

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT RENEWABLE HEAT INCENTIVE SCHEME
REGULATIONS 2018

DRAFT DOMESTIC RENEWABLE HEAT
INCENTIVE SCHEME (AMENDMENT)
REGULATIONS 2018

Monday 23 April 2018

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Friday 27 April 2018

© Parliamentary Copyright House of Commons 2018

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: DAVID HANSON

- | | |
|--|---|
| † Brown, Alan (<i>Kilmarnock and Loudoun</i>) (SNP) | † Mackinlay, Craig (<i>South Thanet</i>) (Con) |
| † Charalambous, Bambos (<i>Enfield, Southgate</i>) (Lab) | † Offord, Dr Matthew (<i>Hendon</i>) (Con) |
| Cryer, John (<i>Leyton and Wanstead</i>) (Lab) | † Perry, Claire (<i>Minister for Energy and Clean Growth</i>) |
| † Davies, Chris (<i>Brecon and Radnorshire</i>) (Con) | † Robinson, Mary (<i>Cheadle</i>) (Con) |
| Farrelly, Paul (<i>Newcastle-under-Lyme</i>) (Lab) | † Smith, Nick (<i>Blaenau Gwent</i>) (Lab) |
| † Greening, Justine (<i>Putney</i>) (Con) | Umunna, Chuka (<i>Streatham</i>) (Lab) |
| † Harris, Rebecca (<i>Lord Commissioner of Her Majesty's Treasury</i>) | † Whitehead, Dr Alan (<i>Southampton, Test</i>) (Lab) |
| Jones, Susan Elan (<i>Clwyd South</i>) (Lab) | |
| † Lamont, John (<i>Berwickshire, Roxburgh and Selkirk</i>) (Con) | Kenneth Fox, <i>Committee Clerk</i> |
| † Lefroy, Jeremy (<i>Stafford</i>) (Con) | † attended the Committee |

Second Delegated Legislation Committee

Monday 23 April 2018

[MR DAVID HANSON *in the Chair*]

Draft Renewable Heat Incentive Scheme Regulations 2018

4.30 pm

The Minister for Energy and Clean Growth (Claire Perry): I beg to move,

That the Committee has considered the draft Renewable Heat Incentive Scheme Regulations 2018.

The Chair: With this it will be convenient to consider the draft Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2018.

Claire Perry: It is a pleasure as always to serve under your chairmanship, Mr Hanson. If I may add one moment of levity, I congratulate two members of the Committee on their fine performance in the London marathon yesterday—I am sure they were cursing renewable heat at the time. I am sure my hon. Friend the Member for Berwickshire, Roxburgh and Selkirk and the hon. Member for Blaenau Gwent are enjoying the chance to sit down; hopefully it will not be for too long. Congratulations to them.

The purpose of the draft orders is to implement reforms to the renewable heat incentive. The reforms will deliver changes that will strengthen the focus on long-term decarbonisation, offer better value for money for taxpayers, increase protection for consumers and further support supply chain growth in the renewable heat sector.

Heat for our homes, businesses and industries accounts for around half of the UK's energy use and around one third of total carbon emissions. Increasing the share of heat derived from renewable sources is a critical challenge, both to meet our renewable energy targets and to deliver the Government's long-term carbon goals. Renewable heat can also make a valuable contribution to our fuel poverty ambition, and it is my intention to use this scheme and the energy company obligation scheme to deliver on our manifesto commitment.

Building a vibrant renewable heat sector is a key objective of the clean growth strategy and the industrial strategy, and the RHI is the main programme to deliver those goals over the spending period. The non-domestic RHI scheme was launched in 2011, and there are now more than 18,000 installations with a total capacity of 4,000 MW. The scheme produces enough renewable heat for more than 1 million homes. The domestic RHI was launched in 2014, and more than 60,000 homes are now using it to make the transition to low-carbon heating. Before the RHI started, only 1% of our heat came from renewable energy sources. That figure is now around 7% of total heat.

This type of tariff-based support for renewable heat installations is the first scheme of its kind in the world. Inevitably when pioneering something, there are lessons to be learned, and these reforms are a response to some

of the lessons from the early years. We consulted extensively on this package of reforms in 2016. The draft regulations will complete the delivery of those changes, as well as implementing elements from two smaller consultations in 2017.

The National Audit Office published a review of the RHI in February this year, which we were very pleased to receive. However, many of the comments related to the draft regulations that are now before us and which we now have the opportunity to discuss. I hope they will go some way towards addressing some of the issues covered in the NAO's report.

The draft orders will deliver 12 important changes in total. Those will deliver a series of important reforms that will ultimately help us to deliver a more strategic mix of technologies and improved value for money over the next three years. I will highlight a couple of the main ones.

We will increase the tariffs available for biogas and biomethane technologies while introducing new restrictions on the feedstock that those plants use, which was one of the requests that we received from many campaigners in the sector. That will encourage the increased use of food and agricultural waste and will reduce the use of energy crops, making better use of farmland for food production. We will also revise the tariffs for heat pumps and biomass that were introduced through negative regulations last year, which will rebalance the deployment away from biomass and in favour of heat pumps, biogas and biomethane, which will all play a much stronger role in the scheme over the long term.

Another important change is that we will bring in tariff guarantees that cap the amount of heat covered to 250 GW per year. That will allow RHI applicants to secure their place on the scheme in advance of construction, and will support investments in larger plants, but not mega-plants, with long lead times that deliver better value for money.

In the domestic scheme, take-up to date has been dominated by owners of larger homes. To promote wider uptake, which is an important objective for me, we will introduce the facility for an assignment of rights. That will allow third parties, particularly those in lower-income housing, to finance renewable technology and be repaid directly from the RHI. Crucially, that will open up access to the scheme for those without the up-front capital to pay for a new heating system, and will avoid some of the allegations of dead weight that have been directed at the scheme.

Alan Brown (Kilmarnock and Loudoun) (SNP): The Minister mentioned biomass and the 250 GW cap. In the oil and gas debate on Thursday, I raised the issue of the Grangemouth renewable project, which is in the pipeline and possibly due for commission. Will the cap affect that project, if it proceeds?

Claire Perry: If I may, I will make some progress and ask my trusty officials to scribble a note to me. If we cannot answer the hon. Gentleman during the debate, I will be happy to write to him.

Following last year's consultation, we will also limit the eligibility of certain heat uses. One of the concerning criticisms of the scheme was that it was being used to dry wood for fuel and that it was being used for waste processing and drying, which were strongly felt to be

inappropriate for the scheme. The regulations will change that and improve the value for money of the various projects. We will also remove the use of heat-drying digestate and anaerobic digestion facilities as eligible heat uses, because we consider them to be poor value for money. Those technologies would not exist without RHI support.

In addition, we will remove support for heating swimming pools on the non-domestic scheme, unless the pool is for commercial or municipal use. That brings us into line with existing regulations on the domestic scheme.

We are also introducing changes to allow more than one heat pump to use a common or shared ground loop, which should facilitate greater deployment of that important technology. The introduction of electricity metering for heat pumps across both schemes will allow participants to better monitor the efficiency of their plant and will build confidence in the technology.

Following the consultation, another change will increase the power efficiency threshold for combined heat and power technology from 10% to 20% to reduce the risk of over-compensation and to encourage plants to run more efficiently. There is also a whole series of mainly administrative changes to tighten cost control, reduce the risk of gaming and improve Ofgem's delivery of both schemes, including by tightening its enforcement powers. The Renewable Heat Incentive Scheme Regulations 2018 also consolidate all previous revisions to the original regulations, as recommended by the Joint Committee on Statutory Instruments.

The RHI plays a central role in the Government's programme to decarbonise heating, but it is not perfect. As Committee members will know, the scheme is scheduled to end in March 2021 in terms of access for new entrants—it will continue for many years thereafter in terms of financial support. However, until that time, we want to make the scheme as good as it can possibly be. These regulations are an important step in refining the scheme, so I recommend them to the Committee.

4.38 pm

Dr Alan Whitehead (Southampton, Test) (Lab): It is a pleasure to serve under your chairmanship, Mr Hanson. I ought to state from the outset that we want these regulations in place as soon as possible.

The delays in moving from the revision of the RHI White Paper, through the consultation, to the production of the original draft regulations, and finally to the regulations that we are considering, have been considerable—indeed, they have been the subject of a number of inquiries over the past months asking when the regulations are coming in. Bodies involved in non-domestic RHI have said, “We have schemes ready to go. We are not sure what is happening. Can we please have the regulations so we have clarity for our forward development processes?”

The draft regulations have appeared today, and certainly not before time. I see that they will come into force the day after they have been agreed, which will not be a day too soon. Hopefully a number of the concerns that have been expressed can at last be laid to rest and people can get on with the process of delivering the renewable heat that I think we all want to progress. The Opposition will not oppose the draft regulations, but as the Minister should expect, we do not want them to go through

without proper examination, one or two questions being answered and, ideally, some indication of what the longer term route for renewable heat is envisaged to be.

I have to say that I welcome many of the changes that will take place in terms of the scope and focus of the draft regulations—particularly, as the Minister mentioned, the concentration on biomethane and heat pumps, and the injection of biomethane into the grid. Those technologies are seen as increasingly relevant to the attack on the decarbonisation of heat, as it were. The different ambitions the renewable heat incentive will have as a result of these changes reflect a lot better where we actually are in terms of the development of those technologies going forward.

However, this is a change in ambition in that it is an overall reduction in ambition. We need to be clear about that. Not only is the renewable heat incentive, as it stands at the moment, not remotely enough for the ambitions that we have and should have on the decarbonisation of heat in terms of being a vehicle to bring that decarbonisation forward, but it is, as the Minister mentioned, very much a time-limited device, which will expire for new entrants in March 2021. In terms of the measures put forward in the clean growth strategy as some of the building blocks for serious clean growth and meeting climate targets, this is actually one of the most short term.

Indeed, in so far as investors and businesses are concerned, that time limit represents, in many ways, a cliff edge as to what will happen in the longer term future. As hon. Members will be aware, the period between where we are now—allegedly spring 2018—and March 2021 is barely time to get projects from conception, to proof, to development, to financing, to realisation. The cycle that is now in place with the renewable heat incentive is barely sufficient to support a lot of the schemes that will be needed—with all the care and detail that will be needed in their development—over the next few years, in so far as a major attack on the decarbonisation of heat is concerned.

A central question that we need to address in looking at the draft regulations is: what next? What will happen at the point at which this particular scheme, as presently rostered, comes to an end? In the clean growth strategy, the Government said that they have

“commissioned research into different heat demand scenarios, the use of hydrogen, what changes might be needed to the electricity grid in response to large scale uptake of heat pumps, the role that bioenergy might play in decarbonising heat and international activity.”

They then state that they

“plan to publish initial findings from a number of studies later this year, and a full report on our review of the evidence by summer 2018.”

Assuming that we have a summer, that Government report will then be in front of us. I imagine that that will be the occasion to look at the future of the RHI, in conjunction with the review that we are told is forthcoming, and to look at what imperative there is for a longer range renewable heat incentive, or a similar scheme, to take us perhaps to 2030 and give us the certainty we need for that period. I am interested to understand whether that is the view of the Government in their report due in the summer of 2018 on heat and heat demand, and whether possible commitments to the longer term basis of the RHI can be within the scope of that review of evidence.

[*Dr Alan Whitehead*]

There is one other alarming point we need to bear in mind. While the ambition of the RHI regarding what technologies it is focusing on has come into a more satisfactory trajectory, the National Audit Office and others recorded—as the Minister mentioned—that the new RHI has reduced its ambition substantially, as opposed to the original starting ambition of the RHI overall. For example, the NAO states that renewable heating that is not eligible for the RHI by 2020 has increased by 270%. Renewable heating funded by the RHI in 2020 has gone down by 65%. The total of renewable heating estimated by 2020 has gone down by 18%, from 71 terawatt hours to 58 terawatt hours. The lifetime carbon emission reductions funded by the RHI, in terms of the projections of the starting ambition compared with the current ambition, have gone down by no less than 44%.

This is a relatively modest scheme on the back of what was a relatively modest scheme in the first place. We should be under no illusion: these changes downgrade our climate change and heat decarbonisation ambitions quite substantially. To that extent, we cannot register anything other than considerable disappointment at that particular reduction. It makes it all the more essential that, in the summer of 2018, we get a grip on understanding what role the RHI or a similar incentive can and should play in heat decarbonisation, and how much further we need to go than the scheme presented to us today.

That is the framework in which I would be grateful to hear the Minister's reflections on how the RHI as a whole may work for the future. I want to touch on one or two elements in these regulations. By the way, we have perhaps not fully reflected on the fact that these regulations reflect on both the domestic RHI and the industrial and commercial RHI, both of which started at different times and have slightly different objectives, but are brought considerably closer together by these changes, so I will talk about them interchangeably. However, there are issues where elements in one set of regulations do not appear to be read across fully in the other set. The Minister may have thoughts about some of those read-acrosses, if such a word exists. That would assure us that the overall coherence of the draft regulations for the two schemes, and how they come together, has been looked at properly.

My first specific point is about the assignment of rights, which is a welcome change in the new RHI. It enables a much better relationship between the people who fund an RHI project, the people who actually use it and the people who get the RHI funding for it, and it clarifies what happens if circumstances change. The draft regulations bring in full assignment of rights and a clear path for funding to be continued on the basis that there is proper documentation for a change to the assignment of rights, but just for the domestic RHI. I would have thought that it was just as important to make that arrangement for the assignment of rights in both sections of the RHI. Is there a clear and pressing reason why that has been done just for the domestic RHI, rather than across the board?

Secondly, the Minister mentioned the arrival of tariff guarantees in the new RHI. I wholly endorse the idea that there should be tariff guarantees. I mentioned investors; tariff guarantees will mean that, once their

project is in the system, they are guaranteed a tariff, and it is not subject to the vicissitudes of subsequent degeneration or stops and starts in the scheme, so they can get on with the project with much more certainty. That is a sensible step forward.

Unfortunately, it is apparent from the explanatory memorandum that the tariff guarantees are not really the guarantees we think they are. They are subject to closure if it is considered that the guarantee amount has been exceeded in any particular period. There is an overall cap as a proportion of the total funding of the scheme in particular periods. The tariff guarantees will also come to an end before the RHI itself comes to an end in its present form—the beginning of 2021, as opposed to March 2021.

Therefore, people who thought they could safely move forward as far as tariff guarantees for their projects were concerned will have a rather rude awakening, because those guarantees are not guarantees. They are guarantees only inasmuch as Ofgem considers, given what else is happening in the scheme overall at any particular stage, that tariff guarantees can be offered. I am sure that the Minister understands that that is not exactly the cast-iron guarantee that one might have hoped investors would be able to get for RHI projects.

Thirdly, I welcome the geothermal element in the non-domestic scheme. The Minister will be aware that such projects are dear to my heart—I have invited her to see the geothermal project in Southampton. However, they are long-term projects that take a lot of funding up front and have long development periods. Although geothermal is in the allowed scheme for non-domestic RHI, it is probably sufficient for only a couple of schemes over the period. A geothermal developer is unlikely to be interested in geothermal projects where they think that the resource available to assist such projects—the short-term resource available in the RHI and across the board—is not enough to support the number of projects that they would need to make what they were doing stack up. That is a theoretical rather than a practical presence for the future of RHI.

Finally—I am sure the Committee will be glad to hear that word—I will talk briefly about the Minister's comments on combined heat and power and power efficiency. In the regulations, the change the Government made a while ago and then withdrew has become a firm part of the RHI infrastructure.

CHP will not be eligible in full for its outputs if its electricity output is less than 20% efficient. The Minister will be aware that the same proposal was put forward several years ago and then withdrawn. The threshold was reduced to 10% after a review and consultation as to whether the 20% was justified. As part of the wider recent consultation, a special consultation was undertaken into the CHP proposals. Although the vast majority of those consulted agreed that there should be an efficiency level, 71% disagreed that the level should be 20%.

The reasons for that disagreement are fairly evident. CHP does not work on the basis of a known level of electricity efficiency that can be built in scheme by scheme and that could make it possible to decide whether one scheme was electricity efficient and, if it were deemed not to be electricity efficient below a certain point, to say without fear of contradiction that the scheme was not efficient and should not get the money for its activity.

Although I accept that a scheme that is less than 20% efficient will get a proportion of the RHI, schemes that cannot get to that 20% energy efficiency level will be substantially penalised, even though they are efficient schemes in their own right.

CHP schemes will be put in place in a lot of different circumstances. Some will have a relatively high electricity output, and some will have a relatively high heat output. The two are essentially interchangeable in terms of how CHP works, because the activities that produce heat can be diverted to produce steam for electricity production. A number of schemes have to have an emphasis on a slave heat load. That does not mean they are inefficient, but they will not be able to reach that 20% level under all circumstances. By setting that 20% level as if it were something achievable across the board without exception, the scheme potentially penalises and undermines the viability of several perfectly good CHP schemes that do not and cannot operate entirely on that basis.

As I have mentioned, I do not wish any of those concerns to be taken to mean that we do not support the regulations overall, but they need some looking at by the Government. I would welcome it if the Minister considers that at least some of the requests I have raised should be subject to further consideration, and if there is a wider review of RHI in future. I look forward to the Minister's thoughts.

5 pm

Jeremy Lefroy (Stafford) (Con): I will be very brief—I have only one question for my right hon. Friend the Minister. The current impact assessment, which replaces that of December 2016, shows a substantial fall in the net present value of the RHI deployment from £1.3 billion to £30 million. That is a huge reduction. Clearly the scope of the scheme is a little bit less, but nothing like that order of magnitude.

I very much support these proposals, but will the Minister give her view on whether that throws into question some of the various technologies included, and on whether they have a much smaller rate of return than had been originally expected? Page 26 of the impact assessment looks at the returns in terms of the value of traded and non-traded CO₂ and the air quality benefits. It refers to non-monetised costs and benefits below that, but the positive impact of new technologies that support the growing UK industrial and technology base in this area has perhaps been under-calculated in coming to the NPV. I wonder whether that could be taken into account.

Given the huge discrepancy between 2016 and now, only 15 to 16 months later, I would appreciate the Minister's comments on how that has arisen and whether she believes it is a game-changer or simply a smaller factor to be taken into account.

5.2 pm

Alan Brown: It is a pleasure to serve under your chairmanship, Mr Hanson. I apologise for being slightly late.

I support the RHI scheme and welcome anything that will help to enable low-carbon technologies and decarbonise heat. I do have a big “but”, however, which I raised in my intervention on the Minister. I also have other comments to make.

One of the briefing notes I got from Energy UK suggests that, alongside the measures and the continuation of the RHI scheme, there should be a comprehensive educational piece on options available for consumers and organisations. I would certainly support such a scheme, which would hopefully not only increase uptake, but alert people to the associated risks. A constituent purchased a biomass boiler and understood that it was eligible for RHI. An application was made and they started receiving RHI payments. It turned out that the boiler was not correctly installed and was not the correct boiler—the original installer was able to walk away with his accreditation, and after a legal fight my constituents now have a new boiler. However, Ofgem says that since it is a replacement boiler it therefore no longer qualifies for RHI and, even worse, that they must repay the RHI they have received.

That puts people at a huge financial risk and disadvantage. If other people heard about that, it might further put them off such a purchase. I have another example. A constituent had a boiler installed and the boiler went on fire. Hon. Members can imagine the distress that caused and the risks of a boiler going on fire. The constituent got a replacement boiler—they clearly needed to replace the boiler—and lo and behold they are no longer eligible for RHI. That is a fundamental failing of the scheme. I am speaking about only a few people, but there must be other examples. We need to find a way to ensure that people are not penalised for trying to do what the Government want them to do.

The NAO report highlighted that the original target was 513,000 by 2020, but by December 2017 only 78,000 were installed. We will be lucky to hit 20% of the 2020 target. Again, in terms of education and promotion, we need to make sure that there is sufficient uptake.

I appreciate that the Government have revised their uptake projection, but the NAO report highlighted that the Government have not back-filled the potential drop in RHI uptake with increased targets in other low-carbon technologies. The Government need to look at that. There is also an issue of cost-effectiveness. The NAO said that RHI is not delivering the value for money that the Government expected, which needs to be reviewed.

I will return to the big “but” that I highlighted. The Grangemouth renewable energy project has been in the pipeline for a number of years. It is a possible biomass and combined heat and power scheme that will replace the existing gas turbines at the Grangemouth refinery. The current owners of the refinery will have to make a procurement decision in a few weeks' time on whether to go for the renewable energy project or to commission new gas turbines. The current renewable energy project is innovative and world leading and will reduce carbon dioxide emissions by 342,000 tonnes a year, and will need a £400 million investment.

The leader of Falkirk Council wrote to a BEIS Minister on 29 March. I understand that a response is still outstanding. The owners of the project also made representations to the Department and, as I said earlier, I raised it in the oil and gas debate on Thursday. Regulations 35(10)(a), 56(b)(iii)(aa) and 63(10)(a) of the draft Renewable Heat Incentive Scheme Regulations 2018 all refer to the 250GWh cap. If that cap applied to this project—if it is procured in a few weeks' time—the financial model would fall apart. The

[Alan Brown]

project qualified for a contract for difference in the last round of auctions, but we need to know the outcome of the RHI changes.

This is imminent, and my understanding is that it will put the project at risk. If I cannot get a straight answer, I will need to plough a lone furrow and put the draft orders to a Division, because too much is at stake for that project. I am obviously happy to hear from the Minister.

5.7 pm

Craig Mackinlay (South Thanet) (Con): It is a pleasure to serve under your chairmanship, Mr Hanson. I just have a couple of points for my right hon. Friend. She will probably be aware that South Thanet is unique in having offshore wind, solar parks and biogas, and from this September we will have a £160 million, 27 MW biomass scheme that burns sweet chestnut. That is an interesting project on the old Pfizer site, which is an enterprise zone. We are pleased about that, and I certainly hope my right hon. Friend will cut the ribbon when it opens.

On the assignment of rights, I see within the guidance that third parties that offer the financing for householders will need to be registered with Ofgem, the Chartered Trading Standards Institute and the Consumer Codes Approval Scheme. Can she offer any help as to what registering with Ofgem means? My concern is that the less-than-sophisticated householder could be caught in a financing trap that they would not go into with proper assessment and guidance.

What will Ofgem do in terms of registering those third parties? If it is quasi-financing, which it obviously is, I imagine that the Financial Conduct Authority might be interested in those third parties. It might be that, in practice, it will be traditional financiers that are already FCA-registered, and not new, vanilla schemes. That is just a query that comes into my mind to assist the unsophisticated householder.

5.9 pm

Claire Perry: I sincerely thank all hon. Members for their contributions. As always, we improve legislation by scrutiny. I will try to respond to as many of those points as I can and will offer letters of assurance where I do not have the details.

First, the hon. Member for Kilmarnock and Loudoun raises an important point. My understanding is that, while the tariff cap is 250 GWh, bigger schemes can go forward. Effectively, part of the generation would be under a capped tariff and other parts would not. I appreciate the urgency in the commercial world. We might take months to make decisions, and sometimes developers do not have that. I will ask my team to write to him immediately and set out exactly what we know as it relates to Grangemouth. Hopefully that will give him assurance and he will not feel the need to divide the Committee.

As always, we like to work in the spirit of trying to do the best we can. It was important to set the threshold, because we have seen runaway budgets that have forced us effectively to curtail other schemes. The scheme will cost taxpayers £23 billion over its lifetime, even at

the revised level, so it is a substantial investment of taxpayers' money in driving us forward to a lower-carbon future.

Alan Brown: I appreciate that the Minister is looking to provide a full update and give assurances or otherwise, but my concern is about what happens if the letter comes back to me stating, "Your concerns are right. It is a 250 GWh cap. The scheme is way above that, so unfortunately the project falls." The letter may not help. Things will be left in the air until we get an answer, by which point it may be too late.

Claire Perry: Obviously we consulted on the cap last year. Given the current scope, the scheme will be affected. Part of its output will have a guaranteed tariff, but perhaps the development team can come in to speak to officials and have a conversation. The hon. Gentleman mentioned that the scheme was bidding into CfD regulations as well. There are other routes and opportunities. Hopefully the people of Grangemouth whom he represents will be pleased that there is so much incentive. We want developers to bring forward the schemes to take us to a lower-carbon future. If a meeting would be helpful, I would be glad to arrange it.

I praise the hon. Member for Southampton, Test, who is almost my hon. Friend these days. He has brought his typically detailed level of scrutiny, and I will try to cover as many points as possible. On the question of the cliff edge, we are undertaking a lot of work. We published a call for evidence on 19 March. We are keen to develop cost-effective policies for the 2020s through to the 2030s and beyond, but we have a unique situation in this country. We have a centralised gas distribution network to which 85% of houses are attached, and 15% of us, including many in my constituency, live off the gas grid. It is about trying to work out cost-effective ways of delivering those low-carbon, cost-effective solutions on which we all agree. We have published a number of studies. Only last month, we published one showing initial findings on the options available for long-term heat decarbonisation, which are typically hydrogen, bioenergy and electrification. As promised, we will publish a full report of evidence in 2018. I look forward to discussing that with the hon. Gentleman.

The hon. Gentleman raised a challenge about reducing ambitions. It is important to recognise the size of the scheme—£23 billion of taxpayers' money is committed over its lifetime, which is a substantial investment. Its goals were ambitious, but it is important that we have responded to some of the concerns.

Dr Whitehead: I think we need to be clear that the £23 billion is over the lifetime of all the projects that would have got anything from the scheme up to its closure, which could be a period of up to 35 years. The £23 billion should be looked at in that context, rather than as something being funded by the scheme now. Indeed, the £23 billion should be compared with the estimated lifetime undertaking on the same basis with the original RHI, which I think the NAO put forward as £70 billion or so.

Claire Perry: I am not going to detain the Committee debating Her Majesty's Treasury policy, but effectively this is an on-balance-sheet commitment to a liability for either current or future taxpayers that is part of the Government's spending commitment in perpetuity, and

I think £23 billion is a fairly substantial sum. The hon. Gentleman will be pleased to hear that we were keen to understand whether we were rolling this out in the right direction. The Select Committee on Energy and Climate Change made the point that mass roll-out was not the right way forward. That is partly because—this relates to some of the other comments raised—as with all elements of decarbonisation, we need to cut carbon, find cost-effective deployment pathways and create strategic ways to invest where we can grow a manufacturing base and deliver. This is what the reforms are about—trying to reform the scheme for technologies that are more likely to be strategically important in the long run, for example heat pumps. It is less about the fewer, larger installations that use technology that we all know about. I think that is really important for driving through our UK plc investment profile.

The hon. Gentleman raised a question about CHP and why we were bringing in the 20% efficiency point. Again, we do not believe that offering a full CHP tariff to plants with lower electrical efficiency represents good value for taxpayers. We have talked about the strategic elements of this. If I have not answered any of his questions, I will write to him. I did want to discuss an area where we both have a great interest: geothermal. That can be part of the scheme. I am particularly interested in geothermal energy from abandoned mine workings, which is possibly a great untapped source of heat. That would bid in as a heat pump scheme, as opposed to any other scheme. There are really good opportunities for us to look at where we can bring forward some heat from the work that has already been done.

My hon. Friend the Member for Stafford raised an important point, showing that he has read all his documents. I am very impressed. Let that be a lesson to the Committee. He and I always like to debate the numbers. I will write to him with the absolute detail, but essentially there was a revaluation of the air quality and decarbonisation benefits. We may not necessarily agree with them, but if it is sufficient, I will write to him to give him more detail on the calculations. I would like to put it on the record again that as much as we all love being bound by our Treasury guidelines, which are important for delivering value for money, sometimes others make the case that they do not always capture the benefits, particularly these early-mover schemes. They do not yet capture the benefits of any investment in UK manufacturing or service expertise that we might be developing as a result of these, effectively, very big Government procurement programmes.

My hon. Friend the Member for South Thanet offered a very nice invitation, which I would be delighted to accept, and raised a really important and telling point about assignment of rights. I do not know the answer and I will write to him, but it is a tribute to his background that he is thinking hard about avoiding any form of payment protection insurance scandal or any sort of mis-selling. We want to assign these rights to ensure that people in potentially lower-income households are able to get that third-party capital investment into these schemes, but not in a way that causes problems. I am told that the Financial Conduct Authority will look at contracts to ensure compliance with the Consumer Credit Act 1974, if needed, but it would be reassuring to him and me to put that in a letter. I would be happy to send that to him.

Jeremy Lefroy: I apologise for detaining my right hon. Friend on this, but does she also agree that the kind of investment that is being made by UK manufacturers and service companies is incredibly important as we seek to boost our exports? I am the Prime Minister's trade envoy to Ethiopia, which wants to have, effectively, a waste-to-energy RHI and an electrical generation plant for each of its major cities. The UK is in a very good position to assist with this. Based on what we do in the UK, the opportunities are out there, and multiplied many times over, to provide on a commercial basis assistance around the world in renewable energy and heat.

Claire Perry: I commend my hon. Friend for his international knowledge. This is exactly the point. As part of the clean growth challenge and the industrial strategy, we have realised that as we are global leaders in decarbonising our economy, while at the same time driving growth—only two countries are considered to be doing enough to meet a 2°C warming of the climate, namely ourselves and China—we can create enormous prosperity in the UK from exporting those services and technologies. If he feels that my Department or the Department for International Trade need to do anything to support his ambassadorial ambitions, I hope he will let me know. It is an important area.

In conclusion, we have had a good thrash through the regulations. Hopefully we all agree that the reforms are needed. They are essential to improve on the experience of the first years of the scheme, to ensure that it is better value for money and that it continues to play its part in the transition towards a lower carbon-emitting economy. As I said, we will offer further proposals and suggestions as to how to move forward once the scheme has ended. I hope the Committee will support both sets of regulations, which I commend to it.

Question put.

The Committee divided: Ayes 9, Noes 1.

Division No. 1]

AYES

Davies, Chris	Mackinlay, Craig
Greening, rh Justine	Offord, Dr Matthew
Harris, Rebecca	Perry, rh Claire
Lamont, John	Robinson, Mary
Lefroy, Jeremy	

NOES

Brown, Alan

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Renewable Heat Incentive Scheme Regulations 2018.

DOMESTIC RENEWABLE HEAT INCENTIVE SCHEME (AMENDMENT) REGULATIONS 2018

Motion made, and Question put,

That the Committee has considered the draft Domestic Renewable Heat Incentive Scheme (Amendment) Regulations 2018.—(*Claire Perry.*)

The Committee divided: Ayes 12, Noes 1.

NOES**Division No. 2]**

Brown, Alan

AYES

Charalambous, Bambos
Davies, Chris
Greening, rh Justine
Harris, Rebecca
Lamont, John
Lefroy, Jeremy

Mackinlay, Craig
Offord, Dr Matthew
Perry, rh Claire
Robinson, Mary
Smith, Nick
Whitehead, Dr Alan

Question accordingly agreed to.

5.23 pm

Committee rose.