

Consultation Response

Tuesday 7th July 2020



Future Support for Low Carbon Heat

The Heating and Hotwater Industry Council (HHIC) is the leading representative body for the UK domestic heating and hot water industry, worth £3-4 billion per year. HHIC's membership base covers approximately 94 per cent of heating and hot water solutions available in the UK.

HHIC is a division of the Energy and Utilities Alliance (EUA), a company limited by guarantee and registered in England. Company number: 10461234, VAT number: 254 3805 07, registered address: Camden House, 201 Warwick Road, Kenilworth, Warwickshire, CV8 1TH.

1. Do you agree that the tiering structure as outlined above is appropriate and would deliver the best value for money? Yes/No. Please provide evidence to support your response.

HHIC agrees that maintaining the tiered structure of subsidy for biomethane produced is the best approach for the new Green Gas Support Scheme. This structure appears to have been successful under the non-domestic RHI and is simple for all parties involved. Incentivising higher levels of production is vital and the tiered structure allows for this at proportionate levels. We welcome the increase in the size of tier 1 to the first 60,000 MWh of biomethane; many plants are fairly small, such as those located on farms, so this proposal should go a long way to encouraging investment in small plants which can take full advantage of this tier and also in medium-sized plants given that their subsidy level could be more generous.

2. What are your views on the impact of a 15-year tariff period to support biomethane? Please provide evidence to support your response.

HHIC understands the rationale behind lowering the overall length of subsidy support for biomethane plants; as the industry becomes more developed, money would be better spent incentivising the creation of new plants than on an additional five years of subsidy for existing ones. However, the Government must ensure that the length of subsidy is sufficient to ensure that investment in new biomethane capacity comes forward. 15 years seems to be a sensible compromise between the competing demands of value for money and market stimulation. We would be concerned if a length of subsidy any shorter than 15 years were to be introduced as this may deter investors who are looking for longer term assurance and may see the reduction in subsidy period from 20 years to, for example, 10 years as a disincentive.

3. What are your views on the advantages and disadvantages of a shorter 10- or 12- year tariff period and whether they would help maximise value for money? Please provide evidence to support your response.

As previously stated, whilst a shorter subsidy period may seem attractive from a value for money perspective, it may have the unintended consequence of curtailing new plant throughout the

scheme's period of operation. We believe that 15 years would be an appropriate starting point for the scheme.

4. Do you have any views on the appropriate tariff level, within these ranges? Please provide evidence to support your response.

HHIC believes that initially the tariffs should be set at the higher end of the proposed ranges as degression and other financial control mechanisms proposed in this consultation could enable the Department to lower them at a later date. It will be important for the scheme to attract applicants until it is well established, at which point the per plant costs can be lowered, as they were under the non-domestic RHI.

5. Do you have suggestions of other mechanisms that could be introduced to ensure tariffs deliver the best possible value for money – for example, additional evidence on costs and revenues that applicants to the Green Gas Support Scheme could be required to provide?

We have no comment to make.

6. From experience of degression, how do you think elements such as the frequency and size of degression, and spend triggers, should change in order to ensure value for money, whilst meeting the need for investment certainty? Please provide evidence to support your response.

HHIC believes that the degression system under the both RHI schemes met some of its key objectives, for example by controlling the amount of its budget being spent prematurely. However, degressions were, at times, sudden and severe which caused large spikes in demand followed by periods of little activity. Levelling out demand will clearly be more desirable for the purposes of both manageable administrative and market development.

We therefore believe that degressions should be more frequent but smaller rather than drops which artificially distort the market. We also believe that quarterly temporary closures should be used in preference to annual ones wherever possible to ensure those who just missed out on submitting their application in time do not have to wait long periods of time which could potentially jeopardise their project.

In terms of a tariff review, we believe that this should take place annually rather than at a fixed point which could cause a spike in demand shortly before it is conducted. We would also prefer to see the review carried out manually so as to give potential scheme participants and the wider industry the opportunity to comment and feed in evidence which will help to inform the review process.

7. Do you have further suggestions, beyond those mentioned in this consultation, which would help the Green Gas Support Scheme to deliver the best possible value for money? Please provide evidence to support your response.

We have no additional comments to make.

8. Do you agree with the proposals for tariff guarantees for biomethane? Yes/No. How could this be improved? *Please provide evidence to support your response.*

We are supportive of the proposals on tariff guarantees. These guarantees will be essential to guarantee investment for many plants and we welcome the requirement for producers to notify the scheme administrators when construction is commenced to address the issue of premature depressions or closures.

9. What are your views on increasing the minimum percentage of waste feedstocks above 50%, now or in the future? What could be a suitable new threshold? *Please provide evidence to support your response.*

HHIC is fully supportive of the proposals to increase the minimum proportion of waste feedstocks under the scheme and we would support a minimum figure of 50% as soon as the scheme begins. We should be ensuring that biomethane produced and subsidised in the UK is making the fullest possible use of available waste feedstocks as opposed to energy crops, particularly in light of the Government's draft waste strategy for England which could significantly boost the amount of organic waste feedstocks available in the coming years.

We believe that as the biomethane market grows and develops, the minimum percentage of waste feedstocks should be reviewed and potentially increased should the amount of such feedstocks allow for most producers to increase their proportion above 50%.

10. In light of recent amendments to sustainability criteria in the RED II, do you have any views on whether the UK should look to take into account similar changes for the Green Gas Support Scheme?

Given that CO₂ saved today is far more valuable than CO₂ saved in decades' time, anything that can be done to encourage the production and usage of low carbon biomethane now should be a priority for the Green Gas Support Scheme. HHIC is therefore supportive of criteria like this being taken into account for the Green Gas Support Scheme.

11. Do you have any views on how the feedstock reporting process for biomethane should be amended compared to the existing RHI requirements?

We have no comment to make.

12. What measures and technologies exist for reducing ammonia emissions from digestate and what are the barriers to their widespread deployment?

HHIC is aware of new techniques for digestate usage currently being developed which could significantly reduce the associated ammonia emissions. For example, studies are being conducted into the direct injection of digestate into the soil rather than it being spread on the surface of fields. We are not aware at what stage of development these measures techniques are at but it will be worth considering innovations such as this as the biomethane market grows.

13. What are the reasons for the lack of commercial demand for digestate and how can the market for digestate be strengthened?

We have no comment to make.

14. Do you agree with the proposal not to include an additional capacity mechanism within the Green Gas Support Scheme? Yes/No. *Please provide evidence to support your response.*

Whilst we agree that the proposed tiered tariffs will encourage larger plants from the point of application, we do not see the rationale behind removing the ability for additional capacity to be added at a later date. Given that there have been so few applications for additional capacity payments to date, this would be unlikely to have any noticeable impact on the scheme's budget. There is still a risk that plants could be initially sized sub-optimally but without a route to apply for additional capacity, this could prove to be an issue for a small number of producers.

15. Do you have any views on how a change of scheme participant mechanism may differ in the Green Gas Support Scheme to the RHI? Yes/No. *Please provide evidence to support your response.*

HHIC is supportive of the ability to transfer scheme participation being included in this scheme from the outset. This will provide a welcome level of flexibility which has not been possible under the non-domestic RHI to date. We do not see any reasons for the details of this mechanism to be different under this scheme than under the non-domestic RHI.

16. Do you agree with the proposal to not allow any interaction between the RHI and the Green Gas Support Scheme? Yes/No. *Please provide evidence to support your response.*

HHIC agrees that the Green Gas Support Scheme will be a separate successor scheme to the non-domestic RHI and, as such, preventing interaction between the two subsidy routes is sensible.

17. Do you agree with our proposal to allow biomethane producers to decide how much biomethane they wish to claim Green Gas Support Scheme payments for within a given quarter? Yes/No. *Please provide evidence to support your response or provide an alternative proposal for scheme interaction.*

HHIC welcomes the proposal to allow biomethane producers to claim from both the Green Gas Support Scheme and Renewable Transport Fuel Certificates in any given quarter. This will be welcomed by both biomethane producers seeking flexibility and the gas vehicles industry. The current restrictions have curtailed the amount of biomethane available under the Renewable Transport Fuel Obligation so if biomethane producers are able to access subsidies from a more diverse range of sources, this should encourage higher levels of production and higher levels of biomethane available to a range of sectors.

18. What are the main barriers to the deployment of biomethane AD plants and what potential solutions could help to overcome these?

The fact that many anaerobic digestion plants are located in rural areas has its advantages and disadvantages. Often they can take advantage of locally sourced organic wastes, such as farm

waste, and they are located away from population centres. However, this often means gas grid connections are non-existent or difficult to access. This has led to the vast majority of such plants burning biomethane on-site to produce electricity. Clearly it would be more efficient for the biomethane to be fed into the gas grid so we believe that the Government should consider providing enabling funding for measures such as single injection points for multiple plants. Recognition of some of the barriers faced in certain areas of the country will be vital to addressing regional inequalities, particularly given that the draft waste strategy for England could lead to organic waste feedstocks becoming available all over the country.

19. Do you have views on how the Green Gas Support Scheme could be improved, beyond the ways described in this consultation? Please provide evidence to support your response.

We have no additional comments to make.

20. Do you have any views on the most appropriate market-based mechanism for green gas support in the longer term, and how this might operate? Please provide evidence to support your response.

HHIC believes that, in the longer term, market-based mechanisms, such as supplier obligations, will certainly have an important role to play in decarbonising the gas grid. For example, as the potential for blending of biomethane, and even hydrogen, in with natural gas increases, suppliers could be obligated to ensure they deliver a certain level of low carbon gas to customers.

However, HHIC does feel that the production of renewable hydrogen may need to be initially subsidised, in a way similar to how biomethane has been, to ensure that commercial viability and supply chains are well established.

21. Do you have any views on industry readiness for a market-based mechanism to support green gas in the longer term? Please provide evidence to support your response.

HHIC does not believe that the gas industry is yet ready to transition to market-based mechanisms for supporting low carbon gas in the foreseeable future but this will certainly change as the market develops further.

22. Do you agree with targeting support at domestic and non-domestic installations with a capacity up to and including 45kW? Yes/No. Please provide evidence to support your response.

HHIC supports this position. Currently the majority of installations of heat pumps would be covered by this capacity range. Beyond 45kW, the grant would become less attractive due to the higher costs but also these will be for much larger projects where different finance mechanisms will be used.

23. Do you agree that support for buildings technologies should change from a tariff to a grant? Yes/No. Please provide evidence to support your response.

HHIC is happy that there is continued support for building level technologies in whichever form. A grant-based scheme will overcome some of the problems of consumers not having the available

funds. Though an installation will still be more expensive than the counterfactual. However, as HHIC explored in a paper produced in 2016 '*RHI, A Smarter Approach*'¹, a grant-based scheme will lead to less installations than a tariff approach and so will struggle to make a meaningful difference in deployment rates, learning and upskilling. We need to see either significantly more funding or a more comprehensive review of heating appliance installations.

24. Do you agree with our proposal to offer a technology-neutral grant level? Yes/No. Please provide evidence to support your response.

HHIC supports this position as it is simple to understand and reduces complexity in knowing what grants are available. However, this will lead to fewer ground source heat pumps being installed as they are more expensive and so the grant covers a lower percentage of the overall cost.

25. Do you agree that £4,000 is an appropriate grant amount to meet the aims of the scheme? Yes/No. Please provide evidence to support your response.

HHIC does not believe a grant of £4,000 is an appropriate amount to meet the aims of the scheme. This is mostly because there is a £50 million annual cap which will limit installation to around 12,500 units per year which is lower than current levels of installations under the RHI. This will therefore not grow the market, not grow the number of installers selling heat pumps and will not increase our learning on how to install heat pumps beyond where we are today.

£4,000 would still make heat pumps more expensive than the gas boiler counterfactual. HHIC believes that all the vouchers for the scheme will be used, but this should not be a way to judge the success of the scheme.

26. Do you agree with the recommendation for a flat-rate grant? Yes/No. Please provide evidence to support your response.

HHIC does agree but with the concerns listed in our responses to previous questions over the budget.

27. If you believe a variation by capacity should be considered, please provide evidence to justify a process and level for varying the grant.

HHIC does not believe there should be a variation by capacity. This could lead to higher capacity products being installed where they shouldn't be and resultant gaming of the system.

28. Please provide any relevant views to help inform development of the delivery mechanism.

Consideration should be taken for smaller installation companies. They may have bigger cash flow issues and so won't be able to absorb the initial cost of the product before payment for the voucher is made. They will also be more susceptible to late payment issues from the consumer after installation.

¹ *RHI: A Smarter Approach*, Heating and Hotwater Industry Council, 2016

There is a risk that the savings made from the voucher get hidden in the overall costs for the work and so costs for installing heat pumps goes up. This inflation would negate some of the benefits of having a voucher scheme as the upfront capital cost will increase.

There doesn't appear to have been consideration for schemes where credit may be involved. Will schemes that are paid for on a monthly basis still be eligible and if so will the installer be able to claim the full voucher cost?

29. Do you agree with the minimum efficiency requirements for heat pumps and evidence requirements? Yes/No. Please provide further evidence to support your response.

HHIC agrees with the proposed requirements.

30. Do you agree with the proposal to require electricity metering for all heat pump installations? Yes/No. Please provide further evidence to support your response.

We have no comment to make.

31. Do you agree with the proposed air quality requirements set out above? Yes/No. Please provide further evidence to support your response.

We have no comment to make.

32. Do you have any comments on how best to ensure ongoing compliance with fuel sustainability and quality requirements following the redemption of a grant?

We have no comment to make.

33. Please provide views on the appropriate requirements for the heat loss calculation, as well as the minimum heat loss value that should need to be demonstrated.

We have no comment to make.

34. Please provide views on any other criteria to ensure that biomass support is focused on hard to treat properties only.

We have no comment to make.

35. What do you consider to be the main consumer protection risks of providing support through an upfront grant and how might they be mitigated? Please provide evidence to support your response to question.

As previously stated, there could be an issue on the transparency of the cost savings. Installers may not pass on the full voucher to the consumer and put prices up. However, it is hard to mitigate for price inflation and hard to outline how it can be mitigated. Installations are mostly

based on cost per hour spent fitting the system and so it is not possible to legislate against these costs going up.

There is the potential for pressure selling. If companies are able to find a way to claim vouchers before a customer has agreed a job, they could use this as leverage to pressure households to fit products that may not be suitable. The Department will need to ensure that quotes are in place before a voucher claim is made and that the consumer is fully aware of what they are installing. In the Green Deal Home Improvement Scheme and the Green Deal, sellers often used lines such as 'mandatory government scheme' or 'time limited discount' to pressure consumers. The complaints that subsequently followed were incredibly damaging to the insulation industry. Heat pumps are still an emerging technology in the UK and any bad press or mis-selling could be extremely detrimental to their long term future.

36. Do you agree with the proposed budgetary control mechanisms as a means of preventing scheme overspend? Yes/No. Please provide evidence to support your response.

We have no comment to make.

37. Do you agree that quarterly grant windows would prevent overspend and manage demand to ensure an even spread of deployment? Yes/No. Please provide evidence to support your response.

HHIC agrees with this position but it is not a perfect solution as it will lead to quarterly peaks and then a lull. It could also prevent installations where the need for heating is immediate and so they choose an alternative technology. Monthly windows may be more appropriate to try and manage this.

38. Do you agree with not supporting process heating under the Clean Heat Grant? Yes/No. Please provide evidence to support your response.

HHIC agrees with this proposal.

39. Do you agree with not supporting biogas combustion under the new policies? Yes/No. Please provide evidence to support your response, including any wider detail on decarbonisation opportunities for biogas combustion in rural areas.

HHIC agrees with this proposal as we want to ensure that as much biomethane is injected into the gas grid as possible.

40. Do you agree with not supporting solar thermal systems under the Clean Heat Grant? Yes/No. Please provide evidence to support your response.

HHIC does not agree. Solar thermal systems continue to offer benefits that should be supported, especially as in the future hot water will comprise a bigger proportion of energy usage in the home. With hot water tanks being capable of supporting grid balancing, solar thermal could become a key way to generate hot water and also help balance the grid. Continued support by BEIS would help in their technological development.

41. Do you agree with not supporting hybrid systems under the Clean Heat Grant? Yes/No. Please provide evidence to support your response.

HHIC does not agree as hybrids have been clearly identified as a key solution going forward. The Committee on Climate Change and other key stakeholders have identified hybrids as a critical technology if we are going to meet net zero. We cannot understand why they are not going to be supported, especially as bivalent systems were supported through the RHI. It is also hard to understand as the Department is supporting hybrids through test work and potentially in a call for evidence on energy labelling.

We believe that a compromise would be to just offer grant on the heat pump solution and allow the claim even if a boiler still present. Work done by Wales and West Utilities has shown that when both are present the heat pump will continue to do the majority of the heating. Furthermore, the key aim of the low carbon heat grant is to encourage the take-up of heat pumps and build the supply chain especially off-grid. Coupled with a boiler running on bioLPG, for example, a heat pump could deliver significant carbon savings whilst meeting the heating needs of a rural property. It would seem counterintuitive to not support a version of this technology that is both effective and works best off the gas grid.

42. What improvements could be made to the proposed approach for tackling noncompliance for participants under the Green Gas Support Scheme?

We have no comment to make.

43. What are the main risks of non-compliance, fraud or gaming associated with the Clean Heat Grant?

The Green Deal Home Improvement Fund saw vouchers 'claimed' in the first day, mostly by large companies who would then subsequently find customers. This needs to be managed to ensure that the voucher claimed has a real customer demand and that banking is not allowed.

44. What would be the most important features of an audit regime to minimise the risk of non-compliance?

We have no comment to make.