

Rural Services APPG

All-Party Parliamentary Group on Rural Services
19th July 2022 at 11am -12 noon

Hybrid meeting: On-line via Zoom and in-person in Room U, Portcullis House

OFF-GAS GRID HEATING IN RURAL AREAS

The purpose of the meeting was to welcome Lord Callanan, Minister for Business, Energy and Corporate Responsibility, Department for BEIS, to discuss from a rural perspective the proposals set out in a Government Consultation relating to the transition from fossil fuels in respect of both domestic and commercial premises which are in off-gas grid heating areas.

PRESENT

Lord Callanan (Minister for Business, Energy and Corporate Responsibility)

MEMBERS

Jo Churchill MP (Bury St Edmunds)
Rt Hon Philip Dunne MP (Ludlow) CHAIR
Helen Morgan MP (North Shropshire)
Derek Thomas MP (St Ives)

REPRESENTING MEMBERS

Elliott Banks, Senior Parliamentary Advisor (Office of Rob Butler MP)
Antony Bennett, Senior Parliamentary Advisor (Office of Jo Churchill MP)
Astrid Jenkins (Office of Richard Holden MP)
Alice Richards (Office of Selaine Saxby MP)
Seb Ritchie, Intern (Office of Guy Opperman MP)
Arthur Virgo (Office of Rt Hon Philip Dunne MP)

OBSERVERS

Dawn Amey, Specialist (Environmental Audit Committee)
Deji Ayorinde, Policy Adviser (Dept for BEIS)
Duncan Carter, Corporate Affairs Manager (Calor Ltd)
Catherine Clark, Senior Policy Adviser non-domestic buildings (Dept for BEIS)
Helen Harrison, Senior Policy Adviser (Defra)
Cesca Kirtley-Paine, Public Affairs Manager (Liquid Gas UK)
Alex Lothead, Policy Official (Dept for BEIS)
Kat Lowe, Policy Adviser in Clean Heat (Dept for BEIS)
Andy Parker, Head of Strategy and Corporate Affairs (Calor Ltd)
Matthew Revett (Grayling – working with Calor Ltd)
Matthew Sachak, Private Secretary to the Minister (Dept for BEIS)

Chris Watson, Second Clerk (Environmental Audit Committee)
Emma, Work Experience (Dept for BEIS)

In attendance from Secretariat

Graham Biggs MBE (RSN)
Kerry Booth (RSN)
Bethan Aldridge – Minute taker (RSN)

Welcome

The Chair welcomed everyone to the APPG's first hybrid meeting.

1. Apologies for Absence

Rob Butler MP (Aylesbury)
Guy Opperman MP (Hexham)
Selaine Saxby MP (North Devon)
Greg Smith MP (Buckingham)
Baroness Mary Watkins
Lord Ewen Cameron of Dillington
Lord Rupert Carrington
Lord James Crathorne
Lord Don Curry
Lord John Taylor
David Inman (RSN)

2. Notes of Previous Meetings

Link to the APPG AGM meeting – [28th February 2022](#)
To be discussed at next meeting.

3. Discussion on off-gas grid heating in rural areas

Invited Guest: Lord Callanan (Minister for Business, Energy and Corporate Responsibility)
(see Briefing Paper Decarbonisation of Off-Gas Grid Heating)

The Chair welcomed the Minister and asked him to outline the current policy position of the government on seeking to decarbonise off-gas grid homes and heating systems.

The Minister gave his thanks for the opportunity to speak to everyone about the key issues, in terms of decarbonisation; of off-gas grid homes. A difficulty is that there is no obvious hydrogen option. Government analysis shows approximately 80% of current off-gas grid homes have suitable levels of insulation to convert to a heat pump, although currently an expensive option. The Chancellor has removed VAT from the installation and a Boiler Upgrade Scheme is in place. First installations taken place and grants paid i.e. £5K (air source heat pump) and £6K (ground source heat pump). Consultation earlier in the year on phasing out the installation of new fossil fuel boilers of off-gas grid homes from 2026. Aware this has caused concern and **no final decision has been made on this** or the timescales looking at options to make transition fairer and easier. A number of grant schemes available including the Home Upgrade Grant, targeting off-gas grid properties but this is only available to those on lower incomes. Recognise that not all homes are suitable for a heat pump and therefore open to other renewable heating fuel e.g. bio-LPG or Hydrotreated Vegetable Oil (HVO) etc and to work with manufacturers and others to explore further sustainable options. There are a

number of developments in the experimental stage but keen to look at alternatives in the context of the wider biomass strategy that Defra is currently working on.

Helen Morgan MP asked about electricity capacity and storm resilience. The Minister assured her that they are gradually transitioning the grid away from large, power stations and decarbonising electricity production to a more diversified supply e.g. offshore wind. OFGEM is working on resilience and the Minister is aware that people are nervous about moving over to a purely electric form of heating. Graham also noted that the sector is requesting that until the network is sustainable then the date for heat pumps should be pushed back.

Both Helen Morgan MP and Jo Churchill MP queried the ability of heat pumps to work at low temperatures. The Minister confirmed that they do work at lower temperatures. Derek Thomas MP noted that if a gas boiler is turned down to a temperature that the heat pump delivers it does work. The Minister agreed that this has been trialled and if the boiler is set to 60 degrees, the thermostat takes a little longer to get to the right temperature but saves 10-20% on gas bills. Minister also working with gas boiler manufacturers to set the default temperature slightly lower.

Jo Churchill MP noted that the grant paid for heat pumps does not cover the cost of installation etc, there is no VAT relief on labour, and they do not work for properties that are listed (too expensive) or "leaky." Also, a recent debate on off-shore wind noted there is no grid capacity currently to go from 4MW to 25MW by 2030, the Biomass strategy is not formulated yet, and with Anaerobic Digestion (AD) the green gas is drawn off where it is connected to the grid but not in rural areas. A district heating scheme approach would potentially allow AD plants in rural locations. Jo Churchill MP argued that there was no coherency around the various policies on these issues and that this had been highlighted in the Briefing Note for the meeting.

The Minister has visited Bosch recently to look at the option of fixed technology and hydrogen boilers. The roll-out of hydrogen will go ahead and about to consolidate the hydrogen business model. The system works but need to know where the hydrogen will come from. Also, he has visited a communal village installation in Cambridgeshire powered by air and ground source heat pumps which has been very successful, and also in Denmark where communal village heating is very popular and in particular in rural areas.

Discussion took place on upgrades to rental properties and average costs to obtain the EPC C level and the percentage of homes currently suitable for conversion to electric as there is a mis-match with the figures from BEIS and DLUHC. The Chair noted that the Environmental Audit Committee inquiry suggested costs to upgrade properties were in the region of £20K per property (before installation of heat pump) but the Committee on Climate Change (CCC) suggests £7.5K including the cost of the heat pump. The Minister added that there are exemptions built into the EPC C scheme which include affordability i.e. areas of low rental values – maximum spend for landlords set at £10K, devaluation of property from retro-fit of external wall insulation, if tenant does not consent, if a listed building and cannot get permissions etc. plus various grant aids to assist landlords.

Alex Lohead confirmed that there is a small-scale, industry-led trial into using HVO in existing boilers with some modification. Alex also confirmed that although this was not a BEIS trial, the department was working with the industry to understand the analytical methods being used and to consider what implications the results may have for policy. Jo Churchill MP added that the Biomass Strategy is still under discussion in Defra as it sits against the Land Use Strategy and there is concern re growing maize and the concomitant environmental effect etc.

Helen Morgan MP raised concern about the lack of public awareness on boiler replacement and the time-frame. Graham Biggs asked when the results of the consultation would be

released because based on the consultation, if a boiler fails in a domestic, rural property and cannot be repaired, then after 2026 you will have to change to a non-fossil fuel system but if in an on-gas area the date is 2035. The Minister confirmed that no decision has been made yet on the date and that part of these discussions is to get a policy formulated that will contribute to decarbonisation but accepting the real, practical problems that exist in very rural areas.

Graham Biggs noted that the estimate of 80% homes that are heat pump ready varied greatly with the sector's estimate of 50%. The Minister offered to share a copy of the modelling used. Duncan Carter added that the assessment was based on technical readiness but did not take into account cost and consumer readiness for change. The Minister responded that they would be using Market Mechanism to obligate gas boiler manufacturers to sell more heat pumps to bring down the cost and also look to reduce policy costs on electricity bills and more in line with gas prices.

The Chair noted that the Home Upgrade Scheme was very welcome, but only eligible if the home did not have any heating system at all or were the most vulnerable but not available to the general public. Graham Biggs mentioned the recently published [Localis](#) report which indicated that nationally only 51 local authorities had been awarded funding and for 78 projects. The Minister queried which scheme this related to as he believed more had received funding. In total spending £6.6Bn over the Spending review period. Graham to send this information to the Minister. [Please see Addendum].

Further discussion took place on the upskilling of existing, qualified Plumbing Heating engineers, the conversion courses, and the visibility of future grant schemes so that contractors can plan longer term and recruit to the industry. Graham Biggs commented that the training did not cover a whole house approach i.e. which heat pump, other works involved etc (including insulation) and that trade bodies were concerned. The Minister agreed that a whole house approach is important and that is why installations have to be carried out by MCS qualified installers, insulation taken into account, radiator sizing etc.

Duncan Carter commented that there was concern regarding the change to electricity for rural off-gas businesses as this applied to them from 2024. He added that there is Jet Zero support for bio-fuels and low carbon liquid fuels in the aviation sector but there is not a similar scheme for the off-gas grid sector. Calor is investing in sustainable liquid fuels for homes that are not suitable for heat pumps. Also, there has been no support for the "able-to-pay" market to improve energy efficient levels in their homes. Andy Parker raised the point that hybrid allows a heat pump with a non-fossil fuel heating system but has not been part of the consultation opportunity. The Minister agreed with the point about the "able-to-pay" market and has been working on options. These have been paused due to the change of Prime Minister, but he hopes to continue with this very soon. The Minister also accepted that hybrid boilers could make a contribution, although these would only be completely decarbonising if the source of the heating fuel used was fully renewable. Derek Thomas MP would also like government support in place to have a hybrid system that will allow development of 100% bio-fuel. The Minister noted that there would have to have sustainable levels of bio-LPG or HVO fuels in place first.

The Minister noted that there will be a gradual transition for companies installing heat pumps as this is not a traditional type of heating for the UK. As the technology becomes more accepted, then need to increase heat pumps installations from 60K pa to 600K by 2028.

The Minister stated that people need to have a positive experience with the installation, the size and use of the heat pumps etc and that is why quality standards have been mandated.

There will be information available on the.gov.uk website soon, including tenant information based on people's particular property characteristics and also signposting them to available support mechanisms etc. The Chair recommended the Scottish Energy Saving Trust as they have been very effective in providing this information in Scotland. He also made the Minister aware of the Fuel Bank Foundation as they offer funding for those unable to purchase fuel. The Minister wants to make the transition as fair and cost-effective as possible.

The Chair summarised the discussions and concluded that it was important to note that Ministers have not yet made a decision on the timings for change, or whether or not exemptions will apply to help people in rural areas or those who cannot meet the criteria. This was unlikely to be determined until the autumn and also this ties in with other strategies e.g. biomass which is still under discussion in other departments.

The Chair thanked the Minister for attending the meeting.

6. Date(s) of Next Meeting

To be confirmed

Meeting finished at 12 noon.

ADDENDUM:

The [Sustainable Warmth Competition](#) is investing around £500 million across 78 projects and will help local authorities (LAs) to upgrade energy inefficient homes of low-income households in England. The projects will start in early 2022 and complete by March 2023.

There are 51 local authorities that have been awarded funds under this. This competition brings together 2 existing fuel poverty schemes into one funding opportunity:

- **Local Authority Delivery Phase 3 (LAD3):** a third phase of the LAD scheme with over £280 million available. LAD3 has a refined scope to support low-income households heated by mains gas
- **Home Upgrade Grant Phase 1 (HUG1):** over £218 million for low-income households with homes that are off the gas grid through the HUG scheme