**Clean Heat Market Mechanism**

Consultation Report Findings

**Introduction**

This report analyses the responses to the Clean Heat Market Mechanism (CHMM) consultation, explicitly comparing the submissions made by SNIPEF against the collective submissions of other stakeholders and the subsequent government response.

The primary purpose of this analysis is to assess the degree of alignment or divergence between SNIPEF's positions and the government's decisions on various aspects of the CHMM. By scrutinising each relevant consultation question, the report aims to provide a detailed insight into how SNIPEF's concerns and suggestions have been acknowledged, addressed, or overlooked in the final policy framework.

**What is the CHMM**

The CHHM aims to incentivise the UK’s heating industry to invest in making heat pumps an increasingly attractive and affordable choice for families and businesses.

The scheme would require fossil fuel boiler manufacturers (obligated parties) to install a certain number of heat pumps proportional to their fossil fuel boiler sales. It is intended to incentivise industry to invest and innovate throughout the supply chain.

Under the mechanism, a £3000 fine will be charged for every missed heat pump sale.

**CHMM Consultation Report**

The November 2024 CHMM report responds to the second Clean Heat Market Mechanism consultation. It addresses key CHMM design aspects like participant scope, targets, payments-in-lieu, credit trading, data, and administration. Stakeholder feedback has significantly informed the optimisation of the scheme, set to be regulated soon. Aligned with the Prime Minister's September 2023 net-zero strategies, the CHMM aims to encourage heat pump installation through incentives like the Boiler Upgrade Scheme while maintaining voluntary adoption for homeowners.

**Overall Government Response to the Consultation**

The UK government will launch the Clean Heat Market Mechanism in 2024 to encourage investment in the heat pump market, enhance energy security, and aid in decarbonisation. Targets for heat pump credits in the first two years are set at moderate levels to allow market adjustment, with higher growth rates expected later. Key points include:

1. **Tradable heat pump credits** upon installing and certifying qualifying heat pumps, with hybrid systems earning half credits.
2. **Increased flexibility for obligated parties**, allowing 35% of an unmet target to be carried forward (up from 25%), and no application of a 'multiplier' for the first two years.
3. **Reduction in surplus credit** **carry-over** from 25% to 10% to increase in-year credit supply.
4. **Excluding new-build boiler sales** from target calculations until the Future Homes Standard takes effect.
5. **Lowering the payment-in-lieu** for unmet targets to £3,000 per missing credit, to reduce obligated parties' potential liability and incentivise heat pump deployment.
6. Postponement of requiring heat pump manufacturers to produce supply chain plans to minimise initial administrative burdens.

The scheme's credit transfer notification period will be annual, from 1 October to 30 September, simplifying timelines. The Environment Agency will administer and regulate the CHMM, with ongoing assessments to adapt the mechanism to market developments and encourage the transition to low-carbon heating.

**SNIPEF consultation submission against consultation summary and Government response**

**QUESTION 1:** Do you agree with the proposals here for what constitutes a qualifying heat pump installation? (ie. To exclude heat pump from new builds)

SNIPEF did not submit a response to this question.

Consultation response

Of 63 respondents, 24, mainly heat pump specialists, supported excluding new-build heat pumps from 'qualifying heat pump' under the belief that the Future Home Standard would drive new-build market growth.

Twenty, mainly fossil fuel appliance makers, opposed this, arguing it's contradictory to include new build boilers in obligation calculations but not newly built heat pump credits. They noted challenges in tracking and forecasting heat pump deployment in new builds. At the same time, a few respondents mentioned that new-build heat pump data should be traceable through financial processes and contracts with developers.

**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?

1. **SNIPEF submission**: SNIPEF expressed concerns about the potential negative impact on the retrofit market, highlighting the risk of direct sales between manufacturers and consumers, potentially leading to underqualified installers and inferior installations. SNIPEF also mentioned the need for certification in retrofit installations and the existing market dynamics between installers, merchants, and manufacturers.
2. **Consultation report summary**: The consultation report indicated a mixed response from various stakeholders. While some did not foresee a significant impact on the new-build heat pump market, others expressed concerns about potential adverse effects such as lower deployment or higher prices in the new-build sector and a strain on installer capacity.
3. **Government's response to questions one and two**: The government has decided to maintain its initial proposal regarding what constitutes a qualifying heat pump and how to identify it. They acknowledged the inconsistency in including the sales of fossil fuel boilers to new-build properties in target calculations and decided to exclude such sales. The government also emphasised their focus on supporting the heat pump market, including installer growth, through various other schemes. Still, it maintained a sole focus on awarding credits for qualifying heat pump installations under this mechanism.

**Partial agreement with SNIPEF submission**

**QUESTION 3:** Do you agree with the proposals for obligated parties here?

SNIPEF did not submit a response to this question.

Consultation response

Most respondents (35) supported placing the scheme obligation on gas and oil boiler manufacturers, citing increased market certainty and heat pump market investment incentives. Others felt it ensured a level playing field or was more feasible than obligating wholesalers. However, 11 respondents argued for extending the obligation to all sellers, including wholesalers, concerned about enforceability against non-UK entities and potential disadvantages for UK manufacturers. There were also concerns about competing government demands, such as developing hydrogen-ready boilers and smart controls, which would be counted as fossil fuel boiler sales under the scheme.

Government response

The government intends to apply the scheme to all non-excluded manufacturers of relevant fossil fuel appliances.

It does not consider it necessary or proportionate to expand the list of obligated parties to include any additional market actors. However, as stated in the consultation, it will observe market conditions. It may seek to expand the scope of obligated parties further during future scheme years if required to protect the interests of UK companies and consumers.

**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 to determine targets under the scheme and award heat pump credits?

1. **SNIPEF submission**: SNIPEF expressed disagreement with treating related parties, business units, or brands within the same corporate group as one ‘appliance manufacturer’ entity. Their concern was centred around the potential for manipulation and abuse within a credit scheme.
2. **Consultation report summary**: Most respondents (50 out of 55) agreed with the proposal to treat related parties within a corporate group as a single entity. They believed this approach would simplify scheme administration and reduce the risk of restructuring to game the obligation. A few respondents, including boiler manufacturers and trade representative groups, disagreed with broader aspects of the scheme, proposing that wholesalers and merchants should be the obligated parties instead of manufacturers.
3. **Government's response**: The government agreed with most respondents that related parties within a corporate group should be treated as a single obligated party. They indicated that this would involve joint and several liabilities across the group for scheme compliance, with a single Responsible Undertaking within the group ensuring compliance.

**Disagreement with SNIPEF’s submission**

**QUESTION 5:** Do you agree with the proposed minimum thresholds for the obligation and treatment of small companies?

SNIPEF did not submit a response to this question.

Consultation response

Over half of respondents (35) agreed with the proposal. There was general support for the obligation being placed on larger companies that fulfilled the threshold. Some respondents commented that they would welcome incentives for smaller businesses to work towards cleaner heating methods in future.

Those who disagreed with the proposed threshold were concerned about the possibility of gaming and outlined the need for robust measures to prevent this. Some respondents were also concerned that there was scope for businesses with smaller UK market shares but which are part of a larger international corporate group to be below the threshold despite having the capacity to be obligated by the scheme. These respondents, therefore, asked for controls for overseas imports from larger corporations. Some also argued that no manufacturer selling in-scope appliances in the UK should be exempt, based on the principle of “polluter pays”.

Government response

The government will maintain the proposed minimum threshold of 20,000 gas boilers and 1,000 oil boilers for obligatory participation. This decision aims to ensure market leaders initiate investment in heat pump technology. While encouraging smaller businesses and those below the threshold to reduce greenhouse gas emissions, the government also plans to mitigate the risk of threshold-related gaming.

Near-threshold manufacturers selling 15,000-20,000 gas boilers or 750-1,000 oil boilers in the UK must register for the scheme and confirm they are below the main obligation threshold.

**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?

1. **SNIPEF submission**: SNIPEF understood the logic behind applying the obligation to all manufacturers selling fossil boilers in the UK market, regardless of location. However, they raised concerns about the administrative challenges and costs, especially in enforcing UK law on manufacturers outside UK jurisdiction.
2. **Consultation report summary**: Most respondents (46 out of 58) agreed with the proposal to apply the obligation equally to both UK and non-UK manufacturers. They supported this to ensure fairness and avoid a disproportionate impact on UK businesses. Concerns were raised about the enforceability of the policy against foreign companies.
3. **Government's Response**: The government decided to apply the scheme to manufacturers regardless of location, aligning with the majority's view. They acknowledged the concerns about enforceability against non-UK companies but cited existing precedents of enforcing similar rules in other sectors. The government also proposed appointing a UK-based entity within the corporate group as the Responsible Undertaking to simplify enforcement and reduce administrative complexity.

**Partial agreement with SNIPEF submission**

**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?

SNIPEF did not submit a response to this question.

Consultation response

Of 55 responses, 26 opposed and 12 supported the proposal for manufacturers to publish an annual Heat Pump Supply Chain Plan. Concerns included administrative burden, effectiveness, and disclosing sensitive information. Supporters cited benefits like market visibility, transparency, and supporting installer upskilling.

Government response

The government acknowledges the concern over the extra administrative load for manufacturers from publishing a Heat Pump Supply Chain Plan. While recognising potential benefits, including addressing supply chain issues, the government has decided not to implement this requirement at the scheme's launch. However, it remains open to considering this proposal in future years if beneficial and appropriate.

**QUESTION 8**: Do you agree with the preferred Option 1 in relation to the setting of targets?

1. **SNIPEF submission:** SNIPEF disagreed with Option 1 for setting targets. They argued that consumer demand, rather than manufacturer-driven targets, should drive the demand for low-carbon heating systems. SNIPEF suggested incentivising installers and consumers more directly, such as through training and marketing investments by manufacturers and government incentives like green mortgages or lower council taxes.
2. **Consultation report summary:** Most respondents (36 out of 60) disagreed with introducing Option 1 target levels. Their concerns included the targets being overly ambitious or not ambitious enough, the influence of the Boiler Upgrade Scheme budget, the inability of manufacturers to influence sales patterns, and the limited number of qualified heat pump installers. Those who agreed (24 respondents) believed Option 1 targets were appropriate for scaling up the sector but emphasised the importance of other market enablers.
3. **Government's response:** The government has decided to proceed with Option 1 target levels. They considered this approach reasonable and realistic for the scheme's first two years while allowing for acceleration in later years. They acknowledged the need for flexibility and increased the target carry-forward allowance from 25% to 35% for the first two years. The government also noted the decision to remove new-build fossil fuel boiler sales from target calculations, potentially lowering targets nominally. They recognised the need for continuous review and adjustments to the scheme parameters.

**Disagreement with SNIPEF submission**

**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?

1. **SNIPEF submission**: SNIPEF agreed with the proposal to award 0.5 credits to qualifying fossil fuel-heat pump hybrids in the first year of the CHMM scheme. They viewed hybrids as a transitional solution for customers moving towards low-carbon heating, especially considering financial constraints and the current cost of living.
2. **Consultation report summary**: The responses were varied. Twenty respondents agreed with the 0.5 credit allocation, viewing it as reflecting hybrids' reliance on fossil fuels. Eighteen suggested a higher weighting, arguing that hybrids might use the heat pump element more than anticipated. Twelve respondents recommended a future review of the credit rating for hybrids, while seven suggested lower credits or exclusion due to continued fossil fuel use. Eight recommended different weightings for different hybrid types based on efficiency.
3. **Government response:** The government has decided to retain the initial proposal to award 0.5 credits to qualifying fossil fuel hybrids. They believe these balance hybrids' lower efficiency and carbon reduction potential against the need to build the heat pump market. The government chose not to introduce additional conditions for hybrid eligibility or different weightings for different types of hybrids, but will keep these parameters under review for future adjustments.

**Agreement with SNIPEF submission**

**QUESTION 10**: Do you agree with the proposal to use obligated parties’ UK sales of relevant fossil fuel boilers to calculate their obligation?

SNIPEF did not submit a response to this question.

Consultation response

Respondents in favour (33) argued that there is limited installation-level data about boilers and that sales data would be the more accurate source. Some also noted that recording information about boiler sales might be helpful for future decarbonisation efforts for the heating market. Some of those in favour also reiterated that hydrogen-ready boiler sales should be in scope for the obligation.

Respondents that disagreed (20) with the proposals argued that the same data category should be used to calculate the obligation and record progress against targets, ie, stating that boiler sales should be compared to heat pump sales, or certified boiler installations compared to certified heat pump installations.

Some opposed to the proposal also argued that MCS coverage of heat pump installations might not be sufficient to capture an accurate proportion of heat pumps going into homes across the UK, given variations in certification scheme membership.

Government response

The government concurs with most respondents that CHMM obligations should be based on UK fossil fuel boiler sales, excluding exports and new-build installations, with proper evidence provided. Manufacturers above or near obligation thresholds must submit quarterly sales figures and an annual, independently verified Boiler Sales Report. This approach allows participants to manage their obligations directly while ensuring clarity and transparency in the calculation process.

**QUESTION 11:** Do you have views on the proposed requirement that fossil fuel boiler sales data be independently verified by a third-party organisation?

1. **SNIPEF submission**: SNIPEF understood the need for third-party verification of fossil fuel boiler sales data to ensure fairness and transparency in the mechanism. However, they expressed concerns about the potential costs and whether this might impact product prices and, ultimately, the end user.
2. **Consultation summary**: Most respondents (35 out of 53) supported the proposal for independent verification, seeing it as crucial for transparency and fairness. Some sought clarification on its application to both UK and international companies. Those against raised concerns about additional costs and administrative burdens.
3. **Government response**: The government agreed with the majority, intending to implement the requirement for annual Boiler Sales Reports to be prepared in line with international assurance standards and independently verified. They acknowledged the importance of fairness, accuracy, and transparency in calculating obligations and chose a standard that aligns with similar schemes.

**Partial agreement with SNIPEF’s submission**

 **QUESTION 12:** Do you have views on the appropriate standards to be applied to any independent verification process, such as ISAE 3000?

SNIPEF did not submit a response to this question.

Consultation response

Those who indicated support (13) for using ISAE 3000 or an equivalent standard said that doing so would ensure the accuracy and reliability of information and would provide alignment with comparable obligation schemes. They also noted that ISAE 3000 is a well-established and internationally recognised standard.

Those who disagreed (4) with the proposal said that independent verification was unnecessary, would increase administrative burden, or suggested certification of boiler installations as an alternative.

Government response

The government intends to implement the requirement that annual Boiler Sales Reports be prepared in line with the relevant International Standard on Assurance Engagements, ISAE 3000, or an equivalent standard for assurance processes. As noted by several respondents, this would align with comparable obligation schemes, such as the Emissions Trading Scheme (ETS) and Renewable Transport Fuel Obligation (RTFO).

**QUESTION 13**: Do you agree with the proposal to require installations to be notified via an appropriate certification scheme (ie. MCS or equivalent) to generate credits under the scheme?

1. **SNIPEF submission**: SNIPEF agreed with the proposal to require installations to be notified via an appropriate certification scheme (like MCS or equivalent) to generate credits under the scheme. They believed this would ensure that qualified installers do installations, as discrepancies between sales and notifications could highlight unqualified installations.
2. **Consultation summary**: A slim majority (34 out of 61) favoured the proposal, citing quality standards and consumer protection benefits. Those who disagreed (22 respondents) preferred credits based on manufacturer sales rather than certified installations, arguing that MCS data might not fully cover the UK heat pump market. Some suggested alternatives to MCS for certification.
3. **Government response**: The government has decided to require heat pump installations to be notified by a certification scheme to generate credits, aligning with the majority. This decision aims to ensure quality and compliance with qualifying criteria, addressing risks of heat pumps being exported or counted multiple times.

The government recognised the polarising nature of this requirement but emphasised its focus on installations meeting specific criteria rather than all heat pump sales.

**Agreement with SNIPEF’s submission**

**QUESTION 14**: Do you agree with the criteria set out above on the requirements of an appropriate certification scheme (ie. MCS or equivalent) to be deemed suitable to generate credits towards the CHMM?

1. **SNIPEF submission**: SNIPEF agreed with the criteria for an appropriate certification scheme but raised concerns about the cost of running such schemes and the potential impact on end users.
2. **Consultation summary**: The majority (34 out of 57) agreed with the proposed criteria, emphasising the importance of consumer protection and quality installations. Those who disagreed (19 respondents) were mainly concerned about underreporting if MCS certification is required. Suggestions were made for multiple bodies to be deemed appropriate for certification.
3. **Government response**: The government will require notification by an appropriate certification scheme to generate credits, ensuring only qualifying installations are credited. They acknowledged the polarising nature of this requirement and the concerns about underreporting but emphasised the scheme's focus on installations meeting specific criteria. The government agreed on the need for clear criteria for certification schemes, though initially, MCS is likely the only scheme to achieve CHMM certification.

**Partial agreement with SNIPEF’s submission** (cost implications not addressed)

**QUESTION 15:** Do you have views on the proposed digital system, including any other functionalities or users we should consider in its design?

SNIPEF did not submit a response to this question.

Consultation response

Responses were varied, but several (11) related to data entry, especially the security of data entered into the system and any cost to an obligated party in uploading boiler sales data. There was also some interest in understanding how credit-trading will work and, from a few, a desire for an on-system credit-trading facility.

Some respondents (16) expressed a view on the digital design, mainly that the product should be simple, easy to use, flexible/design-agnostic, and integrated with existing systems; that user testing is essential; and that the industry should be consulted.

Government response

The digital development process, initiated in early 2023, is now in the Private Beta stage, following the completion of the Discovery and Alpha phases. Adhering to Government Digital Service standards prioritises the secure handling of sensitive data. The system is designed with user-centric features based on ongoing feedback and testing. It will transition to Public Beta for broader access. The service will not include an on-system credit-trading facility; such transactions will occur off-system between manufacturers. Users can submit trade notifications for credit balance updates. Further information on data visibility for credit trading is detailed in the Data Visibility section.

**QUESTION 16**: Do you agree with the proposal to limit credit ownership to scheme participants?

1. **SNIPEF submission**: SNIPEF agreed with the proposal to limit credit ownership to scheme participants.
2. **Consultation summary**: The majority (43 out of 48 respondents) supported the proposal, highlighting concerns about market distortion, credit shortages, and administrative complexity if third parties were allowed to own credits. While supportive of limiting credit ownership, some boiler manufacturers expressed concerns about the overall credit-trading mechanism.
3. **Government response** (see Q17)

**Agreement with SNIPEF’s submission**

**QUESTION 17:** Do you agree with the proposal to limit credit-purchasing to obligated parties?

1. **SNIPEF submission**: SNIPEF agreed with the proposal to limit credit-purchasing to obligated parties. They expressed concern that allowing non-obligated manufacturers to sell credits could lead to abuse, as it might incentivise them to profit from selling credits, which is not the intended purpose of the policy.
2. **Consultation summary**: Most respondents (39 out of 42) agreed with the proposal. Like SNIPEF, they noted the potential for market distortions if parties other than obligated ones were allowed to purchase credits.
3. **Government response (Q16 & Q17)**: The government views credit trading as a crucial part of the scheme and intends to limit credit purchasing to obligated parties only. This decision aligns with the majority and aims to prevent market manipulation and other unintended consequences. The government has not introduced a cap on credit purchases but will consider this in the future if necessary.

**Agreement with SNIPEF’s submission**

**QUESTION 18:** Do you have views on what information or data related to an account-holder (eg. their current credit holding, their contact details) should be visible on the digital system to other account-holders?

SNIPEF did not submit a response to this question.

Consultation response

Respondents were divided concerning the data that should be visible to other users on the digital system. Most respondents (18), including most boiler manufacturers, expressed concern about data visibility due to commercial sensitivity and risks of exploitative behaviours or credit price manipulations.

Government response

Recognising issues including commercial sensitivity, the government does not intend to make boiler sales or credit holding data visible to other users on the digital system. Q15 sets out how credit trading will occur in the context of the digital system.

**QUESTION 19:** Do you agree with the proposals here on credit carry-over for obligated parties?

SNIPEF did not submit a response to this question.

Consultation response

Of the 41 respondents, 33 supported the proposal to carry over 25% of credits yearly, citing the need for flexibility. Concerns were raised about credit hoarding and supply issues. Some supporters, including boiler manufacturers and trade groups, doubted its practical use due to scarce surplus credits. Key stakeholders generally favoured the mechanism with appropriate caps.

Government response (see Q20)

**QUESTION 20:** Do you agree with the proposals here on credit carry-over for non-obligated heat pump manufacturers?

SNIPEF did not submit a response to this question.

Consultation response

Those favouring the proposal (22) appreciated the flexibility this proposal offers – as set out in responses to Q19. A few respondents also highlighted that this will be a crucial form of income for heat pump manufacturers. An energy supplier agreed with the proposal but questioned the benefits of allowing non-obligated parties to carry over credits.

Most boiler manufacturers, oil and gas suppliers and half of trade associations (16) were strongly against the proposal. There was some concern that the proposal may lead to non-obligated heat pump manufacturers withholding credit supplies. A few respondents suggested that non-obligated parties should be mandated to sell their credits to prevent this. One respondent suggested gradually tapering off the carry-over amount after the scheme's first year.

Government response to Q19 and Q20

After considering feedback on credit trading in the scheme, the government has revised the credit carry-forward limits. Previously, up to 25% of credits could be carried over; now, this is limited to 10% for both obligated and non-obligated heat pump manufacturers.

This change aims to enhance credit availability in the trading market and prevent hoarding. Selling credits remains optional for manufacturers, avoiding increased administrative costs and the need for the scheme administrator's active enforcement role in credit trading.

These adjustments are considered a balanced approach, but the government remains open to further amendments in response to changing market conditions in future scheme years.

**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?

SNIPEF did not submit a response to this question.

Consultation response

Out of the respondents, 47 supported allowing manufacturers to carry forward up to 25% of their target, recognising the need for flexibility amid fluctuating heat pump sales and consumer demand. Some suggested gradually reducing this limit or capping carry-forward frequency. Of the five dissenters, two feared it might compromise the scheme's environmental credibility and delay market growth, while one advocated for a higher carry-forward allowance.

Government response: (See Q22)

**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?

SNIPEF did not submit a response to this question.

Consultation response

Of 53 responses to applying a 1.2 multiplier as a disincentive for target carry-forward, 27 disagreed, viewing it as overly punitive and complex. They feared it could reduce credit supply and impede investment. The 26 supporters believed it would motivate companies to meet targets, with some suggesting an annually increasing multiplier for greater disincentive.

Government response to questions 21 and 22

The government plans to implement Option 1 target levels, deemed reasonable for the market's initial two years while allowing for later acceleration. Flexibility measures like increased target carry-forward (now 35% for the first two years) and credit carry-over aid target achievement.

Responding to feedback, new-build fossil fuel boiler sales will be excluded from target calculations, slightly lowering obligations. The government recognises the need for early flexibility and will review limitations on carry-forward options over time.

The proposed 'multiplier' on target carry-forward won't be implemented initially due to concerns about being overly punitive, but may be considered for later years. Targets for the third year will be confirmed six months in advance.

**QUESTION 23:** Do you agree with the proposed approach to payments-in-lieu of missed targets as set out above?

1. **SNIPEF submission:** SNIPEF disagreed with the proposed approach to payments-in-lieu of missed targets. They argued that manufacturers do not control consumer demand for heating systems and that charging manufacturers for missed targets would not address consumer demands. SNIPEF suggested that any such payments should be reinvested into the supply chain.
2. **Consultation summary**: A majority (27 out of 47) agreed with the need for a payment-in-lieu to incentivise compliance, with varied opinions on the proposed level of £5,000 per missing credit. Fifteen respondents were against the proposal, concerned about the impact on funds for heat pump manufacturing and job losses.
3. **Government Response**: The government has decided to require payments-in-lieu for missed targets, which aligns with most responses. They reduced the proposed payment from £5,000 to £3,000 per missing credit to mitigate financial impacts on manufacturers. The government stated that the collected money would go to the Consolidated Fund and not be reinvested explicitly in heat decarbonisation policies. The Environment Agency will manage and enforce the scheme, with penalties for various types of non-compliance.

**Disagreement with SNIPEF’s submission**

**QUESTION 24:** Do you agree with the approach to compliance and enforcement set out above?

SNIPEF did not submit a response to this question.

Consultation response

Among 42 responses, 28 stakeholders agreed with the proposed compliance and enforcement approach, while 6 (primarily energy suppliers and smaller boiler manufacturers) opposed it. Eight respondents were neutral. The opposition often disagreed fundamentally with the broader scheme rather than specific compliance issues.

Concerns were raised about the government's capacity to enforce regulations on non-UK manufacturers. Some respondents acknowledged the Environment Agency's suitability as an administrator, citing their experience, but emphasised the necessity for the scheme administrator to be adequately resourced.

Government response

In response to majority feedback, the government plans to enforce compliance through a payment-in-lieu of £3,000 per missing heat pump credit, reduced from the initially proposed £5,000, for obligated parties failing to meet their credit obligations.

This balance aims to make expanding the heat pump market more cost-effective than paying penalties. Collected penalties will go to the Consolidated Fund, with separate funding for other heat decarbonisation policies.

The Environment Agency will manage and enforce the scheme, imposing civil and criminal penalties for various non-compliances, with penalty levels detailed in their future Enforcement and Sanctions Policy. Obligated parties with overseas operations will face additional enforcement considerations.

**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?

1. **SNIPEF submission**: SNIPEF expressed concerns that the policy proposals might lead to low-quality installations, disproportionately impacting certain consumers. They highlighted that manufacturers typically do not have direct contact with consumers, and the expertise of installers is crucial. SNIPEF emphasised the varied needs of consumers and cautioned against one-size-fits-all solutions, mentioning potential impacts on costs and the relationship between installers and merchants.
2. **Consultation summary**: Most respondents did not identify specific impacts on groups with protected characteristics but raised concerns about low-income and vulnerable consumers, particularly regarding the high upfront costs of heat pumps. Concerns were also raised about the potential for disparities between wealthier consumers and those unable to afford such costs, as well as risks of inappropriate installations and increased costs for those remaining on the gas grid.
3. **Government response**: The government acknowledged the risks highlighted in the responses but stated that the policy is unlikely to have disproportionate direct negative impacts on groups with protected characteristics. They emphasised the role of building regulations and the requirement for certified installations as measures to protect consumers against poor-quality or inappropriate installations. The government also mentioned the need for continued assessment of policy support, including financial support for upfront costs and balancing objectives like energy affordability and reducing fuel poverty.

**Partial agreement with SNIPEF submission**