
GSHP

association

21st February 2013

GSHPA response to: **Energy and Climate Change Committee** **Select Committee Announcement 50**

NEW INQUIRY: Renewable Heat Incentive (RHI)

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

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Responding on behalf of the **Ground Source Heat Pump Association (GSHPA)**

How were members' views assembled: **Consultation with Council**

Would you like this response to remain confidential? **No**

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 inventions 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 3 main elements which make up the incentive formula:

Domestic RHI = Tariff Rate * Deeming (or metered) quantity * 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, 5 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.