

## ECONOMY, ENERGY AND FAIR WORK COMMITTEE

## ANNUAL ENERGY STATEMENT

## SUBMISSION FROM [Scottish Water]

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This inquiry is intended as a "health-check" on the development and supply of renewable heat, recognising that stakeholders are likely to have responded to at least five consultations on this, or related, subjects in the last two years.

The Committee is therefore carrying out a short and focussed inquiry, and is asking for **no more than two pages** of written evidence, seeking views on:

### 1. Whether the 11% renewable heat target is still appropriate?

In light of increased evidence of climate change and the First Minister's announcement of a climate emergency it is our view that more ambitious targets in the lead up to 2045 will need to be considered. These should set out where Scotland intends to be on renewable heat as a contributor to Scotland's aspirations of being net carbon zero by 2045. Interim targets for renewable heat between 2020 and 2045 should be considered.

### 2. Whether the target is likely to be achieved?

Based on the BEIS figures for 2017 and our understanding of projects being developed we believe that meeting the existing 11% target by 2020 will be extremely challenging.

### 3. (a) What are the key risks and threats to achieving the target:

One of the significant obstacles in reaching this target is that low carbon heat is presently not as attractive commercially as heating from fossil fuel sources due to the scale of investment in new infrastructure. The challenge is to make low carbon heat more financially viable.

Our experience to date is that the larger projects take a considerable amount of time to develop and deliver. There are several factors that impact on the uptake of new projects and new technology:

#### **Procurement**

Our experience of working with other public sector partners has shown that many already have an established supply chain for carbon-based heating and, consequently, are restricted by procurement policies / rules that do not easily accommodate new suppliers, technology and delivery models.

#### **The Renewable Incentive (RHI)**

The UK Government's Renewable Heat Incentive scheme has been extremely beneficial in ensuring that projects are investable. The current RHI scheme is due to expire in March 2021 with no visibility yet whether there will be anything similar to replace it. The lack of certainty over whether the RHI or a similar scheme will be in place in the near future means that it is not possible to progress some projects that are currently financially viable and this is impacting on project development.

### 3. (b) And what more can be done?

There will not be a one size fits all answer on the journey to Scotland being heated from low carbon technologies and infrastructure. It will be a mixture of solutions that best suit local circumstances.

#### **Targets**

Defined targets and timescales for the public sector to lead by example and drive change.

#### **Pace**

Pace needs to be injected into delivering projects identified as quick wins. Local authorities, such as Stirling and Argyll & Bute, have recognised the need for change and have acted swiftly in developing and implementing authority-wide strategies. Their work should be promoted and other local authorities supported and encouraged to do the same.

#### **Procurement**

Public sector procurement rules could be more flexible in order to be open to new suppliers, new technologies and new service offerings (such as heat supply agreements).

**Support Mechanisms**

We support the continuation of the RHI or a replacement scheme to ensure that renewable heat is commercially viable and can compete with heat from fossil fuels. The 20 year certainty on RHI payments for the current scheme is really helpful. However there is uncertainty over what scheme will be in place to support investment in renewable heat beyond March 2021. Having a similar long-term support mechanism in place will provide market certainty, in order to provide developers / investors with clarity that a project is worth investing in. The subsidy window therefore needs to be sufficiently wide (at least 5 years ahead) to allow developers the time to get projects to financial close and to secure the incentives that are essential to the project's commercial viability. This could be aligned with a deployment cap mechanism similar to Feed In Tariffs.

Even if the RHI rates are to decline in the same way as Feed In Tariffs it should allow supply chains to be established, a number of different contractors to become experienced in delivering these types of projects and funders to become comfortable with the returns in the same way as the Feed in Tariff did for the small wind and solar industries. Long term certainty of the support mechanism is vital, but other sources of funding such as the LCITP are also critical in developing the supply chain and lowering the costs for future projects.

**Business Rates**

Business rates exemption for low carbon heating projects would help to support investment cases.

**Building Standards**

From the 2019/20 Programme for Government we note the Scottish Government's intention to set new building standards to reduce energy demand within new buildings by 2021 and the requirement for new homes consented from 2024 to use renewable or low carbon heat.

It may be beneficial to change building standard regulations such that any new buildings (or large scale refurbishments) have to be designed with heating emitter systems that can accept lower temperature hot water for district heating systems (i.e. larger emitters), allow sufficient space to install a heat exchanger to connect to a district heating network (DHN) and require plumbing connections to make buildings ready to accept heat from future DHNs.

**Policy to Connect**

In some European jurisdictions there is a policy that new developments within a certain proximity to existing DHNs must connect to the network. In this scenario the customer is protected through price regulation. The impact of this policy is that the large scale investment of the DHN is supported and growth in DHNs is incentivised.

-END OF SUBMISSION-