

ADDENDUM

TECHNOLOGICAL INNOVATIONS AND CLIMATE CHANGE: HEAT PUMPS: EVIDENCE SUBMISSION

KENSA GROUP

KENSA GROUP RESPONSE: ADDENDUM

The Kensa submission contains many references to poor policy decisions which have impacted the deployment of GSHP's in the UK. There was further evidence in the past week. Right now, there is no support at all for retrofit GSHP installations into high rise apartment blocks. This is based upon a sequence of errors from officials. It is not known if the Minister is aware of these errors. Officials routinely seek to cover up issues and argue that unhappy companies are 'lone wolves': over 100 GSHP businesses will shortly make clear their unhappiness with the conduct of officials.

BACKGROUND

Ground source heat pumps were the most popular low carbon heating technology before Government interfered in markets. Interference started in 2011.

Due to multiple errors over the years, the Non-Domestic RHI (NDRHI) has supported less than 10% of the intended GSHP installations since its inception in 2011. It is scheduled to close in March 2021.

In 2015, Lord Bourne, Energy Minister told the DECC Select Committee:

'We have a domestic company in Cornwall, Kensa, who produce heat pumps, who would be able to fulfil many of our needs, and I see great potential here'.

At the time, the NDRHI only supported a tiny fraction of social housing retrofit projects. A change to the regulations in 2018 finally provided some suitable support. At the time, Government wrote: 'The Government is keen to support the deployment of GSHP's making use of shared ground loops'.

Since 2018, Kensa has engaged with many local authorities and social landlords. Much of the interest was to upgrade heating systems in high rise apartment blocks, in part triggered by the Grenfell tragedy.

Project gestation periods are lengthy. Enquiries spawned in 2018 were graduating to contract and delivery in 2020 ahead of the March 2021 NDRHI closure.

Kensa was expecting a record year. To prepare, Kensa recruited over 50 staff in 2019, invested in a new factory (built without any EU money or any other public subsidy) and sold equity to Legal and General Capital to provide the necessary working capital.

Kensa has a large number of projects impacted by lockdowns that may not complete before March 2021. Clients would lose all financial support through no fault of their own.

2020

In spring 2020, Government announced a one year extension to the Domestic RHI until March 2022.

Oddly, Government also announced the NDRHI would close in March 2021 as scheduled.

To mitigate the impact of Covid, Government also announced a one year extension (to the NDRHI) but only for projects with a capacity exceeding 100kW which could effectively pre-apply for the NDRHI via a Tariff Guarantee process. Typical Kensa social housing projects do not meet this threshold.

In April, industry asked Government for some support for sub-100kW installations.

Government issued a (very premature) consultation for the Clean Heat Grant. It is scheduled to launch in April 2022 to follow on from the Domestic RHI. It is intended to support shared ground loop systems.

In May, officials conceded they mistakenly thought shared ground loop systems were supported by the Domestic RHI and not the NDRHI. They became aware that there would be a one year break in support for shared ground loop systems between the end of the NDRHI (in March 2021) and the start of the Clean Heat Grant (in April 2022).

In response to the CHG consultation, Kensa asked for a one year extension to the NDRHI for shared ground loop systems to bridge this unintended gap.

Kensa continued to lobby Government for some support for sub-100kW projects. A 'fast-track' consultation was finally published and closed in early September.

In desperation, Kensa's MP organised a Zoom meeting with Minister Kwarteng; officials attempted to filibuster throughout. The Minister seemed surprised that there could be any criticism of policy. A follow-up letter from Kensa dated September 24 has received no response.

In the absence of any response to both the letter (which asked for a one year extension for all shared ground loop projects) and the sub-100kW consultation, Kensa re-designed many shared ground loop systems to meet the 100kW threshold in order to secure a one year extension via the Tariff Guarantee process (announced in the Spring).

This re-design cost money, increased the contract price and meant the social landlord received less NDRHI income as the 100kW+ tariffs were lower. Even so, some clients still decided to proceed, in part because they had notified tenants of the intent to upgrade their heating before Covid struck.

Kensa spent considerable time preparing the extension applications. Some were submitted but most were still in process.

LAST WEEK

On November 4, Government announced the available budget for 100+kW projects had been exhausted.

Officials suggested Ministers might be minded to increase the budget but there would be a further degeneration to tariffs. This would scupper all the projects.

On November 5, Government finally responded to the sub-100kW consultation and announced a one year extension for projects that could provide evidence they were conceived pre-Covid. The announcement outlined the available budget. It is miniscule. Officials claim it is based upon evidence provided by industry: this is not the case.

BEIS officials also intimated that Treasury have denied any more general extension to the NDRHI. We would need around £50m spread over 20 years to support shared ground loop projects.

CURRENT POSITION

Money is seemingly available for other schemes.

Treasury has announced a £2bn Green Homes Grant which was cobbled together quickly by officials: it has been widely lambasted by the mainstream media.

GSHPs are a supported measure but social landlords are ineligible: in fact, everyone is ineligible due to a catastrophic oversight in the scheme rules which mean that no GSHPs can be installed. Not one. Officials have been aware of this issue for weeks. The scheme is scheduled to close in five months in March 2021: a typical one-off GSHP installation project for a private house takes six months.

Much of the GHG budget will be unspent as the rules and timescales are absurd. Many major suppliers/installers have announced they will not engage with the programme.

Treasury has announced a £1bn Public Sector Decarbonisation Scheme (PSDS). Social landlords are ineligible. The final commissioning date for installations is September 30 2021. Much of the budget will also be unspent as it isn't possible to deliver into the public sector at such pace.

Treasury has announced a £50m Social Housing Decarbonisation Demonstrator Fund. Social landlords are eligible. High rise housing is ineligible.

It is probably all too complicated for the Minister. He takes advice from officials. They claim that Kensa is the only company which is unhappy. That is untrue.

The Minister probably thinks there is an unrivalled level of support available. Sadly, none of it supports shared ground loop systems into social housing. Plenty supports installations into homes owned by the wealthy.

Landlords have notified tenants of plans to upgrade to GSHP heating. Those plans are now being abandoned. Tenants are 'locked down' into properties which they cannot afford to heat.

BEIS is prepared to abandon 'shovel ready' projects and requires the supply chain to develop different projects from 'scratch' to qualify for the new GHG and PSDS. That is peculiar.

None of the NDRHI 'shovel ready' projects qualify for these new schemes so will be lost.

Kensa is incredibly busy until March 2021. We have far less work after this date. Our sales staff can make no offers to any social landlord. We need the projects that have already been planned to be delivered.

Kensa should be the 'poster-child' of COP26, a British company leading the market in a renewable technology set for significant and sustained growth.

Kensa will not survive in its current form to see COP26. At least 60 redundancies will occur as soon as the NDRHI closes in March 2021 unless there is some help.

Government needs the GSHP supply chain to survive. GSHP's provide the lowest cost and lowest carbon heat to a social property. They should be installed into every high-rise block in the country.

The Environmental Audit Committee Enquiry should highlight the huge advantages of our technology; it supports the lowest cost pathway to heat decarbonisation.

REQUESTED OUTCOMES

The only sensible remedy to restore confidence amongst clients is a swift announcement that the NDRHI is being extended for a year for shared ground loop systems. We then have a little time to sort out what comes next – it cannot be the shambolic Clean Heat Grant.

If an extension for all shared ground loop projects is not possible, we need both:

A suitable budget for sub-100kW extension applications and the opportunity to receive confirmation of an extension immediately. The current proposal is to delay applications to March 2021: we have no idea when decisions (on those applications) might be made.

A significantly higher budget for the 100kW+ extension applications.

FINAL THOUGHTS

We are not asking for more money. We are just asking that the NDRHI budget that would have been assigned to projects in 2020 (had Covid not struck) is reallocated into 2021.

We wouldn't be asking for money if the NDRHI had fairly delivered for GSHP's over the past decade.

If the expected volumes had deployed, costs would have fallen significantly and we would be offering subsidy-free solutions to the market. We are only in this position because of prior policy failures. The Committee submission explains some of them.

Kensa wouldn't be asking for money if the officials had done their jobs properly.