



URN 16D/012: Consultation on proposed reforms to the existing Domestic and Non-Domestic Renewable Heat Incentive schemes

Response from Community Energy England

Date: 27th April 2016

COMMUNITY ENERGY ENGLAND

Community Energy England (CEE) was established in May 2014 to provide a voice for the community energy sector primarily in England. Membership already totals over 190 organisations. The majority of the member organisations are from the community energy sector but the membership extends across a wide range of organisations which work with and support the community energy sector. Further details can be found on the CEE website at www.communityenergyengland.org

Responses to consultation questions

Consultation Question 1 Degression and Trigger Setting

No. Degression makes it very difficult to plan the financial returns or raise the funds in the absence of pre-accreditation for a tariff. It is also complicated.

The high risks (both to returns and to whether a project is feasible, after extensive work) linked to absence of pre-accreditation require returns to be much higher than they would otherwise need to be. This is very difficult to achieve and the removal of EIS/SEIS will make raising of capital for projects even more difficult.

The long lead time of many heat retrofit projects mean that degression is not responsive to a reduction in the rate of uptake of new installations and when it occurs is then too severe.

A target of delivering 60 biomass systems per annum is not enough to support the development and maintenance of a viable biomass installation sector or the supporting infrastructure of maintenance, monitoring, learning or fuel supply.

It is vital that pre-accreditation protects from the impact of any budget cap or closure of the scheme.

Consultation Questions 2-4 Budget Control

We disagree with this approach. If you proceed in this way then only cheap, quick boiler replacement type schemes can feasibly proceed

The short notice – 21 days of closure or even less – will discourage schemes and reinforces the need not to be ambitious or innovative. It will only promote tried and tested and risk free installations, whereas it is innovation which will drive down costs over time.

Consultation Question 6 Additional Capacity

We doubt that these changes will facilitate the delivery of additional capacity – for instance by extending a district heating system. Instead it is likely that the effect will be to encourage the use of fossil fuels.

Consultation Questions 9 – 14 Ground source heat pump systems with shared ground loops

District heating, including shared ground loop, are obvious candidates for community ownership and delivery. Shared loop should be encouraged.

Community ownership brings greater engagement, a source of capital, volunteer labour, passion and credibility and a determination to seek to alleviate fuel poverty. It is vital that community ownership is permitted: limiting it to the landlord would materially reduce deployment and the beneficial effects.

Our members tell us that the RHI is insufficient to fund the necessary changes. It needs to be supported by grants for the fuel poor/social housing. The non domestic RHI is insufficient to provide a sufficient return for community funding of shared ground loop for social housing.

Consultation Question 18 Making it easier for less able to pay households to benefit from the RHI (assignment of rights)

The Government should ensure that community funded projects also qualify – they can be a far more supportive and benign funder than “finance companies”, provide an alternative source of finance and can this way develop a mix of support for single properties and district heating/shared ground loop.

Consultation Questions 33-38 Non domestic RHI – Heat Pumps

Question 33

The tariff level is insufficient to drive deployment of shared loop in social housing and is probably sufficient only to support about half the cost of the retrofit. The balance would need to come from grants or other sources but the concern we have is that this could raise state aid issues.

Question 34

Absence of certainty over rates and the absence of pre-accreditation effectively limits installations to those where the rate is immaterial.

Consultation Question 39 Non Domestic biomass

The proposed reduction in support limits small/medium biomass to a boiler replacement exercise (which would normally require pellet) and even then it would be marginally cost

effective, if at all. This will deliver reduced carbon saving and not have the effect of bringing underutilised woodland back into management.

We have been informed by one of our members which is a small to medium biomass installer that the combination of the reductions in the rate of RHI and the drop in the price of oil is reducing the number of biomass installations resulting in a corresponding increase in the number of new oil boilers being installed. This is necessarily leading to a reduction in carbon savings.

District heating systems should also attract a higher rate to reflect the cost of the groundworks. Our members with relevant experience believe that boiler systems with a capacity over about 500kW almost certainly include a significant element of district heating and every system at 1MW or over examined by our contractor included a significant amount of district heating.

One biomass installer which is a member of CEE has analysed in the region of 14 systems it has installed and compared installed cost per kW against the DECC projections. It has concluded that boiler replacement cost is in the region of £500-£600 per kW but anything including a district heating element is between £900 and £1,000 per kW.

Consultation Question 45 – Non-domestic RHI Other technologies

We profoundly disagree with the removal of support for solar thermal. It still offers the scope to experiment and innovate with.

For instance, DECC SBRI funding has just supported heat pumps and solar thermal on a large DH network in Cranbrook Exeter and we believe DECC should wait and see the performance of that before taking any decision.

There is a small but significant CO₂ reduction potential for Council owned open air swimming pools. The RHI fails to help these much more economic opportunities to reduce CO₂ via heat pumps or solar thermal (both technologies being more cost effective at the lower temperatures).

Biomass boilers and heat pumps are predominantly imported and get taxpayer support. Solar thermal, the best of which are made in the UK (e.g. Thermomax made in Northern Ireland), will not now be supported.

Consultation Questions 46 – 52 Non-domestic RHI: Tariff guarantees

Question 46

Tariff guarantees are essential, as are guarantees that if the scheme is withdrawn/closed it will not affect projects which have a tariff guarantee.

High risks mean that high returns are required to compensate for the risk, many good schemes do not proceed because they will not take the risk.

Wood chip based systems have a much longer lead time (and higher construction cost) than pellet because the amount of construction required is often significant to accommodate the

fuel supply and the space and need for delivery is such that they are rarely boiler replacement schemes; unlike a typical pellet system.

We think community groups should be eligible for tariff guarantees for all non-domestic and domestic RHI tariffs.

Subject to the previous statement relating to community groups, we do not agree with the suggested capacity limits for eligibility for tariff guarantees as set out in paragraph 11.15 which we regard as far too high particularly for challenging and innovative technologies such as heat pumps. We also think the level for biomass should be much lower at around 200kW as this is a level at which an element of district heating can be introduced.

The limit of 2MW for biomass effectively means no tariff guarantee.

If a heat network is to be provided then a much lower level of tariff guarantee is required – we suggest around 200kW for a commercial entity and zero for a community group.

CEE welcomes the proposals on pre-accreditation of heat pumps but thinks the level at which this becomes available should be dropped significantly.

The Low Carbon Hub in Oxford have recently done a study on the feasibility of heat pumps and solar for Oxford City Council's open air pool (one of the Council's largest CO2 emitters) but the finances need a little assistance to make it work viable although it wouldn't need to be the full RHI value.

The Oxford study is also looking to use the heat pumps/solar as a heat source for a small local DH network. In doing this work it has become apparent how many similar community open air pools there are – and how cheap the significant CO2 savings could be.

Question 47

The definition of financial close in 11.37 is not suitable for community share offers.

There should be a different timetable permitted since it will be necessary to make a public share offer and 8 weeks is insufficient.

There have been around 500 share offers under the FITs arrangements – potentially this is a large and supportive market to develop heat pumps which should be encouraged.

It is possibly best to have a two tier arrangement – with a longer period to move to financial close after initial pre-accreditation for community projects (a distinction made also with FITs).

When raising money it is essential to know what rate of RHI applies, so it should be the tariff at stage 1 – this gives the necessary certainty. A substantial reduction may take place otherwise which completely undermines a community fundraising.

Consultation Questions 53 – 55 Conclusion

Question 53

England

Question 54

A number of our members monitor the regular RHI deployment statistics.

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