



Response to Consultation on Heat and Energy Efficiency Strategies and District Heating Regulation, April 2017

Introduction

Stop Climate Chaos Scotland (SCCS) is a civil society coalition campaigning for action on climate change. Members include environment and international development organisations, student unions and trade unionists, community groups and faith groups. We believe that the Scottish Government should take bold action to tackle climate change here at home and play its part in supporting climate justice around the world. We are grateful for the opportunity to share the views of the coalition on the Consultation on Local Heat and Energy Efficiency Strategies and District Heating Regulation.

Overview

SCCS welcomes the consultation on Local Heat and Energy Efficiency Strategies (LHEES) and District Heating Regulation. As heat makes up around half of Scotland's emissions, SCCS has long campaigned for accelerated action on heat decarbonisation. In recent years, we have called for energy efficiency to be designated a national infrastructure priority and for a comprehensive legislative framework to incentivise the development of low carbon heat.¹

The consultation provides a positive package of measures that will help to reduce emissions from the built environment and speed up the roll out of low carbon heat networks, essential to deliver on the draft Climate Change Plan targets for fabric efficiency and heat decarbonisation. District Heating regulation will need to be taken forward as primary legislation through a District Heating Regulations Bill. Legislation is necessary to establish the long term stability that secures investment and maintains the necessary standards of operation. Certainly, introducing a statutory duty to establish a LHEES and introducing a compulsion to connect would appear to require a legislative footing.

Local Heat and Energy Efficiency Strategies

Duty to Produce and Implement an LHEES

SCCS supports the proposals for LHEES, including the proposal that local authorities should have a duty to produce and implement an LHEES as outlined. This will ensure that no area is left behind, and that economic, social and environmental benefits are maximised right across Scotland. The fact that the duty requires implementation is also welcome, as this will ensure compliance and that there is senior management buy-in. This statutory duty will place additional burdens on Local Authorities and must therefore be comprehensively resourced, with in-house expertise, adequate funding and time. Clear guidance will need to be developed centrally to help steer the formation of these strategies and support learning and sharing of best practice, particularly for Local Authorities where there are fewer staff and financial resources.

Geographical Scale

Local Authority level is an appropriate geographical scale, allowing tailored local solutions which will maximise local benefits. However, Local Authorities should seek to develop LHEES either alone or in combination with other local authorities where physical or socio-economic circumstances indicate potential synergies. Smaller local authorities may particularly benefit from support by more experienced or well-resourced Local Authorities through joint-working.

¹ See for example, SCCS 2016 Holyrood Election Manifesto:
<http://stopclimatechaos.org/sites/default/files/Manifesto-final-web.pdf>

Scope and Content

We agree with the proposed scope and content for LHEES. We warmly welcome the integrated approach to both supply and demand side, as too often energy masterplanning focusses on the generation and supply rather than reducing demand, which is often the most cost effective solution for heat decarbonisation. Plans to enable demand reduction must encompass more than building fabric and energy efficiency technologies, however, but also clear strategies to support behaviour change, particularly for higher energy users.

Targets

We agree that LHEES should set local targets for energy efficiency and decarbonisation. These must be consistent with the targets set out in the draft Climate Change Plan, though targets should not be interpreted as a cap on local efforts. At present, there is inadequate clarity about the wider, long-term targets for SEEP and regular milestones along the way, and inadequate detail on the SEEP delivery model, including budgets and financing mechanisms. This will need to be fleshed out urgently in order that Local Authorities can interpret the overall goals to set appropriate targets for their local circumstances.

It is essential that a national governance body (whether new or an expanded remit for an existing body) is put in place with a clear oversight function to ensure that the sum of individual LHEES targets adds up to the overall targets for SEEP and the residential and services sectors in the draft Climate Change Plan.

Alignment with Local Development Plans

It is crucial that LHEES and Local Development Plans are aligned and there needs to be policy support for LHEES within LDPs. The Scottish Government must ensure that review of the planning system is consistent with the needs of its energy policy.

District Heating Regulation

Zoning

Evidence from a review of international experience² has found that zoning areas for district heating was able to reduce demand risk and consequently provide confidence to the developers and investors in heat network projects to progress with development. Furthermore, zoning will allow the development of larger heat networks than the current piecemeal approach because the reduced demand risk provides confidence to developers and investors. This will have an impact on costs as larger heat networks allow fixed costs in the network and plant room can be spread across a larger number of customers leading to an improved internal rate of return.³

Establishing Exclusive Concessions

Exclusivity to develop and operate a concession will help the concession holder to reduce demand risk as no other network provider can enter the area to compete for customers. This should reduce financing costs, leading to lower prices for consumers. Furthermore, the ability to seek obligation to connect from the local authority should enable the concession holder to secure above the threshold of 60% of the local heat market suggested as necessary for viability⁴.

² Best practice in heat decarbonisation policy: A review of the international experience of policies to promote the uptake of low-carbon heat supply. UKERC (Dec 2016)

³ District heating in the UK: A Technological Innovation Systems analysis. D Hawkey Environmental Innovation and Societal Transitions (2012)

⁴ Background Report on EU-27 District Heating and Cooling Potentials, Barriers, Best Practice and Measures of Promotion. Andrews et al. EU Joint Research Centre (2012).

The responsibility for issuing and enforcing concessions should fall to local authorities as they are closest to the point of delivery, they will understand the spatial and topical geography of their areas, they will have responsibility for other local strategies, programmes and plans (such as the local development plans) and provide a democratic channel for local consumer concerns. It has been noted elsewhere that in countries where district heating is a substantial feature of the heat supply sector local authorities have played a prominent role⁵.

The main implication of zoning and concessions is that customers within the zones will eventually be connected to a monopoly provider for their heat requirements giving rise to concerns over potential monopoly abuse⁶. This emphasises the importance of transparency and consumer protection being embedded in regulations and rooted in legislation.

It should be noted that in Denmark companies retailing heat are required by legislation to be organised as not-for-profit entities⁷. It may be that meeting the conditions and requirements for concessions means that a not-for-profit approach will be best placed to succeed in the competitive tendering and this should be actively considered. The regulations should not rule out enabling municipal or public bodies from establishing a concession if they can prove to be the best party to take forward a development through a competitive licensing process.

Concessions may need to be granted for longer than the 20 year time period proposed for LHEES. Typical district heating projects use a 25 – 30 year term.

Compulsion to Connect

SCCS supports a compulsion to connect, where it can be demonstrated through socio-economic assessment that over the long term there will be no detriment to building owners and consumers and that they will benefit. At present, demand risk means that developers lack confidence that they can capture sufficient load to justify investment and investors price the risk into the required return on capital leading to higher consumer charges.

The approach should be to seek voluntary connection based on a competitive offer. Compulsion should only be used as a last resort. It is likely that this may need to be used in early stages of the new regulatory regime in order to demonstrate the Scottish Government's commitment. But once this is understood and accepted then the need for compulsion will subside.

Industrial Plant and Waste Heat

We welcome the focus on waste heat from industrial plant and note that voluntary approaches may not always work. Therefore the Scottish Government will need to signal a clear pathway from enabling to mediation to direction. However, we also note the challenges in using industrial heat sources as the primary or 'anchor' source of heat, as this is not their primary use and the volume and quality of heat may be subject to change. This can be mitigated by assembling a supply market from a broad diversity of potential heat sources, for example in a large industrial area. Air quality and noise pollution must also be taken into account in plans to use waste industrial heat. This should be addressed through the LHEES and LDP.

For more information, please contact:

Caroline Rance, Campaigns Manager, Stop Climate Chaos Scotland
caroline@stopclimatechaosscotland.org 0131 243 2701

⁵ Best practice in heat decarbonisation policy: A review of the international experience of policies to promote the uptake of low-carbon heat supply. UKERC (Dec 2016)

⁶ Best practise support schemes. Sven Werner. EcoHeat4EU (2011)

⁷ How Danish communal heat planning empowers municipalities and benefits individual consumers. Chittum & Østergaard. Energy Policy 74 (2014)