Cross Party Group on Renewable Energy and Energy Efficiency

November 12, 2024, 6.30pm

Minute

Present

MP's

- Sarah Boyack MSP
- Brian Whittle MSP
- Lorna Slater MSP
- Audrey Nicoll MSP

Invited Guests

- Nicola McLeod, Warmworks
- Kenneth Campbell, Energy Efficiency Association
- Ian Meyer, Vattenfall

Non-MSP Group Members

- Elaine Waterson,
- Jack Norquoy
- Amanda Fairman
- Sam Airey,
- Carol Aitken
- James Calder
- Gillian Campbell
- Ruxandra Cazan
- Lyndsey Croal
- Fraser Gillan
- Amanda Grimm
- Simon Kerr
- Niall Kerr
- John Malsen
- Norman McLennan
- Tariq Muneer,
- Joan Pisanek
- Antoine Reguis

- David Sommervell,
- Robert Toomey
- Mark Winskel
- Joan Pisanek
- Keith Baker

Apologies

- Liam McArthur MSP
- Stephen Kerr MSP
- Sarah McIntosh
- Jannette Webb
- Tom Ockendon

Agenda Item 1 – Introduction by Chair

Sarah Boyack MSP welcomed everyone to the meeting the focus of which is on 'What's Next for the Decarbonisation of Heat in Scotland?'.

Agenda item 2 – Approval of minutes from the last meeting

Sarah Boyack MSP noted that no comments had been received on the minutes of the last meeting (June 5th 2024, AGM). The minutes were moved by Brian Whittle MSP and seconded by Joan Pisanek.

Agenda item 3 – Presentation by Nicola McLeod, Warmworks

Introduction

Nicola introduced Warmworks explaining that it is a joint venture (Energy Saving Trust, Changeworks and Everwarm), initially set up in 2015 to manage the Scottish Government's national fuel poverty scheme, Warmer Homes Scotland (WHS). Nicola went on to note that as well as delivering WHS Warmworks now deliver contracts all across the UK.

Warmworks were appointed to deliver (up to) £728m 2nd phase of WHS in 2023, which runs to 2030. The scheme provides whole house retrofits to homes in or at risk of fuel poverty. Warmworks have also delivered more than £10m of decarbonisation projects for social landlords across Scotland in the last two years, with a further £15m to deliver

in the next twelve months. Nicola stated that more than 50,000 households have been helped through schemes and projects they manage, with an average annual bill saving of over £300 per year. They have also supported or enabled the creation of more than 160 apprenticeships and over 700 new jobs in Scotland, with an additional 200 across the rest of the UK.

The work is delivered by a supply chain of local installers, mostly SMEs based in all parts of the country. Nicola emphasised that Warmworks know that their service must be national in scale but local in experience and that customers want local contractors to do the work and noted the importance of providing an end-to-end service for fuel poor homes and communities that understands the circumstances of individual homes, communities and buildings.

Nicola then explained the customer journey in more detail – this involves Warmworks carrying out a survey in a client's home, to complete an Energy Performance Certificate (EPC) and occupancy assessment. They then use these assessments to make recommendations about the property. A registered subcontractor will then be asked to carry out the recommended work. Warmworks will carry out 100% of inspections and make sure that the occupant understands how to use the technology.

Since 2015, Warmworks have delivered significant innovations in the retrofit space, including:

- Increased the scale of heat pump and renewable technologies installations year on year (in 2020 c.49 heat pumps were installed, last year 2024 it was nearly 1,000)
- Introduced the Q-Bot, a robot that installs underfloor insulation, to the Scottish market
- Embraced smart ventilation and introduced it to WHS
- Introduced domestic battery storage to the social housing market in Scotland

Nicola went on to outline some key statistics relating to Warmer Homes Scotland

- 17,000 referrals received in the last year
- 11,500 retrofit assessments
- 4,923 completed households
- Average household saving £359 per year
- 99% customer satisfaction

Nicola explained that Warmer Homes Scotland is the only scheme in the UK operating at 2030 timescale.

Nicola went on to describe a project that Warmworks has delivered which was funded by the SPEN Green Economy Fund. This project involved using domestic battery storage to reduce energy bills using smart time of use tariffs. The value of the project was £1.25m with all funding via the SPEN Green Economy Fund.

As part of this project over 140 Tesla Powerwall batteries were fitted in homes that were in or at risk of falling into fuel poverty. Based on average consumption and dual tariff, customers could save £290 per year- this increased when alternative tariffs were used (important saving as this was when domestic bills increased dramatically in last 2 years).

Nicola concluded her presentation by emphasising that innovation can work in fuel poor homes and that it's a question of how and when it's introduced, as well as having the right advice, support mechanisms and aftercare in place throughout the process.

Lorma Slater indicated an interest in the jobs created by the Warmer Homes Scotland, and noted the challenge is developing skills. She asked how have private contractors in different areas across the country acquired the skills and licences to complete the contracted work, and has it been a challenge for them?

Agenda Item 4 – Presentation by Kenneth Campbell, Energy Efficiency Association

Kenneth started his presentation by explaining that the Energy Efficiency Association (EEA) is the trade body for the energy efficiency sector, representing installers, manufacturers, and assessors. The EEA is technology agnostic, politically neutral, and financially independent. It is a community interest company and is therefore not allowed to lobby. Keneth encouraged the politicians present to engage with the EEA and noted that if they ask questions the EEA will provide answers. Their remit is to coordinate, communicate, and collaborate across the energy efficiency sector.

Kenneth explained that he would use the Boiler Upgrade Scheme as a case study to understand where policy has gone wrong in the past, and what can be learnt to inform future approaches.

Kenneth went on to explain that the UK Government's Boiler Upgrade Scheme (BUS) contributes upfront capital grants to support the installations of low carbon technologies. These include air source heat pumps (ASHP), ground source heat pumps (GSHP), ground source heat pumps shared ground loops (GSHP SGL) and in some circumstances biomass boilers, in domestic and small non-domestic buildings. The BUS has received £450m of UK Government funding over 3 years (£150m a year), aiming originally to provide a £5,000 grant to replace boilers with heat pumps in 90,000 homes.

Kenneth then talked the group through a graph showing how the scheme has performed in the last 3 years, noting that the UK has fallen very short of the rollout targets:

- £88m was returned to HM Treasury year 1 (60% of annual budget)
- £78m was returned to HM Treasury year 2 (48% of annual budget)

- In Year 3 it was likely that £50m (30% of annual budget) would be returned

In 2023 the UK Government increased the value of the grant from £5,000 to £7,500. Kenneth stated that this would mean a lower number of possible installs as funding levels overall stayed the same, but would also mean that installs were more commercially viable for the public. Kenneth explained that there was a lot of confusion both in and out of government about whether the scheme would continue after 2025, and this uncertainty is preventing installers from carrying out work.

Kenneth then noted that BUS has been successful from homeowner perspective, as 37,417 homeowners have received the grant so far, with a list of over 12,000 people waiting for installs. On average the BUS gets around 4,000 new applications a month, but as the scheme runs to its conclusion installations are not keeping up with applications.

Currently there are 1,404 registered installers in England and Wales, whereas in Scotland there are 993 ASHP installers alone. Kenneth suggested that there are not enough registered installers in England and Wales to meet demand. By April as the scheme comes to a close it is estimated that there will be around 17,000 applications outstanding and the backlog will take 6 months to clear.

Keneth moved on to consider issues within the supply chain that also hindered the rollout of the BUS, noting that policy makers need to take into account are the number of installers (do these match the aims of installation targets?); the location of installers (issues in rural areas getting qualified installers); the quality of installers; the availability of materials (quotes given in NE England – quotation April local council signed off passed to value for money exercise – took 6 months to come back to installer, in that time price of solar panels had gone up 50% - installer to hit on that account, profit wiped out; the access to assessors, coordinators and surveyors (supply chain is a lot longer than people think it is); the availability of funding/working capital (funding can take 90 days to come back to installer) and lastly the profitability of work (if no profit margin built in installers wont' be interested).

Kenneth then gave an example of the length of supply chain for a simple loft insulation install:

1. Sales meeting with customer
2. Energy Efficiency Assessment
3. Retrofit Coordinator does Pre-install inspection
4. Funding body agrees funding
5. Installer orders up materials from supplier
6. Installer does installation
7. Retrofit Coordinator carries out inspections during and post install
8. Customer signs off the install
9. Funding body pays the installer

Kenneth used this example to make the point that policy makers should be careful about how difficult and complex processes are made.

Kenneth went on to talk about the Energy Company Obligation (ECO) - which is designed to tackle fuel poverty and help reduce carbon emissions. The scheme has seen 5 iterations, and every time there has been a gap between iterations which has meant that installers have to wait for new legislation before scheme funding for each iteration of the scheme has been available – and this has , led to uncertainty in the industry and can cause installers to go bust.

Kenneth used the Green Homes Grant as another example. The scheme was intended to boost Post-Covid Green Jobs Recovery, and was a voucher based scheme where home owners could claim a voucher for partial funding of energy efficiency improvements to their home. The rollout was badly administered, as it was handed to company that hadn't administered a scheme of this scale in the UK before. The grant was announced publicly in July, but was not available for installers until Nov. Many members of the public cancelled work that had been due to happen, as people thought they would wait until the voucher scheme was available before doing any work. The lack available of work in the waiting period caused lots of uncertainty and resulted in some installers going bust.

Kenneth concluded by summarising the main enablers for a successful energy efficiency schemes:

- Single strategic programme with multiple targeted scheme tiers
- Area cased schemes to keep costs down and speed up delivery
- Clear communication about eligibility (e.g. Home Energy Scotland Adviceline)
- Prompt communication about scheme guidance
- Clear rules for installers to follow (proper policing)
- Support for scalability
- Prompt payment for installers
- Clear support from mortgage and insurance industry

Agenda Item 5 – Ian Meyer, Vattenfall

Ian began his presentation by noting that chair Sarah Boyack MSP had visited a Vattenfall scheme in Sheriff Hall, a heat network site located in Mid Lothian.

He then explained that his talk would focus on 3 main themes: demand, project finance and funding, and regulation.

Vattenfall as a company is mainly focused on delivering large scale infrastructure, have 3 main heat network schemes up and running in the UK. These are in Brent

Cross (London), Bristol City and Mid Lothian. Vattenfall is also working with the City of Edinburgh Council in Granton.

Vattenfall deliver large, city scale district heating networks. This begins by connecting new developments and large anchor load customers, and then infill takes place with individuals/wider public. When heat networks are delivered at scale they can start to tackle fuel poverty in high population density areas. Ian suggested that large scale district heating will be the most effective and cost-efficient heating technology solution of choice for c.20% of homes in the UK.

Ian started on the theme of demand, and explained that district heat networks are the most cost-effective solution for providing affordable, low-carbon heat in densely populated areas such as cities and towns. Therefore, areas where Scotland has high population density Heat Networks will be large opportunity for large amounts of demand. Secondly, devolved powers in the Scottish Government mean that Scotland can lead in the deployment of heat networks in the UK. However, without compelling connection it is difficult to aggregate demand for new networks. Ian also emphasised that district heating schemes require large initial capital investment and have long payback periods.

Ian moved onto the second theme, project financing and funding. The Scottish Government has made grant funding available for capital infrastructure, and it has been successfully used. Part funding the capital investment derisks demand uncertainty by creating an inherent hedge against risk, for example that no one will connect to the scheme or that housebuilding will slow down.

However, funding scheme durations have to match infrastructure delivery or they are useless. Funding is due to end in 2026 and the money must all be spent. Large projects take a minimum 3 years of development and 8 years of buildout and therefore the availability period of the existing fund is not in line with the overall length of time it will take to deliver district heating infrastructure. Ian stated that it is therefore important to tie funding timescales to political timeframes, highlighting the importance of cross party working.

Ian then talked about heat network regulations noting that the Scottish Government had been working on these for some time, and noted that we are currently waiting for secondary legislation around zoning and the introduction of statutory undertaker powers to come though under the Act.

Ian then went on to note that heat networks do not currently have the statutory undertaker powers that other national infrastructure. Ian also noted that there is an opportunity for Scotland take learn from the example of the Welsh Government Wellbeing Of Future Generations Act to combat this and emphasised that there is an opportunity for customer protection through regulated UK consumer protection schemes.

Ian moved on to suggest that the Scottish Building Regulations fundamentally disadvantage heat networks and suggested that building regulations/standards must run parallel to planning policy.

Ian concluded his presentation by noting that the current Heat Network Technical Assurance Scheme (HNTAS) proposals are unworkable and emphasised the importance of keeping legislation simple.

Agenda Item 6 – Q&A on Presentations

A range of questions were directed at the panel and included:

Sarah Boyack MSP asked about consumer protection and how to strike the balance between consumer protection and the scheme working?

Ian Meyer replied by outlining voluntary scheme Heat Trust, incoming standards being adopted across industry, mandate for fair pricing. Protections for customers that the pricing schemes will be fair, intro from DESNZ cap and floor? Regulation is supported and needed to ensure that it is not a barrier for consumers signing up.

Nicola McLeoud added that Warmworks calculate fuel costs in client properties beforehand, however they do not have any control over fuel prices (for example gas/electric risk).

Kenneth Campbell concluded by noting that consumer protection is essential where there is not regulation; regulation must be clear and simple to benefit consumers.

Amanda Grimm from Community Energy Scotland asked if Vattenfall have schemes with community ownership or benefit? Ian Meyer explained that in Europe Vattenfall have schemes with community shared ownership. They do not have projects with shared ownership in the UK yet but would not be opposed. Looking at onshore wind industry as an example.

Lorna Slater MSP asked Kenneth about the graph on heat pump uptake and whether you have numbers on the rate of growth of installers were available? Kenneth answered Kenneth – over the 3 years – MCS – have register for all those registered to install MCS from 700 to 1,400 in 3 years. Would expect similar in Scotland and England fell short in terms of installer take up of scheme. Room for growth – not growing as quickly as would like.

Lorna Slater MSP asked all attendees if they had any recommendations for legislation amendments to the Heat & Buildings Bill? Simon Kerr, Sav systems answered explaining that there is concern in industry that the obligation for public

buildings to connect to heat networks was watered down in the Heat and Buildings Bill. If public do not see public buildings connected they will be worried that heat networks are of low quality, and therefore causing wide scepticism and might result in a lack of connection uptake. There must be an obligation for public buildings to connect to heat networks to create the baseline load.

Robert Tumey stated that the industry suffers from siloes and therefore the Tennant Maintenance Bill will be important. He questioned how will policies work with one another, advising that there must be a conversation between relevant departments in Government to get coordinated approach.

Gillian Campbell, Existing Homes Alliance, asked Nicola McLeod about the extent to which the longevity of WHS is part of its success? Nicola advised that the minimum of £53 million per year creates a guarantee to supply chain, and the duration of 5 year contracts with possible extension of 2 years creates more trust and commitment that benefits suppliers. Prompt payment to installers also aids confidence in the supply chain.

Joan Pisanek asked in relation to heat networks whether consumers would be expected to pay for necessary upgrades of pipework that is old anyway? Ian stated that this is why we need to ensure that infrastructure fund is available for consumers. Connecting public buildings first gets primary infrastructure in motion and creates an anchor load for heat networks, then allows individual consumers to join in the networks without such upfront costs.

Agenda Item 7 – AOB and date of next meeting

Sarah Boyack MSP thanked all of the speakers and all of the attendees.

Sarah Boyack MSP noted that the date of the next meeting is January 14 with the theme of ‘Meeting Scotland’s climate change targets and the just transition: what’s next?’

Sarah Boyack MSP then closed the meeting.