

Renewable Heat Incentive Consultation on the proposed RHI financial support scheme

Response from the G.15 group of London Housing Associations:

This is the response from G.15, a group of London’s largest housing associations. G.15 comprises:

A2 Dominion Group	Metropolitan Housing Trust
Affinity Sutton	Notting Hill Housing
AmicusHorizon Group	Network Housing Group
Catalyst Housing Group	Peabody
Circle Anglia	Southern Housing Group
East Thames Group	The Hyde Group
Family Mosaic	The L&Q Group
Genesis Group	

G.15 makes a significant contribution to life in London. Collectively, G.15 associations house around one in 10 Londoners and manage approximately 410,000 homes. We build over 10,000 new homes each year. We invest over £25 million annually in economic and community development to create thriving, sustainable neighbourhoods across the capital.

Please use the table below as a template to respond to the consultation. It will help us to record and take account of your views.

Also, please provide evidence for your answers and comments where possible.

INTRODUCTION

Q1: Are there any issues relevant to the design or operation of the RHI that are not addressed in this consultation document? If so, how should we deal with them?

Yes/No

Comments: Clarity on the ability to transfer RHI obligations and payments from one body to another at change of ownership (or otherwise) is needed.

Also clarity is needed on the consideration of costs of associated specialist equipment as part of an RHI installation (plumbing, controls, meters, infrastructure etc.) and the bearing these costs may have on the set tariff/repayments.

The consultation document refers variously to ‘CHP’ and ‘renewable CHP’, but does not clarify if Government sees a distinction between the two. Although CHP systems are not in themselves renewable unless they use an alternative to fossil fuel, fossil-fuelled CHP systems have often been viewed as acceptably meeting local renewable planning requirements. Clarification is needed on this issue to ascertain whether it is only truly

renewable CHP systems that will be eligible for RHI, or whether all CHP systems will be eligible regardless of fuel source.

As an incentive aimed at the consumer, the communication about the availability of the FIT has been ineffectual. To encourage good take-up, more consideration should be given to how the introduction of the RHI is communicated, particularly as it is a more diverse/complex incentive system in terms of technologies and operation.

It is unclear in the consultation document who will pay for the RHI and where the financial burden will fall. As a group, we intend to take advantage of the RHI as it is proposed, and ensure that it is equitable for our customers that benefit. But as with the FIT, we are concerned about the broader equity impact of the RHI on our customer's energy costs. We look forward to hearing from Government about how industry will meet its share of the cost of running the RHI and how the RHI will work for householders in the private sector on low incomes with limited access to capital.

CHAPTER 1: ACCESSING THE RHI

Q2: Do you see any barriers to such financing schemes coming forward? In particular, are there any limitations in leasing and finance legislation that you feel inappropriately restrict the development of RHI financing models?

Yes/No

Comments: Of the models proposed: For social landlords, current legislation precludes the introduction of any PAYS type charge placed on the property in the form of a service charge or otherwise. As such, until primary legislation is passed, social landlords will be unable to reclaim any PAYS payments from social tenants as part of such a financing scheme.

As social housing landlords hold the obligation for installing and maintaining the domestic heating system (individual or communal) at a property (excluding leaseholders), direct financing relationships between tenant and third parties such as ESCo's, energy suppliers, etc. would not be applicable and would, instead, have to be able to work within the framework of a relationship with the landlord.

If individuals or landlords are to borrow upfront for the capital cost of installation, the rate of return of the RHI tariff must be high enough to cover the additional interest on the borrowing and any inflated cost related to ongoing maintenance when compared to the existing fossil fuel model.

Also, our experience in community heating schemes is that the energy services market, being immature, presents prohibitive costs and added difficulties compared to the individual boiler model – particularly in the metering and billing areas. As the market develops, it is hoped that this problem will reduce.

Q3: Do you agree with our proposed RHI registration and payment approach? If not, can

you suggest how this approach can be improved?

Yes/No

Comments: Broadly agree, but with the following comments:

The consultation document is unclear on the technicality of “ownership” of the plant and states that the Energy Act specifies that RHI payments can only be made to the “owner” of the plant. This is said to mean that in the case of hire-purchase agreements, etc. the owner is the person *in possession* of the plant (the occupier) and, therefore, they get the payment.

However, the document also states that there are instances where the owner and the person operating the equipment are different entities with the example of a local authority installing the equipment and retaining the obligations and rights along with the RHI payment.

Whilst it seems clear that social landlords would have no barriers in claiming the RHI for the plant installed at their properties, there is a lack of clarity on whether there could be a legal instrument to enable developers, ESCOs or other social enterprises to have the RHI “signed-over” to them in the event that they pay for the installation and ongoing maintenance of the equipment, cutting out the need for a separate on-payment agreement with the occupier. Such flexibility may help for wider and simpler application of the scheme.

Similarly, there is no explicit reference to how the RHI will operate at change of ownership – i.e. when a private homeowner moves home or when property is transferred from one landlord to another, how is the RHI managed? Is it transferred as part of the property? As the new owner will be taking up the responsibilities of maintenance/upkeep, the RHI payment should also transfer.

For homeowners, annual payments may be less preferable to more frequent payments (e.g. quarterly) to manage cash flow and offset against any borrowing carried out to fund the upfront cost of the installation.

CHAPTER 2: ELIGIBILITY AND STANDARDS

Q4: Do you agree with our approach of requiring products and installers for installations up to 45kW within RHI to be accredited under MCS or equivalent?

Yes/No

Comments:

The take-up of renewables and the development of the low-carbon supply chain will stand and fall on customer experience. Accepting that the MCS is a barrier to entry for smaller providers and a constraint on competition because of membership eligibility, this is a price worth paying to ensure that customer value is not undermined by poor supply chain

delivery.

Members of the MCS also have a valuable role to play in describing the maintenance programme associated with RHI technologies and offering services. Again, this is vital in terms of the value customers place in the RHI technologies but also to ensure that the deeming system operates effectively.

Q5: Where MCS product and installer certification is extended beyond this limit, do you agree that we should introduce the requirement of using certified installers and equipment for eligibility for the RHI?

Yes/No

Comments:

As above.

Q6: Can you provide details of any UK or European standards that should count as equivalent to MCS? How should we recognise these standards for the RHI?

Comments:

Q7: Do you agree with our proposed approach to eligibility of energy sources, technologies and sites?

Yes/No

Comments: Clarification on eligibility of refurbished and converted technology would be useful, particularly within the scope of retrofitting existing district heating systems. For example – in a scheme that replaced the fuel feeding a district gas boiler with renewable biogas from waste as a part of a mix, with minor conversion required for the equipment, would it be eligible for RHI funding?

Q8: Do you agree with our proposed approach on bioliquids? Are you aware of bioliquids other than FAME that could be used in converted domestic heating oil boilers? If so, should we make them eligible for RHI support, and how could we assess the renewable proportion of such fuels to ensure RHI is only paid for the renewable content of fuels?

Yes/No

Comments:

Q9: Do you agree with the proposed emissions standards for biomass boilers below 20MW? If not, why, and do you have any evidence supporting different ones, in particular on how they safeguard air quality?

Yes/No

Comments: The proposed standards are sensible to ensure accessibility and cost effectiveness for the purposes of the scheme. We share the concern that a significant increase in take-up of biomass boilers in high-density urban areas, particularly with boilers that result in higher emissions of particulates and nitrogen oxides than existing fossil fuel solutions, could be detrimental to urban air quality. But a conflict remains with the desire to reach higher levels of the Code for Sustainable Homes, as biomass is an integral technology on dense urban sites.

Managing such a situation may require widespread biomass technology, installed under the RHI, to be replaced within their lifetimes for cleaner technologies at high cost. It is important that the RHI scheme is future-proof of such eventualities and doesn't result in unintended negative consequences. Control over biomass take-up in urban areas to safeguard air quality whilst balancing with cost effective roll-out of low-carbon heat will be important.

Q10: Do you think the RHI should be structured to encourage energy efficiency through the tariff structure (in particular the use of deeming), or, additionally, require householders to install minimum energy efficiency standards as a condition for benefiting from RHI support?

Yes/No

Comments:

It is regrettable that the policy instruments that will deliver 'whole-house' retrofit such as PAYS and a new supplier obligation are not in place to ensure that fabric measures are delivered before or at the same time as the installation of renewable energy supply technologies.

But it is important that artificial barriers are not put in place that will restrict the uptake of renewable heat before other policy instruments are available. The deeming mechanism helps encourage energy conservation and investment in energy efficiency to make the most of the RHI payments. It is also worth noting that the RHI is stimulating the supply of both renewable hot water as well as space heating.

However, there are two important considerations to note for retrofit:

- If the new heating technology is installed prior to a “whole-house” energy efficiency upgrade, the technology will be oversized for the property heating requirements after the upgrade has taken place. However, this is preferable to under-specifying the technology in anticipation of a future upgrade.
- Requiring a minimum standard of energy efficiency works to be carried out to ensure eligibility for the RHI will undermine the effectiveness of the scheme to tap into the market for distress replacements (where a boiler breaks down and an occupier needs a rapid replacement). Currently, such installations make up the majority of installations for private homeowners and a significant proportion of social landlord replacements. It is important that the RHI is easily accessible in the event of an urgent need for a heating replacement – presenting a low-carbon alternative to a gas boiler or electric heating system without barriers that dissuade take-up.

Government should commit to a review of the RHI once major new policy instruments are in place that will stimulate improvements in energy efficiency to ensure policies are joined up and that the financial and carbon impact of the RHI are maximised. In the meantime, any minimum eligibility standards should not exceed those prescribed by the Low Carbon Buildings Programme.

Q11: Can you provide suggestions for how to ensure that developers do not build to lower energy efficiency standards as a result of the RHI in advance of 2013 and 2016 building regulations taking effect?

Comments:

CHAPTER 3: TARIFFS

Q12: Do you agree with our proposals on where we should meter and where we should deem to determine an installation’s entitlement to RHI compensation?

Yes/No

Comments: The consultation document seems to suggest that the deeming assessment be carried out by the installer. Although most consumers will be constrained by available capital, safeguards must be put in place to avoid the situation where an installer “over-deems”: specifying a bigger-than-necessary, and more expensive, piece of equipment in the knowledge that the customer will get a higher rate of RHI payment as the installer gets a higher commission. The MCS should provide this consumer protection.

It is also important to note that some form of metering or monitoring equipment would be necessary at any installation to ensure that the equipment is working as expected and to be able to prove to Ofgem that the technology is in good working order and still eligible for the RHI payments.

Q13: Do you agree that a process based on SAP or SBEM for existing buildings or the Energy Performance Certificate for new buildings is the best way of implementing deeming? Do you have any suggestions on the details of how this assessment process should work?

Yes/No

Comments:

SAP should be used as the methodology for deeming. It is not clear from the consultation how SAP would be used, but a full SAP survey used for new build would appear unnecessary to deem usage for the existing stock. Consumer awareness and understanding of the EPC is growing and the costs of the EPC could be offset against the RHI payments such that the occupier does not pay for the upfront cost of the assessment. But crucially, the consumer does not need either an EPC to buy a gas boiler, so minimising the barriers to entry is important.

Q14: Do you agree that at the large scale/in process heating, where we propose metering, the risk of metering resulting in a perverse incentive to overgenerate is low? How could we reduce it further within the constraints of using metering, to ensure only useful heat is compensated? Do you see any practical difficulties concerning use of heat meters (such as on availability, reliability or cost of heat meters) and, if so, how should we address them?

Yes/No

Comments: To further reduce risk of 'overgeneration' applicants could be required to provide evidence that an accurate assessment of reasonable demand has been made.

The communal heat metering and billing sector is currently immature and presenting difficulties for associations, Local Authorities and other groups seeking a cost effective solution for charging residents for the heat they use. The RHI could provide an opportunity for government to support the development of the market for metering and billing and the development of reliable, affordable heat-metering technology by working with social landlords and the communal energy sector.

Q15: What is the right incentive level required to bring forward renewable heat from large-scale biomass including in the form of CHP while minimising costs to consumers?

Comments:

Q16: What is the right incentive level required to bring forward renewable heat from biogas combustion above 200 kW including in the form of CHP while minimising costs to

consumers? Do you have any data or evidence supporting your view?

Comments:

Q17: Do you have any data or evidence on the costs of air source heat pumps above 350 kW or solar thermal above 100 kW?

Comments:

Q18: Do you agree with the proposed approach to setting the RHI tariffs, including tariff structure and rates of return? Do you agree with the resulting tariff levels and lifetimes? If not, what alternatives would you prefer, and on the basis of what evidence?

Yes/No

Comments: Whilst we believe that the IRR for solar thermal is reasonable given the maturity of the technology, we believe consumers might be persuaded to install technologies with the higher IRR, even if they are not be best-fit in terms of CO₂ emissions and running costs. Solar thermal is also proven and reliable technology that is flexible in terms of its integration with other water-heating technologies.

Q19: Do you agree with our proposed approach on mixed fuels? Do you agree with our proposal that, at larger sites, with the exception of EfW, RHI will require the use of a dedicated boiler for the renewable fuel? Where our approach is to follow the Renewables Obligation, do any aspects need to be adapted to account for the different situation of renewable heat?

Yes/ No

Comments:

Q20: Do you believe that we should provide an uplift for renewable district heating?

Yes/No

Comments: Government strategy (HEMS and others) suggests a move towards more widespread district heating. For providers of these energy services, there are a number of challenges, financial and administrative, that make this more difficult. An uplift to support providers to align with Government direction would be a practical addition to the RHI.

Furthermore, connection charges for district heating retrofit are high: somewhere between £5-7000 per dwelling. Most of these costs are associated with connection to district energy centres, block distribution network, heat exchangers and remedial work associated with local wet systems.

Q21: Do you believe that an uplift should be available to all eligible district heating networks, or that eligibility should be determined on a case-by-case basis depending on whether a network contributes to the objective of connecting hard-to-treat properties (and, if the latter, how should we determine this for each case)? Do you agree that situations of one or a small number of large external heat users should not be eligible for an uplift, and, if so, what should be the minimum eligibility requirement for an uplift (expressed for instance as a minimum number of external customers)?

Yes/No:

Comments: Adding an eligibility factor to the uplift would further complicate the scheme. It is also worth noting that a significant number of existing district networks do not have individual heat metering and an uplift that would apply to situations with existing infrastructure would recognise the cost of installing the necessary metering equipment for individual metering (as the consultation suggests will be a requirement under the RHI) and incentivise refurbishing/extending existing infrastructure.

CHAPTER 4: THE RHI BEYOND 2011

Q22: Do you agree that RHI tariffs should be fully fixed (other than to correct for inflation) for the duration of any project's entitlement to RHI support? Do you agree that we should include bio-energy tariffs, including the fuel part of those tariffs, in such a grandfathering commitment?

Yes/No

Comments:

Q23: Do you agree with our proposal not to introduce deggression from the outset of the scheme but consider the case at the first review?

Yes/No

Comments: As stated in the document, the uncertainties with renewable heat technology and the RH market are currently significant. The RHI also needs to allow reasonable time for the market and general public to adapt to an increased take-up in such technology.

Considering deggression at a future review date is a reasonable and practical idea.

Q24: Do you agree with our proposed approach on innovative and emerging technologies?

Yes/No

Comments: Innovative technology is important and taking advantage of the most efficient and cost effective new technology is important to the effectiveness of the scheme. However, the RHI should not be seen as a vehicle for encouraging innovation. To inspire public confidence in RH technology and ensure that the RHI maintains a positive public perception it is vital that the equipment promoted through the scheme is reliable, fully-developed and well understood. Providing an uplifted tariff to promote innovative technology potentially jeopardises the above.

There are other funding vehicles to promote research and innovation, through bodies such as the Technology Strategy Board. As the RHI is periodically reviewed, the government could add technologies that have proved themselves to the highest levels of certainty through effective trials.

Q25: Do you have any views on how we should encourage technology cost reductions through the RHI, particularly on solar thermal heat?

Comments: Develop a UK supply chain and manufacturing capacity for RH technology.

Q26: Do you agree with our proposed approach to reviews, and the timing and scope of the initial review?

Yes/No

Comments:

Q27: Can you provide examples of situations that could be taken into consideration in determining criteria for an emergency review?

Comments: There is a need to ensure that the RHI is compatible with future policies, strategies and associated funding mechanisms (e.g. HEMS, the Warm Homes Standard, the new Energy Supplier Obligation, PAYS). As many of these have yet to be consulted on, it is not clear as to how the RHI will interact with them. For these and future policy changes, an emergency review may be necessary to make changes to ensure a consistent and smooth interaction between schemes.

Q28: Do you agree with our proposed approach to allow access to RHI support to new projects where installation completed after 15 July 2009, but not before? Do you have any evidence showing that in particular situations RHI support for installations existing before this date would be needed and justifiable?

Yes

Comments:

CHAPTER 6: ADMINISTRATION

Q29: Are there any parts of the proposals set out in this consultation that in your view would allow for unacceptable abuse of RHI support, or other unintended consequences? If so, how could we tighten the rules while keeping the scheme workable, and avoiding an overly high administrative burden?

Yes/No

Comments: As detailed above:

- Clear guidelines on transfer of RHI obligations and, therefore, payments at change of ownership or otherwise are needed to ensure that individuals can not claim the RHI for a property or piece of equipment they no longer own or maintain.
- If installers are responsible for applying the deeming methodology, there must be strict guidelines and auditing built into the methodology and process to ensure that they do not “overdeem” to be able to sell more expensive equipment.

ANNEX 3: CALL FOR EVIDENCE ON DISTRICT HEATING NETWORKS

Q30: Do you agree with our proposed overall approach to setting the level of the uplift? Can you provide evidence that would help us to determine the level of uplift? In particular:

Can you describe typical district heating networks that would be appropriate as reference networks, and what are their network costs, heat loads, and customer numbers and characteristics?

What proportion of the heat load of such networks is typically supplied to hard-to-treat properties? What proportion of the total network of the reference installation(s) supply heat to hard to treat properties?

Should we choose one reference network and determine one uplift (in p/kWh) applicable to all sizes of networks, or should there be several based on a number of differently sized reference networks?

Yes/No

Comments:

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