Phasing out the installation of fossil fuel heating systems in businesses and public buildings off the gas grid – Centrica's response

Deadline: 12 January

Introduction:

- The transition to low-carbon heat is a colossal challenge and is the biggest challenge the UK faces on the way to net-zero by 2050. Heat accounts for approximately 40% of energy consumption and is mainly from our homes` and businesses.

- There are approximately 1.7 million non-domestic buildings in England and Wales, ranging from commercial and public buildings to industrial buildings. Non-domestic buildings account for approximately one-third of UK emissions from buildings.

- To reduce these emissions, the Government has committed to the following welcomed steps:
    - improving the energy efficiency in business and industry by 20% by 2030.
    - tightening minimum energy efficiency standards (MEES) to EPC B by 2030, which would cover around 85% off the non-domestic rented stock.
    - The introduction of a performance-based policy framework for rating the energy and carbon performance of commercial and industrial buildings above 1,000m² in England and Wales, with annual ratings and mandatory disclosures.

- Our 7,500-strong network of British Gas engineers and technicians visit around seven million UK homes every year and we are the largest single installer of boilers in the UK, which gives us unparalleled knowledge, scale, expertise and consumer understanding around heating. We're in a unique position to advise how the country can become more energy efficient and support heat decarbonisation.

- Our Centrica Business Solutions is at the forefront of providing our customers with energy insights, optimisation and on-site generation solutions.

Timelines for implementing the proposals:

- We support the Government's proposals to begin the transition to low-carbon heating off the gas grid with the largest buildings first before extending this policy to smaller non-domestic buildings off the gas grid from 2026.

- Over the years the improvement of large non-domestic building standards has pushed many organisations in this sector to go further in decarbonising their buildings. Members of the Better Buildings Partnership (which includes some of the UK's largest buildings owners) every year submit data on their managed commercial real estate portfolio into the Real

Estate Environment Benchmark (REEB). The benchmark provides up to date data on industry performance.[1]

- Additionally, the establishment of the Building Research Establishment's Environmental Assessment Method (BREEAM) has also contributed to the improvement of non-domestic building standards. These non-governmental steps coupled with the Government's ambitions to introduce a performance-based policy framework for rating the energy and carbon performance of commercial and industrial buildings above 1,000m² in England and Wales, suggests that the industry has the means to reach the Government's natural gas phase out date from 2024 if not earlier.

- In addition, as outlined in the consultation, the largest 10% of buildings account for 60% of carbon emissions coming from heat in the non-domestic off-gas grid building stock. It makes sense for the Government to begin with phasing out natural gas boilers in larger buildings first.[2]

Funding for the non-domestic sector

- To ensure the phase-out date can be met by all businesses, the Government should introduce grant-based support for decarbonised heating systems. From our experience, a grant-based model is significantly more attractive for customers as it provides a degree of certainty for the low carbon heating market, avoiding a hiatus in investment at a critical time.

- There are some commonalities in the way in which non-domestic buildings use heat. These buildings mainly use heat for comfort, cooking and cleaning with heat demand peaking during the mornings and early evenings.[3] The Government previously indicated through its Building Energy Efficiency Survey that the UK could reduce energy consumption by 39% through installing more energy efficient equipment and improving energy management, through demand-response and smart devices.[4] Businesses, particularly SMEs, will need the correct financial support to improve their buildings insultation and install other energy efficiency measures such as changing the lighting of their buildings.

- Without funding, not every organisation will have the capital to reach the Government's natural gas phase out dates. The Government's Non-Domestic Renewable Heat Incentive (RHI) which closed to new applicants on 31 March 2021, provided financial incentives for businesses to install low-carbon heating in non-domestic buildings. Since its closing, the Government has yet to indicate whether it would replace the scheme's funding.

SME energy efficiency scheme

- Energy efficiency is a crucial enabler for decarbonising heat and therefore should be actively supported by the Government. The Government should clarify which scheme it intends on

[1] Better Buildings Partnership (2020). 2020 Real Estate Environmental Benchmarks.
[2] BEIS (2021). Phasing out the installation of fossil fuel heating systems in businesses and public buildings off the gas grid.
[3] BEIS (2021). Phasing out the installation of fossil fuel heating systems in businesses and public buildings off the gas grid.
[4] BEIS (2016). Heat in buildings – the future of heat: non-domestic buildings

implementing following its consultation in 2019 on introducing an energy efficiency scheme for SMEs.

- In this consultation, the Government provided three options for the SME sector:
    - An energy efficiency auction – where third parties, such as energy efficiency installers or energy service companies could bid into to deliver energy efficiency measures in smaller businesses
    - A business energy efficiency obligation – business ECO (similar model to the current ECO scheme)
    - Expanding access to finance options to SMEs – an expansion of green loans and Energy Service Company

- We would prefer that the Government go down the energy efficiency auction route. We are of the view that should the auction be designed well, through engagement with industry, it could help deliver against the Government's objectives on energy efficiency. The auction option is most likely to accommodate a proof of concept trial and could can be tailored for different regional needs.

- In terms of the ECO model, we know from experience that energy company obligations are expensive, time consuming and complex to operate. Consumers ultimately pick-up these costs through their energy bills and, depending on the design of the scheme, there is a risk that as much, if not more, money is spent on running the scheme and lead generation than on installation of energy saving measures. We believe that this risk is higher in the SME market than domestic as SMEs are more heterogenous in both buildings and requirements, will be less keen on installs that will disrupt business activities and will often be in rented accommodation and therefore less invested in the property.

- We are also concerned that an ECO for business would likely be paid for via bills, as this is the domestic model. While cross-subsidisation of households can be considered legitimate when a scheme supports those in fuel poverty, we do not think this is the case in the non-domestic market where such a model would lead to a competitive advantage for some (beneficiary) businesses over other (paying businesses).