REA Response to BEIS Stakeholder Notice *'Changes to RHI Support and COVID-19 Response'*- Published 28 April 2020

Introduction & Summary

The REA is the largest trade organisation for the UK renewable energy and clean technology sectors, representing around 550 organisations involved in the market in some way, from technology developers, manufacturers and installers to consultancies and academic institutions.

Of relevance to the BEIS RHI Stakeholder Notice, the REA includes member forums which represent the interests of a wide range of renewable heat technologies. This includes:

- The Wood Heat Association – a members' forum that brings together wood fuel suppliers, biomass boiler and stove installers and distributors, energy companies and developers.
- The Biogas Group – a members' forum for the developers and installers operating in the biogas and organic recycling industries.
- Members involved in the installation of heat pumps, biofuels for heating and the development of geothermal projects.

Summary of Response:

In response to the Stakeholder Notice "Changes to RHI Support and Covid-19 Response" the REA would like to emphasise the following points:

- ***The REA welcomes the intention to extend the Domestic Renewable Heat Incentive*** scheme until 31 March 2022, as announced in the Spring Statement.

- ***The REA is pleased to see the extension to commissioning deadlines for projects currently holding a Tariff Guarantee (2-TG), and the introduction of the third allocation of flexible tariff guarantees (3-TG) under the non-domestic RHI scheme***. However, we note that there remains uncertainty around how these extensions will work, particularly concerning the interaction between 2-TG and 3-TG. Urgent clarification on these mechanisms is required to allow developers the ability to plan and complete their projects.

- ***We, however, strongly oppose the decision not to extend the Non-Domestic RHI in line with the Domestic scheme.*** Projects that are not eligible for Tariff Guarantees have not been provided mitigation against COVID-19 delays. The decision also creates a twelve-month gap of no support between the end of the scheme and the start of the proposed Clean Heat Grant Scheme. This is despite underspend within the

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allocated RHI Budget. Smaller and medium scale non-domestic heat projects now face a cliff edge resulting in viable heat decarbonisation projects being abandoned. This will undermine the potential for growth, damaging the established heat decarbonisation sector ahead of any a new scheme being introduced.

We ask that BEIS re-consider this decision so that existing projects can be completed, as well as provide a smooth transition to the future support for low carbon heat which is also currently being consulted on.

Response to Announcements in the RHI Stakeholder Notice

1) Tariff Guarantee Extension and 3-TG Allocation Period

<u>The length of the extension</u>

Projects with an earlier commissioning deadline will benefit the most from the extension to mid-March 2021, however, BEIS should be aware that for those with a later commissioning deadline over the winter, the extension will be of limited help. An extension of around 6 months (ie to the end of September 2021) would provide greater security considering the impacts of COVID-19.

The lockdown has already delayed projects by more than the six or seven weeks proposed within the extension. Contractors completing construction and civil works have now been unable to work since March and projects will not be able to immediately restart the moment lockdown is lifted. Crucial components such as generators or boilers are likely to continue to experience supply chain delays, while equipment like diggers will need to be re-hired within what is expected to be a stretched market experiencing high demand. Members suggest that it could take more than a month to re-mobilise projects to the point of operation seen before lockdown. **Our preference would, therefore, be that the extension is provided until the end of September.**

We understand that the third round of flexible tariff guarantees does help mitigate the risk of not meeting the extended deadline, however, this new allocation presents higher risks for a developer due to a potential degression to the tariff, as well as a reduced payment period with lower returns. For the same reason, urgent clarity is required around the interaction between 2-TG and 3-TG. Projects who have a 2-TG, who fail to meet their commission deadline, through no fault of their own, should be able to qualify for 3-TG automatically with little administrative burden. This is necessary to help appropriately de-risk Covid-19 related commissioning delays for both developers and financiers.

<u>Which projects will benefit from the extension?</u>

The proposals are clear that a project that holds a TG Notice will benefit from an extended deadline once the new regulations are enacted. However, it is less clear whether a project going through the initial stages of the TG process (e.g. stage 1 or stage 2) will benefit from the extended deadline under the 2-TG allocation, or whether such applications can then be carried on into the 3-TG allocation.

It is our current assumption, with the policy intended to help as many tariff guarantee applications as possible, that if an applicant submits a 'properly made' stage 1 application before the new regulations bringing in the new flexible TGs come into effect, they will fall under the current TG allocation period and benefit from the extension to mid-March 2021. Such an applicant would then also have the chance to enter the 3-TG allocation period if they do not commission within 2-TG. However, this process is not clear within the Stakeholder Notice.

Early clarification that those going through early stages of the Tariff Guarantee process will be able to easily benefit from both the 2-TG extension and the 3-TG allocations will provide added assurance to developers that it is still worthwhile continuing their projects.

Smooth transition between TG allocations

We welcome BEIS's intention that a project can transition from a current 2-TG to a new 3-TG allocation if unable to meet the extended mid-March 2021 deadline. Having already submitted all the relevant evidence up to stage 2 within 2-TG, it seems sensible that such a project should be able to transition to a 3-TG as smoothly as possible without delay.

However, we understand that there are three risks faced by a project with an existing TG that is contemplating applying for a 3-TG:

1) The potential digression of tariffs
2) Reduced payment period (as 20 years payment period starts from stage 2 application), therefore reduced project returns
3) Uncertainty around the assessment time from Ofgem

A developer will only be able to give up its 2-TG and move to a 3-TG when confident that these risks have been reduced to a minimum. A way to do this would be to have a screening process/checklist that enables the applicant to verify that the project is right to go ahead, but that enables the applicant to then submit stage 1 and stage 2 applications at the last minute, once they are confident that the project will almost definitely not meet the mid-March 2021 extended deadline.

Setting Headroom's on Individual Technologies in 3-TG

The Stakeholder Notice suggests that BEIS are considering headroom's for individual technologies, moving away from using an overall budget headroom for 2021/22 and 2022/23.

We believe this would add an unnecessary complication to the TG allocation process. BEIS should stick to the 'gate 0' process that considers application against the whole budget. The introduction of technology-specific headroom's would see BEIS trying to micromanage the different eligible technologies deployment levels for the scheme. This would create unhelpful market signals that affect the decision about which technologies are deployed based on viability within the scheme, rather than based on the specific needs of the site where the renewable heating solution is being installed.

The scheme wide headroom, which is already in place, appears to work well and is understood. There seems no advantage in complicating this or adding additional risk to individual technologies. Choosing winners, beyond how the TG system is already designed, should be avoided.

2) Closing the ND-RHI in March 2021

Given both the Covid-19 situation and the fact that any future heat support mechanism will only start in spring 2022, BEIS should reconsider its decision not to extend Non-Domestic RHI for twelve months, in line with what is proposed for the Domestic RHI. Such an extension would provide both support for Covid-19 delays and a smooth transition into the next support mechanism.

The Committee on Climate Change highlight that to get to net zero emissions by 2050, 90% of heat in homes and 100% of heat in non-domestic buildings needs to come from low-carbon heat solutions by 2050[1]. Today only 4.5% of total heat demand is coming from renewable heat sources, most of this coming from small and medium scale bioenergy installations - predominantly non-domestic biomass boilers and biogas installation - which are not of a size that would qualify for tariff guarantees. As such, failure to extend the non-domestic RHI threatens to undermine the success achieved under the RHI to date, jeopardising those industries that form the foundations on which the UK now needs to rapidly accelerate its heat decarbonisation efforts.

Mitigating Covid-19 Delays

Covid-19 is as significant a threat to small and medium scale ND RHI projects, as it is to those who qualify for tariff guarantees. The same issues apply including supply chain constraints, enabling installer access to sites and de-risking projects to access finance. Projects that have been designed and intended to be installed in the next few months are now being reconsidered, with many valuable projects being abandoned. The REA is currently in the process of collecting further evidence of such sites and shall submit these to BEIS separately.

Additional time is needed to see existing projects completed in time for the end of the scheme due to the exceptional circumstances caused by Covid-19.

12 Month Gap Between Schemes will see the Heat Market Contract

Also, the proposed Clean Heat Grant Scheme is not expected to start until April 2022. This creates a twelve-month period in which very few small or medium scale non-domestic heat projects, of any technology, can be expected to be deployed. REA members already report significant numbers of potential pipeline projects now being abandoned as no longer viable in time for March 2021 and unlikely to qualify for the Clean Heat Grants in 2022.

[1] CCC (2019) *Net Zero – The UK's contribution to stopping global warming*, https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/

Contraction of the Market will see the loss of needed skills, supply chains and jobs.

The REA REview 2020[2] identified over 32,000 direct jobs in the heat pump, solar thermal, biomass boiler, biomass CHP and AD sectors combined in 2018. This grows to well over 44,000 jobs when you also include those employed in ancillary services such as the production of biomass for fuel. These are all sectors that are already contracting as we approach the end of the ND RHI. A twelve-month gap of not being able to deploy smaller or medium-scale projects will see the significant loss of skills, knowledge and supply chains associated with these sectors. This, therefore, threatens to undermine the renewable heat sector which the RHI has successfully established, as well as debilitate the ability of future support schemes to succeed.

Contraction of the market will stop the UK realising its renewable heat potential

The renewable heat sector has huge potential for sustainable growth in the UK. The REA's Bioenergy Strategy[3] identified the contribution from bioenergy alone could sustainably increase by nearly 40% by 2026 to 65 TWh (some 11% of total UK heating needs), and by a factor of 2.3 by 2032 to 113 TWh (20% of heating needs). See table 1 for how this breaks down by bioenergy technology. This could account for an estimated 27.2 MTCO2e/year greenhouse gas savings, a significant proportion of the 57 MTCO2e/year savings expected to be required by 2032 to keep the UK on track to meet net-zero.

Table 1: Summary of Potential Bioenergy Heat Supply to 2032 (TWh)

	2020	2026	2032
Unmanaged domestic wood heating	11	8	6
Wood chips and pellets	24	31	42
Biomethane	7	19	30
Biofuel blends	0	2	3
Heat networks	2	4	23
Biopropane	0	1	8
Thermal gasification	0	0	1
Total	44	65	113

Source REA Bioenergy Strategy (2019)

In addition to the above, it is disappointing that in neither the Stakeholder Note or consultation of the future of heat is the potential for Geothermal technologies identified. BEIS should be aware of several Geothermal projects currently in development. Eden Geothermal has raised circa £30 million of public funds with £10 million match funding for two projects set to commission in 2021 and 2023. Similarly, GT Energy has been working with Stoke on Trent to deliver £20mn investment in a heat network powered by Geothermal technology. While the Geothermal sector is in its infancy in the UK, examples from Germany, where the sector is worth over €10 bn, demonstrates the potential for what could be delivered in the UK. Uncertainty over the RHI and a lack of any mention of Geothermal in future heat consultation have unsettled financiers of such projects. BEIS should seek to make clear their intentions around the technology and establish how the sector can continue to be supported,

[2] REA (2020)*REview 2020* https://www.r-e-a.net/resources/review-2020/

[3] REA (2019) *REA Bioenergy Strategy Phase 2: A Vision to 2032 and Beyond*, https://www.bioenergy-strategy.com/publications

either through longer commissioning times or stipulating where support for such projects can be expected to come from.

However, such levels of renewable heat and emissions savings will only be achieved if we have ambitious and consistent future heat policy. Current proposals do not meet the required ambition, as has been identified within the New Scientist article that suggests under current proposals it could take 1500 years to meet net-zero targets on heat.[4]

The Extension of the ND RHI will not be costly to the Government or the Taxpayer

It is understood that the RHI budget is expected to be underspent as the scheme comes to an end in 2021. BEIS has been careful to ensure any spending in the ND RHI falls within current budget allocation timeframe. While we appreciate that Government budgets do not typically allow for the carrying over of unspent funds into the next financial year, we believe there to be a strong case for it in this instance. With the Governments commitment to Net Zero and the introduction of the Net Zero Treasury Test, it is both cost-effective and sensible for HM Treasury to allow any unspent allocation to be carried over for 12 months to facilitate the continued decarbonisation of the heat sector. This would mean the extension of the Non-Domestic RHI would cost no more to the taxpayer then has already been allocated to the scheme. The REA would be happy to work with BEIS to help make this case to HM Treasury to help facilitate such an extension.

Key Ask

Failure to extend the Non-Domestic RHI, and the current proposals for the Clean Heat Grant, do not provide the level of support required to ensure the UK is decarbonising its heat sector fast enough. The year gap between the end of the ND RHI and future heat support signals a deceleration in heat decarbonisation ambition, just when the UK needs to be rapidly building up its deployment capabilities and realising its potential. It also means projects unable to apply for tariff guarantees are left without mitigation from Covid-19 related delays. **The government should urgently reconsider its decision not to extend the ND-RHI, putting it in line with what has been proposed for the domestic scheme.**

REA, May 2020

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[4] New Scientist (2020) *UK plan for green heating will take 1500 years to hit 2050 target*, https://www.newscientist.com/article/2242960-uk-plan-for-green-heating-will-take-1500-years-to-hit-2050-target/#ixzz6MV4wNwCT