

The Renewable Heat Incentive: a reformed and refocused scheme

Citizens Advice formal response - 27 April 2016



Citizens Advice welcomes the opportunity to respond to Government's consultation on the reforms to the Renewable Heat Incentive. We also welcome the commitment of the RHI out to 2020/21 providing a degree of certainty for consumers and industry over the next 5 years.

This response was prepared by the Energy Team within Citizens Advice. It has statutory responsibilities to represent the interests of energy consumers across Great Britain. Last year Citizens Advice helped 2.5 million people directly through our local offices and a further 20 million online via our website.

Our response focuses only on questions covering the proposals for the domestic RHI.

Consultation questions and responses

In 2014 Citizens Advice set out its vision for 21st century energy services. In *Taking Control*¹ we set out our principles that energy services should be '*affordable, accessible, safe and fair*'. It is through this lens that we approach this response to the proposed changes for the Renewable Heat Incentive (RHI).

Q1: Do you agree with the proposed policy approach for degression and trigger setting?

Citizens Advice agrees that there is a need to ensure that spending under the RHI is kept under control and provide good value for money for the consumer. The proposed approach set out in the consultation document seems to be a sensible approach that is relatively easy to understand.

Q2: A budget cap introducing the ability to close the scheme to new deployment is necessary to ensure we can protect the budget. Do you agree that:

a) The budget cap should be kept as a final backstop with minimal notice periods for the implementation of closure? Yes/No please expand.

While we understand the need to keep costs of the scheme under control we are concerned that the implementation of a minimal closure notice could result in severe detriment to consumers. Renewable heating systems are significantly more expensive than traditional forms of heating and the risk of early closure could leave those consumers having anticipated funding in debt. While we appreciate that if the scheme re-opens they could then apply but this remains a significant risk that could put people off the scheme entirely. Consumers should be able to take part in the scheme with a

¹ Citizens Advice (2014), *Taking Control: energy policy and the potential for energy consumers to take control of their bills*, https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/taking-control-energy-final.pdf

reasonable expectation of being protected from being worse off than if they had replaced their heating system with a conventional one.

In addition, we believe that budgets for domestic and non-domestic schemes should be separate as they are two distinct markets with differing challenges to be overcome.

- b) The budget cap should only be deemed likely to be hit, and closure only be deployed when we assess that it is likely RHI commitments from plants commissioned or plants in the immediate pipeline on the verge of commissioning would consume available budgets? Yes/No please expand.**

As stated above we believe closing and then re-opening of the scheme should be avoided altogether. Experience shows that the stop-start nature of this type of budget management can have ongoing detrimental effects to a scheme. The intention of changes to the RHI is to enable less able to pay households access the opportunities that renewable heating can bring. These households are less able to absorb any significant changes in funding and so are likely to be more risk-averse. As such this might deter people from applying to the scheme altogether.

- c) That a 21 day notice period will allow only those plans on the verge of commissioning to proceed? Yes/No please expand.**

No response.

Q3:

- a) Do you agree with the proposal from 2017/18 onwards for discretion to close the non-domestic scheme only, noting that this would mean that that scheme could be closed before it was assessed that 100% of the overall budget was committed? Yes/No please expand.**

No response.

- b) Do you have any suggestions as to how best to manage any additional uncertainty from this proposal?**

No response.

Q4:

- a) Are there any other features of the budget cap policy that could be improved?**

As stated earlier, it is our considered view that the budgets for the domestic and non-domestic schemes should be maintained as separate budgets.

Budget caps should be reviewed on an ongoing basis against progress towards renewable heat targets.

b) Do you have any suggestions of how these improvements could be delivered?

No response.

Q5: Can you provide any compelling evidence as to why RPI would be a more appropriate measure of inflation than CPI for all technologies across the RHI?

No response.

Q9: Do you think that an owner of a shared loop system should be able to apply to the domestic RHI? Yes/No.

Please provide evidence to support your response and how this would encourage greater deployment, drive down installation costs and improve the performance of GSHP.

Yes, we support plans to allow owners of shared loop systems to apply to the domestic RHI. GSHPs are expensive to install and encouraging shared systems would drive down those costs to consumers as well as potentially improve performance.

Q10: Do you think that an owner of a shared ground loop system should be able to apply to the Non-domestic RHI with a deemed heat demand? Yes/No.

Please provide evidence to support your response and how this would encourage greater deployment, drive down installation costs and improve the performance of GSHP.

No response.

Q11: Do you agree that:

a) If shared loop systems become eligible on the domestic RHI they should receive the same tariff as individual GSHP systems under the domestic RHI? Yes/No.

No. While we appreciate that there is not a large body of evidence regarding the costs of GSHPs with shared ground loops logic suggests that there should be some cost reduction when compared with installing two separate ground loops for example. We believe that further work should be undertaken to assess the potential costs of shared loops versus individual before setting a tariff for these systems.

- b) If shared loop systems remain eligible on the non-domestic RHI but with deemed heat demand, they should receive the same tariff as individual GSHP systems under the non-domestic RHI? Yes/No.**

See above.

- c) The heat demand limit proposed for individual GSHP systems on the domestic RHI should be applied (25,000 kWh/yr per household on the shared ground loop)? Yes/No.**

Please provide any evidence you may have as to typical differences in costs to support your position.

We support the same heat demand limit for homes on shared ground loops notwithstanding our concerns highlighted in our response to question 15 regarding the use of heat demand limits.

Q12:

- a) Do you think that the proposals relating to shared ground loops result in the risk of overcompensation? Yes/No.**

As stated in our answer to 11a we believe further work on the costs of shared loops is required to establish if there is a risk of overcompensation.

- b) How could we develop our policy to best mitigate these risks?**

See response above.

- c) Do you think that new-build properties should be treated differently to avoid over compensation? Yes/No.**

As with our response to 12a we believe that further work is required on the costs. It is important to note that it may be more appropriate to treat these properties differently as costs are often further reduced in new build properties.

- d) Do you think the number of dwellings is one of the risk factors which may contribute towards overcompensation? Yes/No.**

No response.

- e) Do you think there should be a specific limit to the number of dwellings? Yes/No.**

No response.

Q13:

a) Do you agree that these proposals should apply to social and private landlords only? Yes/No.

No. It should be available to any householder wishing to pursue this option provided it is feasible.

b) Do you think private homeowners who are collaborating together should be able to apply? Yes/No.

Yes. Private homeowners should be able to apply although we appreciate that it is unlikely there will be high numbers of applicants in practice. However, it is important to note that it will be necessary to ensure that all owners are aware of the legal processes required to ensure all connected have joint control over the shared loop.

Q14: Do you agree that if deeming is introduced to the non-domestic RHI scheme for this type of project, metering and monitoring service packages should be mandatory to allow performance data to be reviewed by Government/user/owner? Yes/No.

Please provide evidence to support your response. If you do not support this proposal we seek recommendations of how to establish the performance of heat pumps supported.

Yes. We agree that if deeming is introduced that metering and monitoring packages should be mandatory. It is important to ensure not only that the scheme is good value for money but also that systems are working well in-situ so that consumers are benefiting from efficient systems with low running costs.

As noted by DECC concerns remain about the efficiency of heat pumps and if they are to be one of the main technologies to decarbonising heat then monitoring is necessary to ensure performance issues are ironed out and that they are suitable for a large number of households.

Q15: Do you agree that the proposal to introduce heat demand limits will contribute to achieving the aims of the reform of the RHI? Yes/No. Please expand.

We agree that introducing heat demand limits may help to ensure the scheme is better targeted to lower income households. However, there is a risk that this might exclude those that live in larger homes but have low incomes, for example older homeowners who prefer to remain in their family home rather than downsize. These householders could benefit from more efficient low-carbon heating and should be eligible for the RHI.

The danger of over-simplifying schemes to make things easier for administrators is that you then exclude worthy recipients. Consideration should be given to how those who might have larger heat demand despite being on a low income could be assisted.

Q16:

a) What are your views on the limits of: 20,000 kWh for AWHP; 25,000 kWh for GSHP and biomass?

As mentioned in our response to question 15 we are concerned that heat demand limits could disproportionately affect larger, low-income households that are harder to treat in terms of energy efficiency. We appreciate that the use of heat demand limits will enable simplicity in the drive to supporting smaller homes through the RHI, however, the unintended consequence of such a policy would be to exclude those who might benefit the most from new, efficient renewable heating systems.

b) What would be the merits of higher/lower limits? Please expand.

Increasing the limits would reduce the potential for excluding households that could benefit the most from the scheme. However, this should be balanced against the risk of continuing to benefit wealthier households that would also lead to shutting out lower income homes with higher heat demand.

Q17: In light of the issues raised in para 5.20, do you have any alternative proposals to heat demand limits which would achieve the same aims and which would be simple for potential applicants to understand, deliverable and applicable across the GB-wide scheme? Please expand.

Citizens Advice understands the need to avoid over-complication of the RHI, however, we do believe that alternatives should be investigated that might better deliver on the aims of the reformed RHI whilst balancing out the risks.

An option proposed by the EST would be to increase the caps for domestic properties but have a tiered approach. For example a higher tariff could apply for the first 15,000kWh and then lower tariff for the next 15,000kWh. Heat above the 30,000kWh would not receive any tariff at all. Citizens Advice is of the view that this would not add undue complexity and warrants further investigation.

Q18: Do you have alternative proposals, beyond those summarised above, for further changes which may help increase deployment among those less able to pay? Please expand.

Trusted intermediaries

Developing access, and providing the right level of support and information, to the less able to pay consumer group would benefit from partnerships with organisations considered by consumers as being trusted sources of information and help². The organisations involved could vary dependent upon consumer segmentation and location but there are a plethora of charitable organisations - local and national - that would be willing to engage to help improve access to less able to pay households. These trusted partners might also be able to provide some of the independent advice and information required in formats most appropriate for their client base (such as face to face).

Assignment of rights

The proposal to offer third party finance options via an assignment of rights model will remove the barrier of high upfront costs for those households without access to savings or a line of credit. However, care will need to be taken to ensure that these contracts provide adequate levels of consumer protection.

Access to local examples

Consumers could be reassured of the benefits through access to local installation examples using the 'open house' model³. Being able to speak to other local householders, in similar circumstances, could prove a valuable source of information and reassurance with regards these new technologies.

Access to free and impartial advice

The Staying FiT report by Citizens Advice highlighted that consumers were relying on installers to provide them with advice and information regarding PV systems rather than independent sources such as the EST. Taken alone this does not necessarily indicate a significant problem. However, when taken alongside the increase in speculative selling, the rise in the number of people only obtaining one quote and new third party finance offerings the low use of independent advice is worrying. According to the Strengthening and Streamlining Energy Advice and Redress⁴ report, commissioned by Citizens Advice, impartial technical advice about

² Citizens Advice, (2015) Closer to Home: Developing a framework for greater locally led delivery of energy efficiency and fuel poverty services
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/essential%20services%20publications/Closer-to-home-report.pdf>

³ EST Green Homes Network example: <http://www.energysavingtrust.org.uk/green-homes-network-0>

⁴ GK Consulting (2015) Strengthening and streamlining energy advice and redress: an independent review commissions for Citizens Advice
<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Strengthening%20and%20streamlining%20energy%20advice%20and%20redress%20-%20Summary.pdf>

energy efficiency and renewable technologies is one area where advice insufficiently meets consumer needs.

Q20:

a) Do you agree further Government and industry action is required to drive up the performance of heat pumps and tackle underperforming installations on the RHI? Yes/No.

Yes. We note that concerns remain with the performance of heat pumps 6 years after the initial heat pump trials⁵ conducted by the EST. Issues with heat pumps are responsible for the highest number of calls to the Consumer Service advice line operated by Citizens Advice regarding renewable heating systems and show no signs of abating.

Heat pumps have been identified as a key technology to tackle the decarbonisation of heat, however, unless they achieve a Seasonal Performance Factor (SPF) of 2.5 or higher then they will not be considered as renewable and thus not contributing as they should be to decarbonisation. In addition, they will be more expensive for consumers than they should be.

Heat pumps operate in a different way to conventional forms of heating and as such consumer awareness of how to use these newer systems is very low. There is a real need for greater availability of advice and information on heat pumps. Research carried out on behalf of Citizens Advice highlighted that the advice, information and redress landscape for energy efficiency and renewables is confusing for consumers⁶. Advice and information on new technologies, including heat pumps, should be made available to consumers in ways that suit their circumstances; such as online, by phone and face-to-face.

In addition, in a report commissioned by Citizens Advice into the consumer experience of Feed-in tariffs⁷ last year we found a lack of satisfaction with aftercare from installers. Given the potential for greater detriment if domestic heating systems do not perform as designed it is critical that ongoing advice, information and aftercare is available for households.

We note that quality assurance processes in domestic heat should be addressed by the Bonfield (Every Home Matters) Review, along with domestic

⁵ EST (2010), *Getting warmer: a field trial of heat pumps*, <http://www.heatpumps.org.uk/PdfFiles/TheEnergySavingTrust-GettingWarmerAFieldTrialOfHeatPumps.pdf>

⁶ Citizens Advice (2015), *Strengthening and streamlining energy advice and redress*, <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Strengthening%20and%20streamlining%20energy%20advice%20and%20redress%20-%20Full%20report.pdf>

⁷ Citizens Advice (2015), *Staying FiT: learning from the consumer experience of solar PV systems to inform the development of low-carbon policies*, <https://www.citizensadvice.org.uk/Global/CitizensAdvice/essential%20services%20publications/Staying-FiT.pdf>

microgen and energy efficiency technologies. If the Review is to deliver, it should provide for more effective, risk-based, monitoring and enforcement processes to drive out bad practices and raise standards in the industry. It should also provide for an effective minimum standard of consumer service, including aftercare, across the industry, of which RHI is one part.

b) How can the RHI best be developed to tackle this and drive up deployment?

As stated above in answer to question 20a there is relatively low awareness of heat pumps and how they differ from conventional forms of heating among consumers. This is an important factor when it comes to the performance of heat pumps as the behaviour/operation of systems by householders can have an impact on overall performance.

Provision of information and advice on systems could have a positive impact on performance and should be considered an integral part of the installation of renewable heating systems. The Government should consider how the RHI could be structured to better deliver independent advice and information to consumers prior to purchasing systems as well as obligating installers to ensure their customers understand how to get the best out of their systems before final handover.

Q21: In your recent experience, what are the main financial barriers to the deployment of heat pumps in the domestic sector? In particular, what are the main reasons why the current tariffs have not achieved higher deployment levels? Please provide any supporting evidence.

The main financial barriers for consumers considering purchasing heat pumps and other renewable systems are: high upfront costs and uncertainty of ongoing costs. It is well known that people discount future savings⁸ and therefore, schemes that provide incentives via future income streams tend to be less attractive than upfront grants.

Q22: In your recent experience, what are the main non-financial barriers to the deployment of heat pumps in the non-domestic sector and how can they best be overcome? Please consider how they compare to the financial barriers in terms of impact on uptake and provide any supporting evidence.

The main non-financial barrier to deployment is unfamiliarity of the technology. Heating homes using heat pump technology is a very different experience for consumers than those methods with which they are more familiar, i.e. boilers (gas, oil or LPG fired) and electric storage heaters. The operation of heat pumps needs to be different in order to get the best efficiencies and keep ongoing costs low. This

⁸ Cabinet Office (2011), *Behaviour Change and energy use*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48123/2135-behaviour-change-and-energy-use.pdf

means that users need to be much more conscious of the way in which they use them, at least initially, and this can be a deterrent to uptake.

DECCs own analysis looking at consumer willingness to take up more efficient systems of heating found that only about half were positive about using heat pumps⁹.

Therefore, as stated previously, advice and information is crucial. Consumers need to be able to access independent advice and information about new low-carbon heating systems prior to making any purchase to ensure they are making fully informed decisions. People also require ongoing access to guidance and aftercare to maintain systems appropriately and keep energy bills under control.

Q23: Is there a way to link payments to actual performance which balances consumer confidence with incentives for higher performing systems? Yes/No. Please provide evidence to support your response.

No response.

Q24:

a) Performance monitoring can play a key role in driving up heat pump performance. What can we do to make the RHI's metering and monitoring service package more attractive? Please provide evidence to support your response.

Better awareness of the ways in which monitoring can benefit householders might encourage greater take up of packages. DECC should also consider what 'low-cost' incentives they might offer to installers to encourage them to promote these packages.

b) Are there alternatives to incentivise the monitoring of heat pump performance? Please provide evidence to support your response.

- Better inspection regimes for installers that will apply penalties for the installation of poorly performing systems.
- Publically available, and promoted, list of verified installers that can consistently demonstrate high SPFs of installed systems.
- More consistent, and easily accessible, route of redress for consumers suffering detriment through poorly performing systems.

⁹ DECC (2013), *Homeowners willingness to take up more efficient heating systems*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191541/More_efficient_heating_report_2204.pdf

Q25: Do you agree that we should withdraw support for new solar thermal systems in the domestic RHI from 2017? Yes/No. Please provide evidence to support your response.

No. While we support the reduction of subsidies for renewable energy systems as they develop and costs reduce we believe that solar thermal systems are unique and are a lower cost renewable technology that has clear benefits for low-income families. This is because they can be used in circumstances where other renewable systems cannot and have minimal running costs which is especially attractive for lower income households.

We would recommend further reading of solar thermal case studies available from the EST that demonstrate some of the benefits that have been realised through the installation of these systems in social housing.