

Dominic Stockbridge
Public Accounts Committee
House of Commons
London SW1A 0AA

13th March 2018

Dear Dominic,

Evidence from the GSHPA to the PAC to add new analysis to the NAO's Report on the RHI

1. *How vulnerable is the RHI to fraud, non-compliance and gaming?* **Considering that the RHI is a world-first, both in type and at such a large scale, it is as invulnerable as can be expected, and at relatively little risk to taxpayers.**
2. *How effective is BEIS and Ofgem at dealing with fraud, non-compliance and gaming risks?* **Both OFGEM and BEIS have been relatively effective.**
3. *Has BEIS done enough to address the barriers to uptake for the Non-domestic and Domestic RHI?* **For heat pumps, no. For other technologies such as biomass, BEIS has done rather too much to address the barriers. Many large scale commercial projects would have chosen on ground source heat pump technology have instead been effectively bribed by over-generous RHI tariffs into choosing biomass instead – so taxpayers cash has been spent not on generating renewable heat but on “technology switching”; the NAO did not report on this aspect of the RHI. Before the RHI subsidy, sales of biomass boilers were tiny in the UK – and GSHP's were growing rapidly; and after the RHI subsidy finishes, the market for biomass boilers is likely to largely disappear. This outcome is a natural result of BEIS designing policy to meet Treasury's constraint of “lowest-cost-compliance” with the EU's RED targets. Had Treasury instead insisted BEIS achieve “Best value for Great Britain” then policy would have looked very different; certainly BEIS would not have spent less than 2% of its RHI budget on heat pumps – and the heat pump supply chain would have continued the growth of the previous decade and be perhaps ten to twenty times the size that it is today, at little or no cost to taxpayers.**
4. *Has the RHI been effective at preparing the low-carbon heating supply chain for the future?* **No. See below.**
5. *What lessons can be learnt from the RHI?* **Many, too many to list here. But the over-riding lesson is don't rely on an EU Directive – and inept Treasury spending rules - to provide the best value outcome for taxpayers. Developing successful new policies to meet future carbon budgets is not something in which Treasury has much expertise. BEIS, with advice from industry, are best-placed to make policy decisions – not Treasury.**
6. *What role place should the RHI play in the Department's long-term strategy for eliminating carbon emissions from heating homes and businesses?* **The RHI finishes on 31st March 2021, so cannot possibly be part of any long-term strategy. See below.**

Supply Chains

The GSHPA welcomes the NAO report, especially the sections¹ that list shortcomings around treatment of the Supply Chain. That the report asks BEIS to focus on the growth of Supply Chains - which can support a national transition from fossil fuel to low-carbon heating technology, particularly heat pumps, from the 2020s onwards - is particularly welcome, and the GSHPA looks forwards to an ever-deepening engagement with BEIS officials to develop this into effective policy.

Keeping what is needed for the future, and ditching what only existed to meet lowest-cost-compliance with the RED

Many GSHPA members are already asking “*What happens to my business once the RHI subsidy is withdrawn on 1st April 2021?*” Until a replacement scheme is announced, almost every company that supplies products into the RHI-subsidised markets will downsize – so the supply chains will get smaller, not larger. From a taxpayer's perspective, it is perhaps not unwelcome news to no longer fund some technologies that always had a questionable long-term contribution to make to the meeting the UK's carbon budgets, and only existed in the markets whilst they had subsidy support to meet an EU Directive. Whilst it is likely that the entire bioenergy supply chain, which is supported by over 98% of the £23bn budget will reduce quickly in size, many valuable heat pump and solar hot water heating businesses are also facing the same collapse. The Climate Change Committee have made clear that for the UK to maintain its world leading status in reducing carbon emissions into the 2020's BEIS and Treasury must heed their advice to embrace heat pumps, and aggressively but sustainably grow their markets.

Carrot or Stick

Very few companies would choose for an existing market to become Government subsidy-driven on a long-term basis; businesses cannot make long-term investments whilst markets are driven by the short-term whim of politicians. The present situation is a perfect example. It may be many years before businesses have any certainty on what happens, if anything, on 1st April 2021. Right now, businesses simply have not the slightest indication whether BEIS will propose carrots (incentives), sticks (regulation) or a

¹ NAO Report – sections which consider shortcomings with support for the Supply Chain:
Sections: 2.13 to 2.17, all of Figure 12, 11, 13 and 21

combination of both - or nothing. If it is to be nothing, then it would be better for Government to say that now; markets, the businesses that sell into them - and those investors still with any appetite left for renewables - can then take their own decisions with absolute certainty, away from any intervention from Westminster.

The carrots offered for GSHP's pumps under the RHI have been rather shrivelled and unappealing, proof² of which is that their markets are smaller every year of the RHI – 2011/12/13/14/15/16/17 and likely 2018 – than in the three years before the RHI was announced. As for regulation, the only stick BEIS have announced is in the ³Boiler Plus Consultation, which was “to improve the consumer proposition for moving from oil heating to low carbon alternatives” and signposted the “Clean Growth Strategy”, but this only states ⁴ “We will involve businesses and industry in developing our new policy, in line with broader Government priorities on delivering clean air.” The only stick announced is so weak that it is best described as a very small twig – which would not be strong enough to have any influence on the markets. These are not the clear statements from Government that investors must have if they are to continue to maintain heat pump supply chains.

Timing

Companies decisions on down-sizing will be taken not the day the RHI is currently scheduled to finish, 31st March 2021, but some years in advance – with companies deciding on long-term strategies to shed staff in the run up to the end of the scheme as early as December 2019, which is just next year. It seems that BEIS is not aware that the latest time for proposing new policies to support supply chains through consultations is 2018; the following year will already be too late.

“Heat is hard”

There appears to be a continuing corporate myopia about how to decarbonise heat, particularly at the Treasury but also, to a much lesser extent, within BEIS. Ministers have a very clear understanding that the UK cannot decarbonise merely by dealing with transport and electricity – but simply don't know where to start when tackling heat. In the words of a previous SoS the Rt Hon Amber Rudd giving evidence at the Energy and Climate Change Select committee **“Heat is hard. It is a difficult area to get right. We have a number of initiatives, both in terms of domestic and non-domestic, but we need to do more about it...”**. That was in 2015. Nothing more has been done about it. In 2018 BEIS seems to have no traction with Treasury on how to meet our 4th carbon budget, or provide a replacement incentive scheme, and has no proposals at all to put forwards for any regulatory changes.

To maintain heat pump and solar thermal supply chains BEIS officials should, in summer 2018, be privately consulting their industrial partners on developing a consultation for a replacement for the RHI. A Call for Evidence is not enough.

The GSHPA hope that the Public Accounts Committee will press BEIS and Treasury to stop dithering between carrots, sticks and nothing - and announce a firm a timeline for the announcement of an RHI successor policy which BEIS can guarantee is consistent with maintaining the GSHPA's members supply chain from 1st April 2021.

Your sincerely



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Ground Source Heat Pump Association
Encouraging the growth of the ground source heat pump industry in the United Kingdom

GSHP
association

² Data from BSRIA

³ BEIS October 2017 “Heat in buildings – Boiler Plus” Consultation Response:

Section 2.3 Rather than setting an unambitious efficiency standard for oil boilers, we will therefore be focussing policy in this area on measures to improve the consumer proposition for moving from oil heating to low carbon alternatives. More details can be found in the Clean Growth Strategy.

⁴ BEIS October 2017 “Clean Growth Strategy”:

Section 14 Beyond support through the Renewable Heat Incentive (RHI), our ambition is to phase out the installation of high carbon fossil fuel heating in new and existing business buildings off the gas grid during the 2020s, starting with new buildings as these lend themselves more readily to other forms of low carbon heating. We will involve businesses and industry in developing our new policy, in line with broader Government priorities on delivering clean air.