**Clean Heat Market Mechanism**

**Briefing note and consultation questions**

The Clean Heat Market Mechanism (CHMM) consultation was released by the Department for Energy Security and Net Zero on 30 March with a submission deadline of **8 June 2023.**

Consultation document: [here](https://www.gov.uk/government/consultations/clean-heat-market-mechanism#:~:text=This%20consultation%20sets%20out%20policy,gas%20use%20in%20heating%20buildings.)

Consultation contact: heatmarketmechanism@beis.gov.uk

Consultation online submission: [here](https://beisgovuk.citizenspace.com/heat/clean-heat-market-mechanism/)

**Department for Energy Security and Net Zero (formally BEIS)**

Established in February 2023, the department’s creation is to provide focus on giving the UK cheaper, cleaner, more secure sources of energy, cutting bills, emissions, and dependence on international energy supplies.

Ministers

Grant Shapps, Secretary of State

Graham Stuart, Minister for Energy Security and Net Zero

Andrew Bowie, Minister for Nuclear and Networks

Amanda Solloway, Minister for Energy Consumers and Affordability

Lord Callanan, Minister for Energy Efficiency and Green Finance

Six priorities

1. To maintain energy supplies, particularly during the winter.
2. To reduce energy bills and lower inflation.
3. To ensure the UK is on track to meet its legally binding carbon budgets and Net Zero commitments.
4. To speed up the delivery of network infrastructure and green energy.
5. To improve the energy efficiency of UK homes, businesses, and public sector buildings.
6. To deliver a new Energy Bill by the end of the Parliament

Highlighted points in yellow may be of more interest to SNIPEF, both in leverage with the Government or in red as a commercial benefit or opportunity. Page references correspond with the report if you wish further detail. Wording in **bold** highlight key points.

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| **Pt.** | **Commentary** | **Page**  **(Detail)** |
|  | Introduction | **7-8** |
| 1 | The aim is to retain and enhance the UK’s energy self-sufficiency by generating more clean, affordable, home-grown power. But we also need more efficient homes and buildings to use less energy in the first place.  **Around half of the UK’s total annual natural gas consumption is currently used in heating buildings. Making homes more energy efficient is the best way to cut household energy use and reduce energy bills**, while also creating jobs across the country.  Ambition to reduce energy consumption in buildings by 15% by 2030.  An important part of reducing energy demand is switching to more efficient heating appliances. Electric heat pumps have a crucial role to play in this.  Because most of the heat output of a heat pump is drawn from the ground or outside air, heat pumps produce several units of heat for every unit of energy consumed, meaning **replacing a boiler with a heat pump is often the most impactful measure for reducing a building’s energy demand**.  It is important to rapidly grow the heat pump market towards around 600,000 installations per year by 2028 and make heat pumps a mainstream consumer solution alongside gas boilers (approximately 1.8 million of which are currently installed each year).  This level of heat pump deployment, including in new-build properties, is strategically important for any of the potential transition pathways to net zero, including those where hydrogen heating plays a major role too. | 7 |
| 2 | The Clean Heat Market Mechanism (CHMM) is designed to work as part of that wider policy framework in order to provide further clarity and stimulus for investment and innovation throughout the manufacturing and installer supply chain and enable the heating industry to transform the consumer proposition of heat pumps in the UK. | 8 |
|  |  |  |
|  | Policy overview and wider context | **9-13** |
| 3 | The Clean Heat Market Mechanism (CHMM), for which enabling powers are being taken in the Energy Security Bill introduced to Parliament in July 2022, aims to provide the heating appliance industry – and wider market – with a clear, stable policy framework and the accompanying incentives to invest with confidence in scaling up the consumer market for heat pumps, thereby accelerating deployment and driving down energy demand from buildings. | 9 |
| 4 | To support households with heat pump installations and kickstart growth in the market, the government has brought forward a package of financial support measures, including the Boiler Upgrade Scheme. VAT has also been reduced to zero on the installation of energy saving materials such as heat pumps until 2027. | 9 |
| 5 | As demand increases significantly over the coming years, capacity to manufacture and install heat pumps in the UK will also need to increase. To support this, the government is launching a £30 million Heat Pump Investment Accelerator Competition (HPIAC) in 2023. | 10 |
| 6 | **The government is also supporting** training for heating installers. In March 2023, the government announced a further £5m of support for heat training, expected to support **training for over 6,000 heat pump installers**.  They expect the majority of heat pump installers in 2028 will be current heating engineers who train to install heat pumps alongside other heating technologies. Despite this we also expect the workforce to expand overall, creating new opportunities for apprentices.  **A new three-year Low Carbon Heating Technician apprenticeship will launch in 2023**, and the existing Plumbing & Domestic Heating Technician apprenticeship is being revised to ensure that all heating apprentices learn the core skills needed for low-carbon heating. | 10 |
| 7 | The requirement set out in this consultation that in order to generate credits under the **CHMM heat pump installations must be notified via an appropriate certification scheme (ie. the Microgeneration Certification Scheme (MCS)** or an equivalent scheme) will help to ensure that this is the case. (Is this a Leslie Fox opportunity under her BP projects?) | 10 |
| 8 | From 2024 CHMM will place an obligation on the manufacturers of heating appliances to meet targets for the proportion of low-carbon heat pumps they sell each year, relative to fossil fuel boilers. (See Target options at points 19 and 20) | 11 |
| 9 | **A heat pump manufacturer will be able to earn a credit for the installation of a qualifying domestic-scale hydronic heat pump notified via an appropriate certification scheme, ie. MCS or an equivalent scheme**. | 12 |
| 10 | If an obligated party should fail to acquire and surrender to the scheme administrator from their account the correct number of heat pump credits on the due date, it will be required to make a payment of £5,000 per missing credit. | 12 |
|  | Scheme Design | **14-17** |
| 11 | The sale of fossil fuel boilers fired by natural gas, liquefied petroleum gas (LPG), or oil on the UK market, up to **70kWth** capacity, will be considered relevant boiler sales under the CHMM and generate a corresponding obligation.  ‘**Hydrogen-ready’ gas boilers will also be considered relevant** fossil fuel boiler sales that will contribute to the calculation of a manufacturer’s heat pump credit targets under the CHMM.  The proposed product regulations requiring all boilers to be hydrogen-ready from **2026**. | 14 |
| 12 | **They propose that obligated parties will be required to achieve the installation of a certain number of heat pumps up to** **45kWth to existing UK properties.**  Scheme credits will only be issued for the installation of an ‘air-to-water’, ‘ground-to-water’ or ‘water-to-water’ heat pumps (not air-to-air).  **These can be retrofitted to the more than 85%** of UK domestic properties which have water-based central heating systems. | 14 |
| 13 | **They do not intend to treat higher-temperature heat pumps differently from low-temperature systems**, not least because many modern higher-temperature heat pumps are themselves highly efficient and operate at low flow temperatures most of the time.  They plan to introduce a **45kWth** appliance capacity limit for qualifying heat pump installations, to ensure that the policy is focused on domestic-scale heating appliances. | 15 |
| 14 | They intend to require that heat pump installations are notified via an appropriate certification scheme (MCS or an equivalent scheme) to generate credits in the CHMM.  This will provide effective oversight to ensure that these standards are met. It will also ensure that heat pump credits relate to qualifying sales to end consumers in the UK and that necessary information is recorded, such as the appliance make, model, and capacity, allowing credits to be reliably attributed to the relevant heat pump manufacturer. | 15 |
| 15 | Installations of **hybrid heating systems** that include both a heat pump and a fossil fuel boiler and that are certified under an appropriate certification scheme such as MCS **will also qualify towards meeting the obligation**, since in many cases they support the policy objectives of growing the heat pump supply chain and reducing emissions in the short term. | 15 |
| 16 | **Heat pump installations in new-build properties will not qualify towards meeting the obligation.** | 16 |
| 17 | They propose applying this obligation to all manufacturers of relevant fossil fuel appliances sold for installation in the UK, who are not excluded as per above, regardless of whether the manufacturing takes place in the UK or of whether the company has a UK corporate presence. | 17 |
| 18 | **They are also considering whether to ask manufacturers annually to publish a Heat Pump Supply Chain Plan** which describes the anticipated source of heat pumps that will receive CHMM scheme credits when installed, the percentage of anticipated UK content for each product sold, plans to ensure UK supply chain resilience for products and parts, and how the manufacturer will improve the visibility of opportunities to suppliers within international and UK supply chains. | 17 |
|  | Targets (Two Options) | **18-19** |
| 19 | **Option One:** The preferred option.  **Year 1**: The target will be credits equivalent to **4%** of the manufacturer’s relevant gas boiler sales over 20,000 units and 4% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2024, ie. If a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,200.  **Year 2**: The target will be credits equivalent to **6%** of the manufacturer’s relevant gas boiler sales over 20,000 units and 6% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2025, ie. If a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,800.  A 4% obligation target would lead to around **60,000** heat pump installations.  A 6% obligation target in Year 2 would support around **90,000** heat pumps being delivered.  • Year 3: 150,000 retrofit heat pumps  • Year 4: 250,000 retrofit heat pumps  • Year 5: 400,000 retrofit heat pumps | 18 |
| 20 | **Option Two**  In this option, the yearly scheme targets would be set such that a roughly constant growth rate in retrofit heat pumps is applied towards the aim for around 400,000 installations in 2028.  The proposed targets for Year 1 and Year 2 in this Option 2 would be:  **Year 1**: The target will be credits equivalent to 5.5% of the manufacturer’s relevant gas boiler sales over 20,000 units and 5.5% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2024, ie. if a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,650.  **Year 2**: The target will be credits equivalent to 8% of the manufacturer’s relevant gas boiler sales over 20,000 units and 8% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2025, ie. if a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 2,400.  A 5.5% obligation target would lead to around 85,000 heat pump installations.  An 8% obligation target in Year 2 would support around 125,000 heat pumps being delivered. | 19 |
| 21 | **Qualifying individual standalone heat pump installations will generate a single scheme credit for the manufacturer**.  **Hybrid heat pump systems** that involve both a heat pump and a fossil fuel boiler element **receive 0.5 heat pump credits**. A lower credit weighting will encourage promotion and deployment of standalone heat pumps. | 20 |
|  | Scheme administration | **22-24** |
| 22 | The government has identified that the **Environment Agency** (EA) could be the appropriate scheme administrator for the CHMM. (Do we have contact with the Agency?)  The EA to act as scheme administrator for whole of the UK but certain scheme compliance and enforcement activities may need to be carried out by or in conjunction with a relevant devolved agency, such as the Scottish Environment Protection Agency (SEPA), and the Northern Ireland Environment Agency (NIEA). | 22 |
| 23 | They intend to use fossil fuel boiler sales data provided by obligated parties as the basis for calculating parties’ obligations under the scheme. Basing the obligation on sales in this way will mean that obligated parties are able to directly track and manage their obligations under the scheme and will ensure transparency in the obligation calculation, ie. as a percentage of these boiler sales. | 23 |
|  | Heat pump installation data | **24-25** |
| 24 | They intend to require that **heat pump installations are notified via an appropriate certification scheme, ie. MCS or an equivalent scheme**, to generate credits towards the CHMM. Credits for heat pump installations will be issued to the manufacturer’s account for the relevant obligation period based on when the certified installation took place, rather than the point at which the data is subsequently recorded by the scheme administrator. | 24 |
| 25 | There are benefits in **increasing the use of heat pump installer and installation consumer protection schemes to ensure minimum standards** and to improve the quality of data on heating appliance installations. We believe that requiring certification by **MCS or an equivalent standards organisation would help to achieve this**. It will also provide consistency and alignment with current incentive schemes that support heat pump installations. | 24 |
| 26 | We propose that **MCS** and any equivalent certification scheme **conduct appropriate audit and assurance checks** to provide confidence that registered heat pump installations generating credits towards the CHMM are genuine. | 24 |
| 27 | To be considered equivalent and suitable to generate credits towards the CHMM, it would need to demonstrate, at minimum:   1. That both the product installed and the installation itself comply with industry best practice, product standards and relevant building regulations 2. Appropriate certification procedures, including proportionate assessment and audit of installers and installations 3. Appropriate accreditation by the United Kingdom Accreditation Service (UKAS), ie. to ISO 17065 4. Robust protections to ensure that work which does not meet scheme standards is put right promptly, 5. An ability and willingness to collect and provide the data required by the CHMM. | 24 |
| 28 | **Collection, handling and use of the data required by the CHMM to be underpinned by digital infrastructure**. This infrastructure is likely to be required to, for instance, facilitate registration processes, enable the submission of boiler sales data and heat pump installations data, and support the administration of the obligation and the scheme credit accounts. | 25 |
|  | Credits: ownership, trading and transfer | **25-29** |
| 29 | They propose that **only scheme participants**, ie. heat pump manufacturers and obligated parties, **will be allowed to own credits on the digital system**, rather than permitting third-party traders or other entities to request accounts and to buy and sell scheme credits. | 26 |
| 30 | To increase flexibility for scheme participants further, they are **considering allowing for parties with a surplus of credits to carry forward a portion of these from one period to the next, equal to 25%** of their credit-holding on ‘surrender day’ prior to settling their obligation for the current period. | 27 |
| 31 | **They propose to allow companies to carry forward a limited proportion of their target to the next obligation period.**  An obligated manufacturer, which has acquired credits marginally beneath their target requirement will therefore remain compliant, but they will be required to make up the difference in the next obligation year.  The maximum credit deficit we are proposing for this target carry-forward is 25% of an obligated party’s target for the relevant year, or 300 credits.  **Tabled examples are provided on page 29** | 28 |
|  | Payments-in-lieu of missed targets | **30** |
| 32 | **Where obligated parties fail to meet their credit obligation, they propose that they will be required to make a payment in lieu of the remaining shortfall.**  For example, if a party falls short of its obligation target by 28%, it would be able to carry forward 25% of its target to the next obligation period and would need to make a payment in lieu of the remaining 3% in the current obligation period. | 30 |
| 33 | We intend that this payment will be set on a per credit basis, at **£5,000** **per** **missing heat pump credit**. This level would provide a strong incentive for companies to meet their targets through the sale and installation of heat pumps, or through the acquisition of heat pump credits, thereby ensuring the incentives align with the aim of the CHMM to support an expansion of the UK heat pump market.  **Tabled examples are provided on page 31** | 30 |
|  | Compliance and enforcement | **31-32** |
| 34 | They propose that the scheme will be enforced primarily through a civil sanctions-based regime, including financial penalties. Criminal sanctions may also be applicable in some circumstances, ie. fraudulent activity in relation to the scheme, by any party, will be a criminal offence. | 32 |
|  | Consultation questions | **34-35** |
| 35 | **QUESTION 1**: Do you agree with the proposals here for what constitutes a qualifying heat pump installation?  Yes/No. Please provide reasoning to support your response  Yes. |  |
| 36 | **QUESTION 2**: Do you have views on any positive or negative impacts the decision to focus the Clean Heat Market Mechanism on the retrofit market may have on the new-build heat pump market, including installer skills and supply chains?  SNIPEF has concerns that the approach may lead to direct sales between the manufacturer and the consumer via the internet with plumbing and heating engineers simply acting as installers of the equipment. We have seen this happen in other areas where plumbers are offered a price to install which is below the market rate and our members have turned work down. The danger is that this leads to less experienced and underqualified people undertaking the work resulting in inferior installations.  We have concerns that installations in the retrofit market will require certification but that the same rules do not seem to apply to the new build market.  There is a well-established market between the installers and merchants and between the merchants and the manufacturers and this should continue to be supported with any new processes introduced via the proposed mechanism not having a detrimental effect on this. |  |
| 37 | **QUESTION 3**: Do you agree with the proposals for obligated parties here? Yes/No. Please provide reasoning to support your response.  No comment. |  |
| 38 | **QUESTION 4:** Do you agree that related parties, business units, or brands within the same corporate group should be treated as one ‘appliance manufacturer’ entity for the purposes of determining targets under the scheme and awarding heat pump credits?  Yes/No. Please provide reasoning to support your response.  No.  SNIPEF has concerns with a credit scheme in general as feels it could be open to manipulation and abuse. |  |
| 39 | **QUESTION 5**: Do you agree with the proposed minimum thresholds for the obligation and treatment of small companies?  Yes/No. Please provide reasoning to support your response.  No comment. |  |
| 40 | **QUESTION 6**: Do you agree with the proposal to apply the obligation to all above-threshold manufacturers of fossil fuel boilers sold on the UK market regardless of those manufacturers’ location, instead of obligating only UK-based companies responsible for first placing appliances on the UK market? Yes/No. Please provide reasoning to support your response.  Yes  I can understand the logic for applying the obligation to all above-threshold manufacturers selling fossil boilers on the UK market rather than applying to simply UK based manufacturers but how the government will administer this I am not clear. The costs of administration could be substantial and who will bear this cost?  The “big” manufactures are likely to have complex governance structures with operations across the world. It may be difficult to apply UK law to those outside our jurisdiction. |  |
| 41 | **QUESTION 7**: Do you have views on the proposal to ask manufacturers to publish an annual Heat Pump Supply Chain Plan, and/or on what content should be suggested for such a Plan in scheme guidance  No comment. |  |
| 42 | **QUESTION 8**: Do you agree with the preferred Option 1 in relation to the setting of targets?  Yes/No. Please provide reasoning to explain your response  No.  While SNIPEF supports the ultimate outcome of a greener more sustainable future SNIPEF believes that the demand for low carbon heating systems will be driven by consumer demand and not by heating system manufacturers.  SNIPEF believes there should be more incentivising of installers and consumers by manufacturers and the government. Rather than introducing a credit system manufacturers could require to invest a percentage of sales into training and marketing of heat pumps. Similarly, the government could look at green mortgages and lower council taxes for example. |  |
| 43 | **QUESTION 9**: Do you agree that, at least for the first year, all qualifying fossil fuel-heat pump hybrids should receive 0.5 credits at the outset of the CHMM scheme?  Yes/No. Please provide reasoning to support your response.  Yes  Hybrid systems provide a “stop gap” to a customer in their journey to low carbon heating. In some instances, the consumer may only recently have installed a new fossil fuel boiler or does not have the finances to install an air-source heat pump.  Consumers are being squeezed by the cost of living with high interest rates, increasing mortgage payments, higher fuel and food costs. Any move towards low carbon heating should be welcomed. |  |
| 44 | **QUESTION 10**: Do you agree with the proposal to use obligated parties’ UK sales of relevant fossil fuel boilers to calculate their obligation?  Yes/No. Please provide reasoning to support your response  No comment |  |
| 45 | **QUESTION 11**: Do you have views on the proposed requirement that fossil fuel boiler sales data be independently verified by a third-party organisation?  SNIPEF understands that this would be required to be undertaken to ensure the mechanism operates in a fair and transparent way. However, we do have concerns about the cost of running this effectively and whether this would impact on the cost of products and ultimately the end user. |  |
| 46 | **QUESTION 12**: Do you have views on the appropriate standards to be applied to any independent verification process, such as ISAE 3000?  No comment. |  |
| 47 | **QUESTION 13**: Do you agree with the proposal to require installations to be notified via an appropriate certification scheme, ie. MCS or an equivalent scheme) to generate credits under the scheme?  Yes/No. Please provide reasoning to support your response  Yes.  SNIPEF believes that all installations should be notified. This would then identify where installations were not being done by qualified installers as the sales of heat pumps will not match the notifications and therefore credits allocated. |  |
| 48 | **QUESTION 14**: Do you agree with the criteria set out above on the requirements of an appropriate certification scheme, ie. MCS or an equivalent scheme) to be deemed suitable to generate credits towards the CHMM? Yes/No. Please provide reasoning to support your response  Yes.  The Government should recognise however that running certification schemes costs money and this needs to be affordable as it will be passed onto the end user. |  |
| 49 | **QUESTION 15**: Do you have views on the proposed digital system, including any other functionalities or users we should consider in its design?  No comment. |  |
| 50 | **QUESTION 16**: Do you agree with the proposal to limit credit ownership to scheme participants?  Yes/No. Please provide reasoning to support your response  Yes |  |
| 51 | **QUESTION 17**: Do you agree with the proposal to limit credit-purchasing to obligated parties?  Yes/No. Please provide reasoning to support your response.  Yes.  SNIPEF does not believe that obligated manufacturers should be able to purchase credits from non-obligated manufacturers as this could be open to abuse. There is an incentive for those non-obligated manufacturers to make money from selling credits and this is not the purpose of the policy. |  |
| 52 | **QUESTION 18**: Do you have views on what information or data related to an accountholder, eg. their current credit holding, their contact details) should be visible on the digital system to other account-holders?  No comment. |  |
| 53 | **QUESTION 19:** Do you agree with the proposals here on credit carry-over for obligated parties?  Yes/No. Please provide reasoning to support your response  No comment. |  |
| 54 | **QUESTION 20**: Do you agree with the proposals here on credit carry-over for non-obligated heat pump manufacturers?  Yes/No. Please provide reasoning to support your response  No comment. |  |
| 55 | **QUESTION 21:** Do you agree with the proposal to allow obligated manufacturers to carry forward up to 25% of their target (or up to a target of 300 credits, if higher) to the following obligation period?  Yes/No. Please provide reasoning to support your response  No comment. |  |
| 56 | **QUESTION 22:** Do you agree with the proposal to apply a modest disincentive to target carry forward, by multiplying the target amount carried forward by a factor of 1.2?  Yes/No. Please provide reasoning to support your response  No comment. |  |
| 57 | **QUESTION 23**: Do you agree with the proposed approach to payments-in-lieu of missed targets as set out above?  Yes/No. Please provide reasoning to support your response.  No.  Manufacturer has either met target or has not.  SNIPEF believes that the heat market comprises of a complex supply chain and suppliers cannot and do not control the demand for heating systems. This is done by consumers. Charging manufacturers for missed targets will not address consumer demands. If payments are to be made then they should be ring-fenced and reinvested into the supply chain. |  |
| 58 | **QUESTION 24**: Do you agree with the approach to compliance and enforcement set out above?  Yes/No. Please provide reasoning to support your response  No comment. |  |
| 59 | **QUESTION 25.** Do you have any further views on whether, and to what extent, the policy proposals in this consultation might disproportionately impact upon certain types of consumer, with a particular focus on those in groups with protected characteristics?  SNIPEF believes that distorting incentives in this way could lead to low quality installations. Manufacturers rarely have direct contact with consumers and it is the installers who have the skills to advise consumers as they have the expertise. Heat pumps like other heating systems are not a “one fits all” technology and there is a danger that where manufacturers are incentivised by targets that the wrong products could be sold and consumers end up with unsuitable systems.  Other incentives should be considered in terms of lower council tax and/or green stamp duty.  Another consideration which has not been mentioned is the relationship between the installer and the merchant. Not only does the merchant store the equipment (heat pumps being significantly larger than boilers) but will also provide credit terms. There is a significant up-front cost to fitting a heat pump and this is often not recouped from the installer until after the installation is completed and/or government funding claimed by the consumer. If this mechanism led to manufacturers supplying direct to the consumer or installer then would the manufacturer provide these services, without which these installers may be dis-incentivised to recommend/install heat pumps.  Finally, the inherent costs associated with the policy/scheme proposed implies that the costs of heating systems will increase. This will inevitably lead consumers during a cost-of-living crisis to choose the cheapest option which is unlikely to be a heat pump. |  |

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Richard Campbell

19 April 2023

Fiona Hodgson

5 June 2023