

MICROGENERATION STRATEGY AND LOW CARBON BUILDINGS PROGRAMME

FUEL CELLS UK INDUSTRY ASSOCIATION RESPONSE TO CONSULTATION DOCUMENT

Introduction

On 23rd June 2005, the DTI launched a consultation on its planned Microgeneration Strategy and Low Carbon Buildings Programme. This Paper presents the Fuel Cells UK Industry Association's response.

We welcome the announcement of the Strategy and Programme and look forward to helping it to deliver successful outcomes for the UK. This notwithstanding, we believe that it is critical that the Programme does not compromise other programmes through its coverage of fuel cells, or is compromised by the presence of other programmes which provide support for fuel cells. It should be one of a suite of **separately funded** and discrete support mechanisms, with complementary objectives.

General comments

We would prefer the use of the term 'microgeneration', rather than micro-renewables, as there are a number of technologies, including fuel cells, which can deliver considerable carbon savings and energy security benefits for buildings. Given that the list of eligible technologies includes fuel cells, the use of the term 'microgeneration' would be more consistent.

The establishment of indicative aspiration levels for the deployment of microgeneration technologies could have a key role to play in stimulating long term investment in the sector, and should be given serious consideration by Government.

We believe that the creation of a single Government department that will provide a focal point for the co-ordination of all activities regarding energy and microgeneration activities would be beneficial.

Our detailed response focuses on the Low Carbon Buildings Programme.

Low Carbon Buildings Programme

22. To ensure that impact of the programme on commercial development of fuel cells and other technologies is optimised, the Programme needs to be taken forward in the context of a long term support framework; this will help to deliver investor and business confidence to build manufacturing capacity, develop supply chains, and will be important for the achievement of cost reduction. We would welcome clarity on the way forward after the 6 years of the programme's life. This, together with the success of the programme, will be critical in determining outcomes both over the next six years and beyond.

A programme with a fixed total sum of support is likely to result in a situation where demand exceeds supply significantly. This could negate one of the key potential

benefits of the programme, in that confidence within the sector could be damaged, as organisations are unsuccessful in bidding for funds. To overcome this, we recommend the establishment of a time-limited universal grant scheme where all projects of acceptable quality are supported. This could be funded through revenue gained from the carbon tax, with subsequent annual review of ongoing support.

23. In general, we support these objectives. However, we would like to see reference to the overall context of the programme, particularly around building the right conditions to stimulate long-term demand for microgeneration technologies.

The proposed holistic approach will enable various synergistically innovative combinations of technologies to be demonstrated. For example, when combined with other technologies, fuel cells offer the potential to overcome intermittency issues associated with several types of renewables.

Giving priority to combinations of microgeneration technologies and energy efficiency measures carries with it the risk of missing out on non-integrated projects which offer greater potential for greater energy and carbon savings. The programme needs to be structured to minimise the likelihood of this situation arising.

24. For a technology blind approach to be successful, the criteria against which technologies are evaluated is critical. We are particularly concerned that technologies which offer substantial long-term benefits in terms of reduced carbon emissions and energy security, but which are currently at a relatively high price, should not have their potential fully recognised. Focusing on the cheapest, near-term solutions is unlikely to deliver the best policy outcome for the UK.

In view of the comments above, we do not support a flat-rate grant scheme – see question 26 below.

25. There are a number of additional alternative distributed generation models worthy of consideration, including portable and transport applications capable of intermittent integration with the grid. We recommend that these be covered by the programme.

We would also like to see the inclusion of energy storage technologies, as these will have a key role in ensuring efficiency and delivery holistic solutions.

26. We strongly believe that different technologies should receive different levels of grant support. This will help to ensure that technologies which offer considerable energy and carbon saving potential, but are currently at a higher cost than other technologies, receive the support that they deserve (See also our answer to question 24 above).

27. The rate should be based primarily on the technology's long-term potential to deliver energy and carbon savings. This should include heat generation. Any other approach will unfairly exclude newer technologies and stifle innovation.

The commercial potential of the technology should also be taken into account; technologies which have mass market appeal should take precedence over those which are likely to be suitable for only niche markets.

28. We believe that mechanisms should be established to ensure that energy suppliers purchase excess energy from microgenerators at rates closer to the market price.

29 /30 No comment

31. Whilst compliance with the Code for Sustainable Buildings appears appropriate for new build, we do not consider it a valid requirement in the retro-fit market. Application of the Code to the retrofit market could significantly constrain the opportunities for microgeneration here.

32 No comment

33. A key priority for individual and community projects should be to ensure that the application and administration requirements on individual households are not sufficient to discourage applicants.

34. We believe that the focus on large scale projects is likely to be much more beneficial than funding smaller projects in stimulating market growth. This approach will also enable more holistic projects to be developed, and enable supply chain collaborations to be built, both of which will be important in achieving policy objective.

35. No comment

36. Our comments on other factors affecting the development of low carbon buildings cover two key areas:

Extension to the Renewables Obligation

In tandem with the Low Carbon Building Programme, we would like to see an extension to the Renewables Obligation to encompass all technologies which contribute to carbon reduction, not just renewables. A weighting system should be introduced to stimulate new low carbon technologies which have significant long term potential; the current arrangements favour technologies closest to market, regardless of their overall contribution to policy goals.

Introduction of forward commitments to buy

The DTI has recognised the importance of public sector commitments to purchase technology as a driver of markets for innovative goods and services. Where these support technologies that can deliver CO₂ benefits and improve energy security, such as fuel cells, they can align with and help to deliver wider Government objectives. Such commitments also provide supplier companies and their investors with long-term confidence against which to commit resources for manufacturing scale-up.

The DTI/Defra Environmental Industries Unit (EIU), together with its Environmental Innovations Advisory Group, has analysed the ways in which public procurement can support innovation and is pioneering some examples to establish good practice in this area. Their findings show that:

- Policy teams struggle to include innovative solutions into their plans, as they are relatively invisible or very risky.

- Purchasing professionals need specifications for tenders and are, quite rightly, risk adverse, militating against innovative technologies.
- Forward commitments to buy provide supplier companies, their suppliers and their investors with long-term confidence against which to commit resources for demonstration and manufacturing scale-up.
- Forward commitments by public sector procurers offer a powerful mechanism for the market to deliver innovative solutions to meet policy needs that is particularly appropriate in the environmental sector where consumer driven mechanisms are weak.

Forward commitments could provide an excellent complement to the Low Carbon Buildings Programme, and consideration should be given to how they can best be introduced in the low carbon buildings sector.