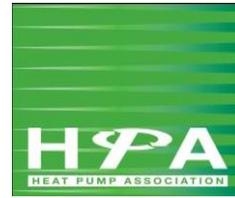


The logo for MICRO POWER, with 'MICRO' in red and 'POWER' in grey.The logo for HHIC (Heating & Hotwater Industry Council), with 'HHIC' in black and orange, and the full name below.

Gregory Barker MP
House of Commons
Westminster
London
SW1A 0AA

18/05/2012

Dear Minister

Inclusion of Air to Water Heat Pumps in the Commercial RHI in October 2012

We are writing to request an urgent meeting to discuss the distortive effect on competition of the Renewable Heat Incentive in the commercial heating market, and in particular suggestions by officials that the Government might renege on the previous Secretary of State's commitment to include Air to Water commercial heat pumps in the RHI in October 2012, instead postponing until summer 2013 when phase II of the scheme is expected to be introduced.

The absence of RHI for Air to Water heat pumps is now starting to distort the commercial heating market due to the unfair competitive advantage the RHI brings to competing technologies. Whilst the supply chain had to reluctantly accept this distortion for the brief period to October 2012, the suggestion it could now be substantially delayed further is almost certainly going to have a damaging consequence for this important technology, causing it to be even more disadvantaged compared to other technologies after yet a further year of unfair competition.

A lack of evidence?

The initial exclusion of Air to Water Heat Pumps from phase I of the RHI in 2011 was explained by a lack of "*evidence for the costs of air to water heat pumps outside the domestic sector*".¹ Officials have since confirmed this evidence deficit was satisfactorily addressed by the industry-led, and DECC-supported, Call for Evidence undertaken by many of the undersigned organisations in May 2011.

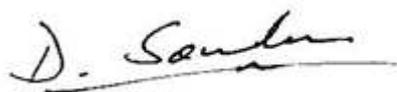
State Aids Approval

¹<http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/Energy%20mix/Renewable%20energy/policy/renewableheat/1421-air-source-heat-pumps-rhi.pdf>

From discussion with officials, we understand that there are concerns that State Aid approval may take a considerable time, particularly the experience last autumn in obtaining it for the launch of phase I. Officials have told us that DECC would therefore prefer to “batch” the inclusion of a number of technologies in one submission to the Commission for State Aids approval, and indeed adopt the same approach for updating the RHI Statutory Instrument. The difficulty with this approach is that this prolongs the distortion of the market, in our view quite unnecessarily for what is a very simple and straightforward update, now supported by a robust evidence base, and consistent with all the principles already established in phase I, and indeed approved under State Aids (20 year tariff duration, tariff calibrated to yield a 12% return on the incremental costs of renewables above the fossil fuel counterfactual).

Given the confirmation from officials that all the relevant information gaps have now been filled, we call for urgent confirmation that the Government will stick to its previous commitment of including this key technology in the RHI this October to avoid damaging confidence in this and future government proposals. The consequence of not introducing air to water heat pumps in autumn 2012 is likely to result in a further year of damaging market distortion due to the unfair competition resulting from the current situation.

Yours sincerely



Dave Sowden
Chief Executive
The Micropower Council



Kelly Butler
Marketing Director
BEAMA



Roger Webb
Director
HHIC



Tony Bowen
President
HPA