domestic renewable heat and the commercial RHI has piloted the use of a tariff.

It is thought through these schemes DECC should have sufficient information on which to make decisions on how to run a domestic tariff scheme. A piloted or phased approach would suggest further uncertainty about

the use of renewable heating of homes and would undermine investor and consumer confidence and again create uncertainty instead of certainty.

3. How could the RHI be used to help off-grid households living in fuel poverty?

PTS is of the opinion that the main purpose of the RHI is to facilitate the introduction of renewable heating technologies to the UK in order to reach Government carbon targets. RHI will help to build and create supply chains, enhance installer skills, produce product innovation and provide more information about present products and system performance. There is learning to be done on how best to deploy and install renewable heat technologies and the RHI will help build the volume required to enable this.

Whilst the deployment of renewables heating technologies will certainly have an impact on fuel poverty, there are other schemes available for this particular problem such as the Green Deal.

4. Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?

As the RHI scheme is still going through the consultation process it is too early to directly assess the application process and the publicity. However it is PTS belief that the RHI is well known in the industry as it has been in preparation for a number of years.

PTS does believe that the process can be relatively straightforward, but there are some barriers to be considered. For instance the requirement to have a Green Deal assessment in order to qualify for the RHI could be a serious barrier to uptake. As the required energy efficiency measures are likely to be simple insulation measures PTS would recommend that the installation engineer carry out any required assessment and recommendations. This will increase the simplicity and reduce the upfront costs to the consumer.

PTS would expect DECC to inform stakeholders of any promotional campaign to advertise the RHI and to clearly set out the process. Product manufacturers as well as merchant would play a key role in awareness through Road shows, etc.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

PTS believes that DECC should consider all stakeholders in developing the customer journey with RHI. It is particularly important that DECC should consult with the industry supply chain including both installation engineers, merchants and product manufacturers as they have direct contact with consumers such as HA's, etc.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

PTS believes that beyond the current requirements to have a Green Deal assessment there will be limited interaction between the Green Deal and the ECO. However, there may be uptake of the Green Deal by RHI customers as a well-insulated property is a requirement of most renewable heating technologies and in off grid areas. This may also help with solid wall insulation uptake through the ECO.

PTS would advise DECC not to try and use the RHI as a way of increasing Green Deal uptake, this should be a natural decision based on need. An artificial push would create a degree of resistance and could in certain circumstances add unnecessary cost. This would reduce uptake of the RHI.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

The UK heating industry is amongst the most well regulated industries in the UK. In order to qualify for the RHI an installer must be MCS approved. This certifies an installation company's quality and complaints procedure. It also requires them to sign up to the REAL code which is designed to protect consumers from the miss-selling of renewable technologies. Any additional protection would not be proportionally beneficial.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

If there is a considerable gap between the end of the RHPP and the RHI then this will naturally have a very detrimental effect on the industry, potentially halting all sales in this period and have serious effect on jobs and business continuity. PTS would recommend extending the RHPP scheme until the RHI is available plus there should be a clear implementation timescale for RHI. It is unlikely that the existing RHPP budget will be spent by March 2013.

It is vitally important that the market needs certainty now about the RHI including the mechanism, tariffs, qualifying criteria and timescales. The tariffs rates need to be sufficient for the uptake of eligible renewable

heating technology ie solar thermal. In the event that funding for an extended RHPP is not possible, an unequivocal clear announcement about the RHI would help overcome any difficulties created by a gap.

9. *What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?*

The industry is ready and willing for the RHI and it is absolutely necessary to implement this summer 2013. Product manufacturers, merchants, the supply chain, installers etc are all in place and the installation standards have been written and are agreed. Consumers are also waiting for the announcement this year.

Any delay to this scheme will be seen as a further setback for the renewables heating industry. This would have a serious effect on the level of future investment in the renewables heating industry in the UK. Investors are nervous after the changes to the FiT's scheme and so will react very badly to any perceived reluctance by the Government to introduce the RHI.

10. *What lessons can learned from the implementation of the non-domestic RHI scheme?*

The Commercial RHI has been successful and has been running over a year. PTS believes that the principal lesson would be to get all tariffs and eligible technologies fully agreed before publicly launching them. The other lesson is to ensure full and frank engagement with the heating industry prior to launch to provide joined up thinking. This will help to avoid the problem that had to be rectified after the launch of the non-domestic RHI. The error over the biomass tariff and the exclusion of air source heat pumps are the principal examples.

PLUMBING TRADE SUPPLIES (PTS)

PTS, part of the heating and plumbing division of Travis Perkins plc, is a leading plumbing, heating and sanitary ware merchant. With the evolution of the renewables market in the UK, PTS is also leading the way in the supply of renewable energy products direct to its customers.

PTS offers an unrivalled local level of service to over 25,000 customers through five Regional Distribution Centres and a national support network of over 300 branches.

ABOUT THE TRAVIS PERKINS GROUP

The Travis Perkins Group is the UK's leading company in the builders' merchant and home improvement market, and the UK's largest supplier to the building and construction market. The Group operates 16 businesses from 1,900 sites across the UK, and employs approximately 24,000. With a proud heritage that can be traced back over 200 years, our employees are continuing that tradition by helping to build Britain.

February 2013

Written evidence submitted by Mark Group Ltd (RHI33)

EXECUTIVE SUMMARY OF RESPONSE

1. OVERVIEW

1.1 Mark Group is the UK Leader for energy efficiency installation. We install 7,000 measures each week to over 6,000 UK households from 15 regional locations. The Renewable Heat Incentive is vital to the sustainability of our workforce and supply chains, as we see our energy efficiency measures as part of a "whole house" approach which includes a property's heating system.

1.2 We also install some renewable heating solutions, and our full list of services includes a range of measures from Cavity Wall and Loft Insulation to Heat Pumps, Solar Thermal and PV systems. The proposals for Solar Thermal and Heat Pumps in the Domestic RHI will have a direct impact on our ability to grow a market for renewable heating and train hundreds of UK staff to install them. In readiness for the RHI and Green Deal, at the Mark Group Academy in Leicester we have provided first-class training to our installers and assessors.

1.3 Mark Group is one of the Green Deal provider pioneers, and has invested over a number of years in the development of the capability to offer whole house upgrades including renewable heating systems. We see the integration of the Green Deal and the Renewable Heat Incentive as essential to the success of both schemes. Together we believe they create a compelling consumer offering and could transform the UK heating and energy efficiency market.

2. OUR KEY MESSAGES

2.1 Energy efficiency requirements must remain an integral requirement for eligibility for the RHI Schemes, as part of a "whole house" vision for warm, sustainable homes in the retrofit sector. We see the place for energy efficiency improvements in the New Build sector as the province of the Building Regulations, and

would encourage Government to announce the updated to Part L as soon as possible; industry hopes to see at least the Halfway to Carbon Zero option adopted as the minimum standard.

2.2 Heat pump performance standards are in principle a good idea to drive better installation practices. If good performance in a heat pump system is to be linked to a higher RHI payment, then we would suggest that the tariff mechanism must remain simple so as not to confuse consumers and provide a barrier to uptake.

2.3 Above all, industry is depending on Government to announce the scheme for implementation in Summer 2013. After several delays to the RHI and Green Deal schemes, any further changes to the proposed Government timelines could be read as a lack of Government support by the investors who are crucial to ensuring the schemes successes. The efficient roll-out of a simple national scheme in 2013 could transform the UK heating and energy efficiency markets.

QUESTION RESPONSES

1. *Will the proposed degression mechanism strike the right balance between ensuring value for money for taxpayer and providing businesses and households with the certainty they need to invest in renewable heat technologies?*

1.1 We are in favour of the degression mechanism proposed by DECC. The degression triggers should be indicated in pounds spent as it will be easier to explain to consumers. The review period for this should be quarterly with a two months' notice period, in order to be consistent with other government incentives (RHPPs and FiTs).

1.2 Heat Pumps are expected to perform well in the Domestic RHI scheme. However we do not agree with the proposal to treat individual technologies differently, by for instance, degressing the Air Source Heat Pump tariff by a higher percentage than other technologies. The reason that this has been proposed is in reaction to the runaway Solar PV market under FiTs, but there is no danger of a runaway market under the RHI scheme with its proposed degression mechanism. If a technology is out performing other renewable solutions, then provided the overall budget is safe, it should be allowed to succeed.

1.3 The Government has previously stated that Legacy Applications for all installations in place after 15th July 2009 would be able to access the RHI scheme. We do not support the inclusion of legacy payments in trigger calculations for degression. Although if Legacy Applicants were allowed to the RHI, based on current Ofgem Uptake levels for the Non-Domestic RHI, it is unlikely that the budget surplus for the RHI scheme would be threatened.

2. *Is a phased roll-out approach appropriate or should the RHI be a national scheme from the start?*

2.1 Market confidence is fragile. The Government must introduce a national RHI scheme in 2013 and commit fully to its implementation in order not to undermine support. Therefore we do not see any advantage from phasing the scheme. There has been a dramatic increase (some 80% according to the latest Ofgem update of January 2013) in Renewable Heat Incentive installations in the non-domestic sector over the last quarter of 2013. It is no coincidence that this coincides with the domestic RHI Consultations and the Launch of the Green Deal scheme- both positive steps in the policy landscape for energy efficiency and renewable heating.

2.2 If the Government honours its promise on Legacy Applications, then to take the pressure off the administrative functions of the RHI Scheme in its first year, we would support the "phasing in" of Legacy Applications as proposed in the DECC Consultation.

3. *How could the RHI be used to help off-grid households living in fuel poverty?*

3.1 As an installer of energy efficiency measures, many Mark Group customers are now dependent on the Affordable Warmth part of the ECO scheme which is itself part of the Green Deal. We envisage the RHI as part of the solution to providing these kinds of consumers with a "whole house" approach to reduce their energy bills. The RHI acts as an additional "uplift" to the ECO scheme and could, if paid to a commercial partner who offered fuel poverty houses the capital to fund a renewable heating system in addition to their ECO grant, enable such consumers to get a renewable system rather than a boiler.

3.2 For consumers that are fuel poor but may have the capital to invest in a new heating system, the Green Deal in combination with the RHI could offer consumers a good return on their investment when a loan was taken to finance a renewable heating system instead of, for example, a replacement oil boiler in an off-grid home.

4. *Is the application process for domestic RHI sufficiently straightforward and has the scheme been sufficiently publicised?*

4.1 We support the proposed process for the Domestic RHI and believe it can be a simple scheme for consumers and industry to implement.

4.2 However, we are concerned that the decision to simplify the RHI application process by excluding Solid Wall from a list of “must install” measures in order to become eligible for the RHI could limit opportunities to undertake whole-house upgrades in Solid Wall properties.

4.3 We would like therefore to see alternative provision made to encourage installing Solid Wall Insulation alongside a renewable heating system by, for example, paying an uplifted tariff to consumers willing to install the measure alongside Green Deal Assessment “Green Tick” recommendations.

4.4 The announcement of the RHI Addendum in November 2012, the Sweett Group review of DECC data, and the observation that better performing heat pump systems need a proportionally higher rate of tariff to sufficiently reward consumers for the extra capital outlay on equipment which makes them more efficiency (eg fan assisted radiators) need solutions. Government must ensure that whatever solutions are proposed are straightforward in order not to provide a barrier to consumer uptake.

5. Should the Government involve third-party trusted messengers, such as charities, consumer groups, community organisations, local authorities in developing and delivering the customer journey for RHI and what would be the best way to do this?

5.2 Mark Group would like to see a national campaign on the RHI similar to that currently underway for the Green Deal. This could even be financed from the same £2.9 million finance pot.

5.3 We recognise that trusted local groups, SMEs, and local authorities can also be valuable to convincing consumers to take up the RHI offering. We have seen evidence of this under the Green Deal, and would encourage DECC to extend its policy of “target cities” and “community projects” for marketing to the RHI. Mark Group would be willing to assist with regional marketing efforts alongside partners in industry.

6. How are the proposals for domestic RHI likely to interact with existing policies such as the Green Deal and the Energy Company Obligation (ECO)?

6.1 The confirmation of EU State Aid clearance for ECO to be accessed alongside of the Green Deal was a welcome indication that the RHI will also be deemed to be accessible alongside the Green Deal and ECO schemes- as is currently the case with FiTs.

6.2 We support efforts to integrate aspects of the Green Deal, including the Green Deal Assessment and Green Deal “Green Ticks” as the minimum efficiency standard that consumers must meet in order to be eligible for the RHI. This is because we take a “whole house” approach to energy efficiency and renewable heating, and a holistic approach to the policy landscape.

6.3 It is likely that the combination of the RHI with the Green Deal will offer various consumer groups the best return on their investment if they can access Green Deal Finance or an ECO Grant alongside an RHI subsidy.

7. Does consumer protection need to be strengthened to combat potential miss-selling and how should this be done?

7.1 The provisions made under the existing MCS certification scheme should be sufficient to combat potential mis-selling to consumers. This is the current system in place for the Non Domestic scheme and should be extended to the Domestic Scheme.

7.2 If the Government proceeds with the proposal to make the Green Deal Assessment the basis of an energy efficiency eligibility assessment to the RHI then the consumer will also be protected by assurances such as the Green Deal mark which is to be monitored by the Gemserv ORB service. If consumers access Green Deal finance to fund the installation of an Air Source Heat Pump and other energy efficiency measures, intending to claim the RHI, they will be covered by provisions in the Consumer Credit Act for lending and borrowing.

8. Is there a danger that a gap in support will emerge between when the Renewable Heat Premium Payment (RHPP) will end in March 2013 and the commencement of the domestic RHI scheme in the summer of that year, what impact might this have?

8.1 There will be no danger to industry and investor confidence if there is a gap between the implementation of the RHI scheme and the end of the RHPP scheme in 2013 provided the Government makes a clear and unambiguous statement about the final scheme details in Spring 2013. This will allow installers to secure order books based on predicted implementation timelines and tariff levels. It will send a message to consumers that the Government fully supports the RHI, which should enable uptake.

9. What barriers might prevent the Government from announcing RHI implementation plans by summer 2013 and what impact would further delays have on the sector?

9.1 A crucial outstanding announcement on Part L of the Building Regs has caused uncertainty on the inclusion of New Build in the RHI and other subsidy schemes. It is the Mark Group view that the place for New Build improvements in energy efficiency and renewable technologies is regulation, not subsidy, and to

that end hopes that DCLG will announce a minimum of a Halfway to Zero Carbon approach as their adopted policy, and that they will do this soon enough to clarify the position of New Build in the RHI.

9.2 The publication of the RHI Addendum, which set a new methodology for calculating the renewable heat on which tariffs could be paid in the RHI, has had a profound impact of proposed tariff levels. In particular, Ground Source Heat Pump tariffs would have to be significantly higher in order to generate a rate of return. While the need to incentivise the consumer has not changed, the amount of heat eligible on which an incentive has paid has changed for some technologies: this may mean an increase in tariff levels and a renegotiation of the “value for money” tariff cap of 17.3 p/kWh.

9.3 A different approach to the tariff for heat pumps may have to be adopted if the government wishes to appropriately drive improving performance for this technology. This is because the extra cost of fitting, for example, better radiators to the heating system in order to hit the top levels of performance outweighs the benefits from the tariff. Therefore the rates of return on their investment may decrease for the consumer as their system performance increases. Devising a mechanism for negotiating this problem without over-complicating the tariff payments is now necessary.

9.4 Sweett Group consultancy firm were engaged by DECC In Q4 2012 to review their existing data set. From a first glance at their findings, release for industry sense-checking in January 2013, it appears that the proposed tariff levels in the September 2012 Consultation documents will have to change for most technologies, as the cost assumptions underpinning them will be different going forward.

10. What lessons can be learned from the implementation of the non-domestic RHI scheme?

10.1 Industry has been waiting since 2010 for the full RHI scheme to be launched. While supply chains and products are in place, the delay to implementation timelines has affected market growth, and as the low uptake numbers in the non-domestic sector show, have caused industry reluctance to engage their customers with the RHI scheme. The crucial lesson learned, therefore, is that for the scheme to succeed, Government support is needed. We look forward to an imminent announcement of the final policy details, ready for implementation in 2013. We believe that the RHI and the Green Deal will revolutionise energy efficiency and renewable heating for domestic and non-domestic consumers of energy beyond 2013.

March 2013
