Briefing Paper

Autumn Statement and other recent DECC / Ofgem announcements: Implications for Customers

1. Domestic Renewable Heat Incentive

Application and documentation: The proposed process for claiming domestic Renewable Heat Incentive (RHI) is significantly more straight forward than for the non domestic RHI with applications being made online. The process should be 'live' in Spring 2014.

A Green Deal Advice Report (GDAR) reference number and associated Energy Performance Certificate (EPC) reference as well as a Microgeneration Certification Scheme (MCS) certificate number will be required when applying for the RHI. An installation's eligibility will be confirmed shortly after submitting information.

Currently, proposals include for installations being logged individually. This may cause problems where a significant number of installations are to be registered.

MCS certified installations delivered from 14 July 2009 should be eligible for domestic RHI.

Deemed or metered heat: The amount of heat produced by an installation and covered by RHI payments will be deemed and based on the energy load required for heat and hot water as contained in the EPC element of a GDAR.

Solar thermal installations will be deemed based on the thermal output as contained in the relevant MCS documents.

Metering will be required where a bivalent system that incorporates a heat pump or biomass with a non renewable energy source (i.e gas boiler) is present. Metering guidance is to follow.

Voluntary metering arrangements are being promoted and will attract additional financial support so as to offset increased capital and operational costs.

Technology requirements: No specific standards for technologies other than those required by MCS or solar keymark with the exception of heat pumps which must have a Seasonal Performance Factor of at least 2.5.

Biomass boilers have no particular fuel or emissions standards to meet.

Phased introduction: Renewable heat installations that have not benefited from Renewable Heat Premium Payments (RHPP) will be able to apply for RHI from the launch of the scheme. Installs that received RHPP will be able to apply for RHI 3 months after the scheme launches. The value of any RHPP received will be deducted from ongoing RHI payments.

Tax: Officials from Ofgem were unable to indicate the taxable status of RHI.

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2. Non domestic RHI

Air source to water heat pumps (ASHP): This technology is now to be eligible for the non domestic RHI. This may be of interest to Registered Providers (RPs) that are using this technology on their own commercial premises or for installations in communal heating systems.

The tariff for this technology will be set at £0.025 / kWh.

All metering and reporting requirements of the non domestic RHI remain.

Tariff review: A number of technologies have had their tariffs reviewed. This is not to be confused with tariff degression which is linked to the deployment of a particular technology.

- Solar thermal installations up to 200kWth – tariff increase to £0.10 / kWh
- Small and medium biomass up to 1MWth – no change in tariff
- Large biomass over 1MWth – increase in tariff to £0.02 / kWh
- Ground source heat pump (GSHP) – increase in tariff to £0.072 / kWh but this will be tiered similar to small and medium biomass installations (1,314 hours at £0.072 / kWh followed by £0.026 / kWh for additional heat)

3. Support for renewable energy generators

Recent announcements have created a little confusion as this announcement from Government came very close to the Autumn Statement and the published changes to the non domestic RHI above.

Government has published the 'strike price' for the electricity generated by large scale renewable energy installations – the strike price is paid in £000s per MWh produced.

- Large scale offshore wind – increase in strike price
- Large scale onshore wind – decrease in strike price
- Large scale PV – decrease in strike price

This announcement does not relate to small scale renewable energy installations which are covered by the Feed In Tariff. Unless RPs are investing in large scale renewable installations such as wind farms, they will see no impact as a result of these decisions

4. Autumn Statement and changes to the Energy Company Obligation

In response to significant pressure from the energy industry, Government has proposed a number of significant changes to the Energy Company Obligation (ECO) in an attempt to reduce the cost of this policy to consumers.

Headline proposed changes

- Carbon Emmissions Reduction Obligation (CERO) target reduced by 33%. The 2015 Carbon Saving Communities (CSCO) and Affordable Warmth (AW) targets will remain the same
- Extending the ECO scheme to March 2017 with new targets for CERO, CSCO and AW at 2015 levels. The CERO target will reflect the reduced aspiration of the 2015 target
- Enabling energy suppliers to carry forward any over or under delivery against 2015 targets to count towards their 2017 targets
- Enabling energy suppliers to carry forward over-performance from predecessor schemes (Carbon Emissions Reduction Target - CERT/Community Energy Saving Programme - CESP) and count it towards their ECO targets
- Allowing companies which have delivered substantial early progress against their current CERO target to benefit from an uplift in scores for the measures delivered
- Extending the CSCO element of ECO from the 15% to the 25% lowest areas on the Index of Multiple Deprivation and simplifying the qualifying criteria
- Including District Heating as an allowable primary measure under CERO
- Including loft and easy to treat cavity walls as an allowable primary measure under CERO
- Introducing and standardising measures to prevent fraud, particularly around loft and easy to treat cavity wall insulation
- Introducing a solid wall insulation minimum of 100,000 measures (or carbon equivalent to 100,000 installations) to be delivered by 2017 across all companies and all elements of ECO.

Implications and impacts for RPs

1. Solid Wall Insulation (SWI) and Hard To Treat Cavity (HTTC) funding rates for new projects will invariably reduce as cheaper and easier standard cavity wall insulation and loft insulation contributes to achievement of this target. RPs have little demand for standard cavity or loft insulation so this proposal will reduce overall funding levels for social housing projects
2. Utilities and DECC have indicated that these changes do constitute a ‘material change’ to ECO. This may be significant because funding agreements contain a clause which allows a funder to change previously agreed funding rates should there be a ‘material change’
    a. This could be very bad news for some RPs that have started long term programmes which will only be viewed as ‘complete’ when the last property is signed off. This could result in a RP that has started and is paying for work and that has budgeted for a certain amount of funding, not actually receiving the expected level of funding when the scheme is complete. The result of this could be that a RP is required to make a significant and un budgeted financial contribution
    b. Any contractor delivering ECO funded works at their financial risk i.e they have accounted for a certain level of funding in a tender submission, could walk off site or suffer serious financial consequences
    c. Funders have indicated that the ‘cut off’ date they might apply, whereby a project is deemed complete and an ECO claim needs to have been made to secure funding at the originally agreed rate, could be 31 March or could be as early as 31 December
3. The extension of the CSCO eligible areas is welcomed. However, the type of works covered by CSCO are, really, of little interest to RPs
4. The target of 100,000 SWI installs (or carbon equivalent) means once this target has been met, there is absolutely no incentive to spend time or effort on developing funding agreements for SWI projects
5. Including district heating within the CERO target is also welcomed as RPs can receive ECO support to install any form of district heating where before, the properties had to be in CSCO

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areas or were benefiting from SWI. The limited amount of funding that the new CERO rate will attract may not be enough to make a sufficiently robust financial argument for the installation of a potentially more expensive communal heating solution over individual heating systems

Other points of interest

There will be a consultation on these proposals, but officials from DECC have indicated the consultation will not be an opportunity to affect major wholesale changes to these proposals.

The Statement did not contain any news on the fine for non achievement of CESP targets. The underachievement of CESP was supposed to attract a fine so as to incentivise energy companies to deliver. The fact that this threat has not been carried out means energy companies will be less concerned about the associated penalties for non achievement of ECO.

Government has 'blinked' after being told by energy companies that the target is too difficult. It will be hard now to convince obligated bodies that the new targets are definitive and won't be amended downwards in future or that the penalties for not delivering ECO targets are 'real'.

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