

## ECONOMY, ENERGY AND FAIR WORK COMMITTEE

### ANNUAL ENERGY STATEMENT

#### SUBMISSION FROM SCOTTISH RENEWABLES

##### Key points

- There is chance that the 2020 heat target will be met but it is highly unlikely that growth will continue at the previous rate unless new policies are brought forward soon.
- The Scottish Government must address the damaging impact that the end of the Renewable Heat Incentive (RHI) and Low Carbon Infrastructure Transition Programme (LCITP) will have on the renewable heat supply chain.
- Scottish Government must use the Heat Networks Bill to accelerate deployment of this technology and grow markets for low-carbon heat.

##### Introduction

Scottish Renewables is the representative body for the renewable energy industry in Scotland, working to deliver secure supplies of low-carbon, clean energy for heat, power and transport at the lowest possible cost. We represent around 260 organisations ranging from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain. We have around 60 members active in heat, predominantly in the district heat, biomass and electric heat pump sectors, ranging from manufacturers to developers and installers.

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

**The 11% target is no longer appropriate in light of Scotland's new – and more ambitious – carbon emissions reduction target** (to reach net-zero emissions by 2045). Although we believe that such targets are important for Government to set ambition and drive delivery, it is likely that the current 2020 is no longer aligned with the 2045 target. Our understanding is that the Committee on Climate Change's most recent advice regarding Scotland's net-zero emissions target implies deeper emissions cuts by 2030 than had been previously recommended<sup>1</sup>.

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

**There is a significant chance that the 2020 target will be missed.** The latest available data is from 2017 and shows that around 6% of Scotland's heat came from renewable sources<sup>2</sup> in that year. If trends in heat demand and renewable heat supply over the past three years continue this would increase to 10%, just shy of the target. However, significant

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<sup>1</sup> Committee on Climate Change, [Letter to Environment, Climate Change and Land Reform Committee](#), 20<sup>th</sup> May 2019

<sup>2</sup> Energy Saving Trust, 2018, Renewable Heat in Scotland

falls in the rate of installation of biomass boilers since RHI tariffs were reduced are likely to see the rate of growth slow down.

### 3. What the key risks and threats to achieving the target are, and what more can be done?

The Committee on Climate Change has recommended<sup>3</sup> the following broad strategy to decarbonise heat, which highlights the areas where renewable heat must be prioritised to meet near-term targets:

- **Existing buildings on the gas network:**
  - Improve their energy efficiency
  - Install low-carbon heat networks in areas of dense demand
  - Develop evidence on electrification/hydrogen options for the remaining buildings
- **Existing buildings off the gas network:** install heat pumps with a supplementary role for biomass boilers.
- **New buildings:** ensure high levels of energy efficiency & use of low-carbon heat.

#### Risks & threats: ending of support schemes

Although there is chance that the 2020 heat target will be met **it is highly unlikely that growth will continue at the previous rate unless new policies are brought forward soon**. A slowdown in the rate of installations is beginning to occur due to the ending of two key policies that have driven the bulk of uptake to date: the Renewable Heat Incentive (RHI) run by UK Government, and the Low Carbon Infrastructure Transition Programme (LCITP) run by the Scottish Government. This is a significant concern given the need to scale up activity to get on a path to net-zero emissions. It also presents significant risk to the supply chain that has been built in Scotland by these policies.

**Low Carbon Infrastructure Transition Programme (LCITP):** this fund has helped the construction of low-carbon heat networks such as the Glenrothes biomass heat network, Stirling waste heat and Clydebank heat pump projects. Capital funding from LCITP has been used in conjunction with the Renewable Heat Incentive (RHI, see below) to make these projects economically viable against heat from natural gas. Although a further funding round of £30m was announced in this year's Programme for Government, this is likely to be the last given that it is primarily funded by the EU. Heat networks are a key way to expand the use of renewable heat at scale and Scotland has an established supply chain that stands ready to deliver. The pace of activity is already faltering but could be addressed by the following:

#### Recommendations:

- **Heat Networks Bill:** the Scottish Government has announced that it will bring forward a 'Heat Networks Bill'. This is a significant opportunity to implement measures that can de-

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<sup>3</sup> Committee on Climate Change, 2017, Next Steps for UK Heat Policy

risk investment and enable more deployment. However, the Government has yet to clarify the contents of the Bill, and its long development (over 5 years) has led to a slowing of activity in Scotland relative to England and Wales, where funding is confirmed to 2022.

- **Heat Networks Action Plan:** not all of the barriers facing low-carbon heat networks can be solved through legislation and it will be crucial that the Heat Networks Bill is accompanied by an action plan that addresses key issues like subsidy support (e.g. the RHI and LCITP) and reform of business rates and planning policy.

**Ending of the RHI:** the majority of low-carbon heat uptake in Scotland has been driven by the Renewable Heat Incentive (RHI) which is run by the UK Government and provides subsidy to enable low-carbon heat to compete with fossil fuels. It has primarily funded installations in buildings off the gas grid, in new-builds and more recently in Scotland, some ground-breaking low-carbon heat networks (as described above). The scheme is currently scheduled to end in April 2021 but neither UK or Scottish Government have provided any clarity on what might replace it. This is particularly concerning for commercial projects – given lead times of at least two years, projects unlikely to be constructed in time are reverting to fossil fuel heating, a perverse situation given the recently declared climate emergency.

### Recommendations

- **Extend the RHI:** political instability at Westminster has significantly delayed the implementation of a successor policy to the RHI. The April 2021 deadline for the scheme is already negatively impacting commercial projects and we therefore urge the UK Government to extend the scheme for at least a year to prevent a cliff-edge in the industry. The Scottish Government should also make clear what its plans are for RHI-dependent sectors.
- **Phase out high-carbon heating from 2025:** our members believe that ultimately, regulation accompanied by subsidy is a more efficient and effective means of rolling-out clean heat in off-gas grid areas. The proposed date balances consumers need for advance warning with industry's need for clarity and continuity.
- **Stop funding fossil fuel heating systems:** the Scottish Government continues to fund fossil fuel heating system replacements through its fuel poverty alleviation schemes (such as HEEPS, ABS and Warmworks) locking consumers into potentially the wrong technology. Funding low-carbon replacements would partially help offset the impact on the domestic installation market following RHI closure in 2021.

### What more can be done?

Reaching the Scottish Government's 2030 renewable heat target (which implies increasing renewables share of heat provision to c.45%) will require a doubling of recent rates of renewable heat and energy efficiency deployment. This will require increased delivery of heat networks and installations in buildings off the gas grid. But this will not be enough and additional areas of focus will be needed:

- **New buildings:** the recently announced Scottish Government move to require the use of renewable heat in new-buildings should provide a boost, provided non-domestic buildings are included.
- **On-gas buildings:** ultimately the bulk of emissions reduction from heat will need to come from buildings currently connected to the gas grid but outwith areas suitable for heat networks (e.g. suburban areas). The Committee on Climate Change recommends<sup>4</sup> the installation of hybrid heat pumps (electric combined with the existing gas boiler) in these buildings, with an eventual conversion to either full electric heat pumps or continued hybrid operation with hydrogen (if available) replacing natural gas. The Scottish and UK Governments should work together on a programme to develop, test and commercialise such installations.

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<sup>4</sup> Committee on Climate Change, 2019, Net-zero: Ending the UK's Contribution to Climate Change