



Department for
Energy Security
& Net Zero

Clean Heat Market Mechanism Consultation

Summary of responses received and
government response

November 2023



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Introduction

Summary of consultation proposals

This document sets out the government response to the second consultation on key proposals for the Clean Heat Market Mechanism (CHMM), which was published in March 2023¹. The consultation was launched on 30 March 2023 and ran until 8 June 2023. This document does not repeat the content of that document in full, so this government response and the consultation document itself should be read together.

In the first consultation, published in late 2021, we sought views on the overall shape, usefulness and focus of a potential market-based mechanism for low-carbon heat. In the consultation this year, we set out a range of key proposals relating to specific design parameters for the CHMM, including in respect of scheme participants, scope, targets, payments-in-lieu, credit-trading, data and scheme administration. The feedback from stakeholders during and after the consultation has been highly valuable in our understanding of how to optimise the scheme design ahead of bringing forward scheme regulations in the near future.

While the consultation period pre-dated the Prime Minister's September 2023 speech setting out the government's pragmatic and proportionate approach to making progress towards net zero, the CHMM is a core part of that approach: providing industry with a clear framework against which to invest in innovations to make it cheaper, easier and more attractive for homeowners to install a heat pump, supported by the Boiler Upgrade Scheme grant, while keeping the choice to install a heat pump fully voluntary.

Summary of stakeholder responses to the consultation proposals

The consultation was published on GOV.UK and we received a total of 73 individual responses from a wide range of organisations, representative and trade bodies, industry professionals, and individual members of the public. While not every individual point raised has been captured in this summary and response publication, all the views that were shared with us have been taken into consideration.

¹ Department for Energy Security and Net Zero (2023), 'Clean Heat Market Mechanism', <https://www.gov.uk/government/consultations/clean-heat-market-mechanism>

A breakdown of the responses we received according to different stakeholder categories is provided in Table 1:

Table 1 – Consultation responses by respondent type

<i>Respondent type</i>	<i>Number of responses</i>
Fossil fuel heating appliance manufacturer (or related trade associations)	14
Energy supplier	7
Specialist heat pump manufacturer (or related trade associations)	9
Other (organisations / private individuals)	43

This Response document sets out a summary of the responses we received to the 25 consultation questions and outlines the government’s position on each issue. Where there are multiple questions related to one issue, a single government response is provided in relation to all the relevant questions on that theme. Some questions received more responses than others.

Most respondents to the consultation highlighted that a wider framework of enabling policy support is also needed to support the development of the UK heat pump market. This included those respondents broadly in support of the CHMM’s introduction and the core design proposals for the scheme, and those who disagreed with specific aspects of the proposed scheme or with the scheme’s introduction in general. Common themes raised in this regard were the need for rebalancing the relative prices of gas and electricity in the UK, the need for financial support with the upfront costs of heat decarbonisation, and the need to support growth in key skills in the supply chain, including qualified heat pump installers.

The government recognises the CHMM must be situated within a broader set of actions promoting energy security and supporting the decarbonisation of heat in a proportionate way that does not place undue costs on individual households. As set out in the consultation document, we are taking action on a range of fronts to support these ends and will continue to consider where further policy action may be justified. The CHMM is just one important part of that wider enabling policy framework to accelerate the heat pump market’s expansion. For instance, the Prime Minister also recently announced in September 2023 an uplift in the grant level for the Boiler Upgrade Scheme to £7,500, making it one of the most generous schemes of its kind in Europe.

We will also review the channels of industry-government engagement on UK heat pump deployment and consider whether new or revised forums could strengthen collaboration and dialogue on the growth of the sector and the associated policy landscape, enhance joint action, and help to maximise economic opportunities for the UK.

For the most part, a small majority of respondents agreed with the consultation proposals. Among those who disagreed, including those businesses likely to be obligated parties under the scheme, a common theme in responses to individual questions was a concern that more time was needed for the market to adjust, with either lower heat pump deployment targeted, greater flexibility allowed over time, lower potential cost implications for parties missing targets, and/or a delay in the scheme's launch altogether.

While many respondents acknowledged the value of robust data on heat pump installations and the consumer assurances that certification schemes can provide, another theme common to several responses was a concern about the proportion of heat pump installations currently notified via the Microgeneration Certification Scheme (MCS). Several respondents felt that credits for heat pumps should be awarded based on manufacturers' reports of appliance sales, similar to how boiler sales data will be collected in order to calculate parties' credit targets within the scheme. Relatedly, a sizable minority of respondents expressed the view that there was an inconsistency in the proposed relative treatment under the scheme of boilers and heat pumps bound for the new-build property sector and that either both should be included in the core scheme calculations or neither.

There were views on both sides on the question of the minimum sales threshold exemptions, with some respondents feeling that this threshold should be higher and others that it should be removed altogether. However, a majority of respondents agreed with the proposed thresholds.

Finally, there were a number of useful reflections provided among the responses as to how the scheme, or the overall transition to low-carbon heating more broadly, might affect different groups in society, and how the government might need to take steps to ensure that those effects are manageable. These included the view that lower-income households might not be able to adopt low-carbon technologies like heat pumps as quickly as others, and potentially might face higher fossil fuel heating bills in the interim, depending on how relative fuel pricing evolves, and/or that lower-quality installations or products might be promoted to this group, potentially resulting in lower comfort levels or higher running costs.

Summary of the government response to stakeholder feedback

We are grateful for the valuable responses to the consultation from across a range of stakeholder groups. We would like to thank everyone who took the time to respond.

This section summarises the scheme design for the CHMM, which the government will proceed to launch in 2024, upon the passage of scheme regulations by Parliament.

While we acknowledge that some respondents have suggested that the scheme's launch be delayed by a number of years, we are clear that introducing the CHMM as planned in 2024 is important for providing market actors with the necessary certainty and confidence to invest in scaling up the UK heat pump market at the pace needed to improve national energy security, contribute to our decarbonisation objectives and keep pace with developments in other countries.

Targets for generating or acquiring heat pump credits for the first two years of the scheme will be as proposed in Option 1 in the consultation – namely 4% of a manufacturer’s relevant fossil fuel boiler sales² for Scheme Year 1 (April 2024 to March 2025) and 6% of relevant sales for Scheme Year 2 – rather than the higher levels in the alternative option presented. We take the view that this approach provides more opportunity for the market to adjust to the scheme’s introduction, with the somewhat higher growth rates required in later scheme years supported by developments in wider policy and market conditions.

As proposed in the consultation, a tradable heat pump credit will be earned by a heat pump manufacturer upon the installation of a qualifying domestic-scale hydronic heat pump and notification via an appropriate certification scheme such as the Microgeneration Certification Scheme (MCS). The installation of qualifying hybrid heat pumps incorporating a fossil fuel boiler alongside a hydronic heat pump will earn 0.5 scheme credits.

After considering responses to the consultation, we are also making changes to some aspects of our consultation proposals to increase the flexibility available to obligated parties in meeting the requirements of the scheme and to allow for a more substantial period of initial adjustment for firms.

We will increase the allowance for parties to carry forward a share of an unmet target to make up in the following scheme year from the proposed 25% to 35%. We will also not apply any ‘multiplier’ to any target amount carried forward for at least the first two years of the scheme. This will allow obligated parties greater flexibility in how they build up heat pump installations and credit balances over time.

We will also reduce the number of surplus heat pump credits that can be carried forward from one scheme year to the next from 25% to 10%.³ This is intended to further boost the supply of credits available for acquisition in-year, which is likely to reduce costs and increase the options available to obligated parties.

Further, we will exclude verified boiler sales to new-build properties from the target calculation, at least during the period before the introduction of the Future Homes Standard which is expected to render this exclusion largely redundant. This change to the consultation proposal acknowledges the strength of feeling among likely obligated parties that there was an inconsistency in the inclusion of boiler sales to new-build properties in targets calculation versus the exclusion of heat pump installations in these properties from generating scheme credits.

² Relevant boiler sales here means domestic-scale gas boiler sales for the UK retrofit market (i.e. not verifiably for export or for UK new-build properties) over 20,000 gas boilers per manufacturer and oil boiler sales over 1,000 oil boilers per manufacturer. Manufacturers with boiler sales below these thresholds and those that are small companies in line with the criteria in the Companies Act 2006 will not face targets under the scheme. Boiler sales will be reported on a calendar year basis; e.g. boiler sales in calendar year 2024 will be used to determine targets for Scheme Year 1 (April 2024 to March 2025).

³ 10% of those credits held on the ‘credit surrender day’ for a given scheme year for obligated parties, and 10% of those earned during a scheme year for non-obligated heat pump manufacturers.

The government has also decided to reduce the payment-in-lieu required for missing credits (beyond the allowable target carry-forward) to £3,000 per missing credit at the end of the credit-trading period (i.e., on the 'credit surrender day'). We believe that for these initial years of the scheme and these credit target levels, this level of payment ought to still provide sufficient disincentive to provide confidence across the market that investment will be made in expanding heat pump deployment and meeting targets, rather than making payments-in-lieu. We will review the development of the market over time and assess whether there is a case for this payment level to be adjusted for later years of the scheme.

While we are confident that targets can be met across the market and that such payments should not be required in practice, reducing the payment-in-lieu level, as we have, will reduce the potential liability faced by obligated parties, which was a concern for some respondents. We will also look to strengthen industry confidence in the transition to low-carbon heating and explore how we can further ensure that the CHMM enables, and that potential liabilities under the scheme do not act as a barrier to, investment in the sector.

We will also not proceed at this time with requesting that heat pump manufacturers produce supply chain plans, in order to keep the reporting and administrative burden to a minimum in the early years of the scheme. The government would nonetheless encourage all market actors to consider how they can best develop the wider UK supply chain. We may introduce a supply chain plans requirement in future scheme years.

To simplify timelines and avoid overlaps between credit-trading periods, we have decided to make the credit transfer notifications period run for twelve months from 1st October of a scheme year to 30th September of the following year. That is, the credit surrender day for one scheme year (e.g. 1st October 2025 for Scheme Year 1) is also the first day of the credit-trading window for the next ongoing scheme year (see illustrative full cycle in the table below).

The Environment Agency (EA) will be the scheme's administrator and regulatory agency.

Scheme Timelines

Using the first scheme year as an example, the table below illustrates how the full compliance cycle for an obligation period will operate, incorporating the adjustments outlined above from the version in the consultation document:

1 Jan to 31 Dec 2024	Relevant Boiler Sales occur for Obligation Period 1
By 31 Mar 2025	Obligated Parties must submit Final 2024 Boiler Sales Report
1 Apr 2024 to 31 Mar 2025	Qualifying heat pump installations for Obligation Period 1 occur, generating scheme credits
1 October 2024 to 30 Sept 2025	Transfer Notifications Window open (for effecting the transfer of credits between parties relating to heat pump installations in Obligation Period 1)
1 Oct 2025	Credit Surrender Day for Obligation Period 1
1 Oct to 30 Nov 2025	Period for making payments-in-lieu of target shortfall in Obligation Period 1

The following sections provide more information on the views provided by respondents to questions in the consultation as well as the government's response and plans under the thematic headings below.

Qualifying heat pump installations and relevant boiler sales

Question 1: Do you agree with the proposals here for what constitutes a qualifying heat pump installation?

There were 63 responses to this question.

Thirty-four respondents agreed with the government's proposals for qualifying heat pump installations. Those disagreeing with the proposals (28) generally disagreed with one or a few specific elements of the proposal.

Scope

As with during the first consultation, the majority of respondents agreed with most components of the proposed definition of 'qualifying heat pump', including the 45kWth capacity limit, the exclusion of air-to-air heat pumps and the inclusion of hybrid heat pumps.

Views on ground source and hybrid heat pump weightings were also given in response to this question. These views are summarised in the Weightings section below.

There were a few suggestions to expand the technology scope of 'qualifying installations', such as to include hot water heat pumps, thermal storage, hydrogen boilers, biomass and renewable liquid boilers, solar energy and air-to-air heat pumps which can provide hot water as well as heating.

A few specialist heat pump manufacturers and representatives agreed with the proposed capacity limits but thought that the combined limit should be higher than 70kWth for distributed heat pump networks consisting of multiple individual heat pumps.

On relevant boiler sales, some boiler manufacturers either suggested that hydrogen-ready boilers should be excluded from boiler sales, or that hydrogen-ready boiler sales should receive heat pump credits.

Heat pump and boiler data collection

Amongst those who disagreed with the proposal, there was a common theme regarding the different methods proposed for calculating the obligation and for generating credits under the scheme. Eleven respondents took the view that both these should be measured in the same way – i.e., both based on appliance sales or both based on certified installations. The majority of these respondents were in favour of generating heat pump credits based on 'factory gate' sales, as with boilers, and expressed concerns about the completeness of MCS installation data.

Treatment of new-build heat pumps and fossil fuel boilers

Of the 63 respondents to this question, 24, including the majority of specialist heat pump manufacturers, agreed with the proposals to exclude new-build heat pumps from the scope of 'qualifying heat pump'. These respondents were generally of the view that the forthcoming Future Home Standard will sufficiently encourage market growth for the new-build market.

Twenty respondents disagreed with the proposals to exclude heat pump installations in new-build properties from generating scheme credits, including the majority of fossil fuel appliance manufacturers. Many suggested that in their view it was contradictory to include new-build boilers in the boiler sales figures used to calculate obligation levels, but not to allow new-build heat pumps to generate a credit. Some respondents were of the view that manufacturers cannot control when a heat pump ends up in a new-build property, adding complexity to heat pump deployment forecasting and tracking. Contrastingly, a few respondents said that new-build heat pump data should for the most part be traceable due to the nature of financial processes and contracts established between manufacturers and new-build developers.

Other reasons for disagreeing with the proposal on new-build heat pumps included fears that this could distort the new-build market or generate supply chain issues.

Wider rewards and incentives

There were a number of calls for activities other than qualifying heat pump installations to be awarded credits under the scheme, primarily to incentivise and support UK heat pump market growth.

Ten respondents suggested that installer training should be awarded additional credits, or another incentive, to recognise the importance of training in supporting the meeting of the government's heat pump targets. Some were concerned that combined financial pressures from both hydrogen-ready boiler requirements and the scheme might lead to firms reducing spending on, e.g., training or innovation.

A few manufacturers also suggested that additional credits could be awarded under the scheme for UK-manufactured heat pumps, in order to encourage UK manufacturing growth.

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?

There were 51 responses to this question. Most respondents to this question (29) did not identify or highlight any positive or negative impacts from the proposed approach on the market for heat pumps in new-build properties or the associated supply chain of the proposed approach; they took the view that there would be relatively little impact on the new-build heat pump market stemming from focussing this scheme on the retrofit market.

Sixteen respondents believed that there could be negative impacts, for example, because the policy might then cause manufacturers and suppliers to focus on the retrofit heat pump market, leading to either lower heat pump deployment in new-build properties, or else higher prices and/or lower-quality heat pumps in this sector. Some noted this could result in potentially higher reliance on imported rather than UK-made heat pumps for new-build properties.

A few respondents also felt that heat pump installer capacity could be strained overall and that the proposed approach could lead to lower availability of heat pump installers for the new-build sector. A subset of these were of the view that this supply chain capacity gap could be relatively quickly closed, however, through the re-training of installers.

A group of respondents (6) from a range of stakeholder groups were of the view that, despite heat pump sales to new-build properties not qualifying toward credits under the scheme, there would be positive spillover effects for that market and supply chain from the growth and investment in the overall heat pump market driven by the scheme. These respondents suggested that such spillover benefits might include installer skills, the availability of training, product innovations, and lower costs through economies of scale.

Government response – Questions 1 and 2

After careful consideration of the responses, the government intends to maintain consultation proposals regarding what constitutes a qualifying heat pump and the proposals to use installation data to identify qualifying heat pumps and factory gate sales for relevant boilers.

With respect to appliance sales in the new-build sector, the government has considered the views put forward on this issue. We continue to believe that there is a strong rationale for excluding new-build heat pump installations from generating credits under the scheme. To include these would make setting fair scheme targets for the coming years very challenging, given the impact of the Future Homes Standard in England and similar building regulations in other parts of the United Kingdom, and risk leaving scheme participants exposed to a degree of risk associated with year-to-year fluctuations in the number of new housing development completions.

The government accepts, however, that there is a perceived inconsistency in including the sales of fossil fuel boilers to new-build properties in the calculation of targets. We will therefore exclude boilers verifiably sold for installation in new-build properties from those that are included in the calculation of manufacturers targets in a given scheme year. This will operate in the same way as the exclusion of boilers verifiably bound for export to markets outside the UK; that is, only those sales independently verified as being bound for export markets or to new-build properties can be excluded from the calculation of the target.

Given the relatively small share of the overall UK boiler market that new-build sales represent, and the influence of the forthcoming Future Homes Standard and equivalent building regulations, we anticipate that the effect of this adjustment on the scheme's overall impacts is likely to be relatively limited.

In terms of wider rewards and incentives, the government is keen to ensure that other aspects of the UK heat pump market, such as the number of heat pump installers, grow to support deployment. However, given there are a range of other government schemes designed to support the wider heat pump industry – such as the Heat Training Grant⁴ – and the added administrative complexity that expanding the incentives within the scheme would have, the government intends to continue with a sole incentive focus of awarding credits for qualifying heat pump (and hybrid heat pump) installations.

Finally, since there were a few suggestions to increase the capacity higher than 70kWth for individual heat pumps in shared ground loop systems, we would like to clarify the policy position on this. Heat pumps and heat pump capacities will be measured at the level of the individual dwelling (or non-domestic property); therefore, if there are multiple ground source heat pumps in multiple dwellings, sharing a ground loop, each heat pump will count as a qualifying heat pump installation under the scheme so long as the individual units do not exceed 45kWth capacity. By contrast, centralised heat pumps serving communal or district heat networks, with only 'heat interface units' at the individual premise-level, are out of scope of the scheme.

⁴ <https://www.gov.uk/government/publications/heat-training-grant-for-heat-pumps>

Obligated parties

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

Summary of responses

There were 54 responses to this question.

The majority of respondents (35) agreed with the proposal to place the scheme obligation on manufacturers of gas and oil boilers. A general theme amongst those who agreed was that this approach will provide certainty and create a market incentive for manufacturers to invest in heat pump market growth. Some also commented that this should have a trickle-down effect on other market actors, aiding the wider transition to low-carbon heating options.

Other supportive respondents suggested the proposals would create a level playing field between market actors or were more deliverable than an obligation on wholesalers and merchants.

Of those respondents who disagreed with the proposals, several (11) disagreed with the obligation being placed on manufacturers at all, instead suggesting that any company selling products to consumers (including wholesalers) should be obligated. There was also a common concern around the enforceability of the obligation against non-UK actors, and a perceived risk that UK manufacturers could therefore be adversely disadvantaged compared with foreign manufacturers.

Some respondents also noted that there were competing government requests of manufacturers to develop hydrogen-ready boilers and smart controls, yet these will count towards fossil fuel boiler sales figures under the scheme. A few expressed an opinion that this might hinder innovation and heat pump business growth.

A few respondents gave views in this question on minimum threshold proposals – see Question 5 for summary of views.

A few respondents said that the definition of obligated party should be kept under review and modified in response to any unintended outcomes, such as gaming.

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?

Summary of responses

There were 55 responses to this question.

The majority of respondents (50) agreed with the proposal. Respondents generally said that this approach will simplify scheme administration, for both the Scheme Administrator and

scheme participants (both obligated and non-obligated). Some respondents also commented that treatment of groups as a single obligated party was important to reduce risks of intentional company and group restructuring in order to game the obligation and reduce target levels.

A few boiler manufacturers and trade representative groups used this question to express disagreement with broader design principles of the scheme, arguing that parties selling products to consumers (i.e. including wholesalers and merchants) should be the obligated parties under the policy, instead of the obligation being placed on manufacturers.

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

Summary of responses

There were 54 responses to this question.

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 for 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 threshold, despite having 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”.

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?

Summary of responses

There were 58 responses to this question.

A strong majority of 46 respondents agreed with the proposal to apply the obligation equally across both UK and non-UK manufacturers. The most common reason for agreement was to ensure the scheme is applied fairly across manufacturers regardless of their location, to avoid a disproportionate impact on UK businesses. Several respondents also noted the proposed approach would reduce loopholes and gaming risks, whereby manufacturers increase boiler imports to reduce the level of their obligation.

Generally, those expressing disagreement were not against the specific proposals that were the subject of the question; instead, they tended to disagree with placing the obligation on boiler manufacturers at all.

Several respondents, particularly manufacturers, sought reassurance from the government that the policy will be enforceable against foreign companies, and therefore will not disproportionately impact UK companies.

Government response: Questions 3 - 6

Question 3

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

At this time, we do 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, we will keep market conditions under observation and may seek to expand the scope of obligated parties during future scheme years if required to further protect the interests of UK companies and consumers.

Question 4

The government agrees with the reasoning set out by a large majority of respondents in relation to treatment of related parties in a corporate group. As such, the scheme will treat related parties and brands as a single obligated party, with joint and several liability across the group in respect of scheme compliance.

Corporate group obligated parties will, however, be required to appoint a single Responsible Undertaking within the group which will be primarily responsible for ensuring the corporate group as a whole complies with the scheme.

Question 5

The government intends to implement the proposed minimum threshold of 20,000 gas boilers and 1,000 for oil boilers, for the launch of the scheme in 2024.

While some respondents felt that even lower-volume manufacturers should be obligated to participate, we will retain the proposed threshold to ensure that market leaders take the first steps to investing in heat pump technology. However, we also encourage smaller businesses and those with sales volumes below the threshold to consider taking steps to lower their contribution to greenhouse gas emissions from heating homes and adapt their businesses for the transition to net zero emissions.

We recognise that some respondents were also concerned about the risk of gaming in response to the threshold, and that businesses close to the threshold or overseas exporters might be able to bypass the obligation fraudulently. To further increase oversight and reduce this risk, the government will also include a requirement for “near-threshold” manufacturers (or corporate groups) selling between 15,000 and 20,000 gas boilers, or between 750 and 1,000 oil boilers to the UK market per year, to register for the scheme and confirm that they are below the main obligation threshold (i.e. fewer than 20,000 gas / 1,000 oil boiler sales per year).

Question 6

The government intends to apply the scheme to manufacturers regardless of their location. This proposal received strong support from respondents and will ensure that UK businesses are not disadvantaged in comparison to foreign competitors.

We recognise there has been some concern regarding the enforceability of the obligation overseas.

Whilst recovering financial penalties from non-UK companies is a more complex process than for UK companies, such actions are already envisaged and taken under the enforcement rules of other schemes – for example in relation to the aviation sector under the UK Emissions Trading Scheme (ETS).

The government also intends to make it mandatory for a UK-based entity (if one exists) with the participating corporate group to be appointed as Responsible Undertaking – i.e. as legal representative for the group in the first instance – to limit cases of overseas enforcement and reduce administrative complexity. If the obligated parties were based on today's market, we would not expect any obligated parties to be without a UK corporate presence.

Targets and Incentives

Target levels

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

Summary of responses

There were 60 responses to this question.

Over half of respondents (36) disagreed with the proposal of introducing Option 1 target levels in the first two years of the scheme.

Of those who disagreed, 22 did so on the basis of a perception that the targets are overly ambitious and unachievable under the current UK market conditions and policy framework. Amongst these responses, concerns were also raised around the potential for available budget under the Boiler Upgrade Scheme to act as an effective ‘ceiling’ on the heat pump market, a suggested inability of appliance manufacturers to influence sales patterns, as well as the relatively low numbers of qualified heat pump installers potentially inhibiting an expansion of deployment.

The remaining 14 respondents who disagreed with this question did so on the basis that the targets are not ambitious enough and that those in Option 2 would be more in line with the required trajectory to meet the government’s 2028 ambition of 600,000 heat pump installations per year.

Amongst the 24 respondents who agreed with the proposal, a common view was that the targets under Option 1 are most appropriate for the necessary scaling-up of the sector. Respondents also noted that this approach would give the market more time to adjust to the scheme in the first two years before growing more significantly in future years. Some respondents caveated their agreement, noting other market enablers and demand-side interventions would also be important for boosting sales.

Target carry-forward

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?

Summary of responses

There were 52 responses to this question.

A significant majority of respondents (47) agreed 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. Respondents often noted the importance of flexibility while allowing for the growth of heat pumps sales and peaks and troughs in consumer demand.

There were caveats applied to some responses, with suggestions that the carry-forward limit could be reduced gradually over time, or that a limit could be placed on how many times an obligated party can carry-forward its target.

Of the 5 respondents who disagreed with the proposal, two did so on the basis that the provision would undermine the environmental credibility of the scheme and result in a delay to scaling up the heat pump market. One respondent thought that there should be a greater amount of carry-forward permitted.

Carry-forward disincentive

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?

Summary of responses

There were 53 responses to this question.

There was a fairly even split between respondents on the proposal to apply a disincentive to the target carry-forward (by multiplying the target amount carried forward by a factor of 1.2), with a slight majority (27) disagreeing.

Those who disagreed commonly argued the multiplier was unfairly punitive to manufacturers for not reaching their target and would lead to adverse outcomes. Others argued it added unnecessary complexity, that it would negatively impact on revenues which could otherwise fund investment, and that it would reduce the supply of available credits.

A common theme amongst the 26 respondents in agreement was that it would encourage companies to meet their targets. Some respondents also suggested a multiplier that increased year-on-year as a means of enhancing the disincentivising aspect.

Government response: Questions 8, 21 and 22

Having carefully considered the range of views received, we are planning to proceed with the Option 1 target levels. The government believes that this is a reasonable and realistic level to set the market for the first two years while maintaining the ability to accelerate towards the higher deployment levels required in the later years of the scheme. The availability of the flexibility measures – the target carry-forward (the scope of which has now been increased) and the credit carry-over – are specifically designed to support the achievability of these targets.

As set out in our response to Q2, the government has listened to the views of respondents and decided to remove new-build fossil fuel boiler sales from the calculation of an obligated party's target in a given scheme year. This should have the effect of slightly lowering, in nominal terms, the target levels for obligated parties. We are of the view that this achieves the correct balance between setting a stretching target that builds towards the 600,000 aim and achievability.

However, we recognise that some obligated parties may need additional flexibility in the early years of the scheme as they scale up. To that end, the government intends to continue with target carry-forward proposal as planned, noting the significant support this received, but has also decided to raise the allowance for this for the first two years of the scheme from 25% of target to 35%.

The government recognises that as the scheme evolves over time there may be circumstances where it is appropriate to place limitations on this, such as those identified by some respondents (e.g., the carry-forward limit being reduced gradually over time, or a limit placed on the number of times an obligated party can carry forward its target). We will keep this under review as we assess the need for adjustments to the scheme's parameters in later years.

In addition, after carefully weighing the views of respondents, the government has decided not to proceed with the proposal for a 'multiplier' on the target carry-forward for the first two years of the scheme. We acknowledge the views of some respondents that this could be seen as being too punitive in the early stages and that the main priority should be supporting the bedding-in of the scheme and helping the market to adapt effectively. However, it is likely that a multiplier of this kind may need to be introduced for later years of the scheme and/or the target carry-forward allowance reduced.

In response to several comments regarding the importance of confirming targets for the third year of the scheme in advance, the government will confirm targets at least six months in advance of the start of that year.

Weightings

Hybrids of heat pumps and fossil fuel boilers

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 scheme?

There were 61 responses to this question. Twenty respondents agreed that hybrids should receive 0.5 credits, suggesting that this appropriately reflected the reliance of hybrids on fossil fuels.

Eighteen respondents recommended that the weighting for hybrid credits should be higher. These respondents (primarily manufacturers) gave a variety of reasons, the most prominent being that a manufacturer is penalised if they sell a heat pump which could be installed as a standalone heat pump and the installer instead installs it as a hybrid. They also advised that hybrids can make greater use of the heat pump element than indicated by the Electrification of Heat Demonstration Project, as this used controls set to optimise for running costs. Some also observed that other countries such as Germany and the Netherlands assign a higher weighting to hybrids in their respective policies and noted a potential for fraud where a boiler is added to a system after the initial installation of a heat pump.

Twelve respondents advised the credit rating for hybrids should be reviewed at a later date or kept under review, to determine if the weighting should be lowered, particularly if more hybrids are installed than expected.

Seven respondents recommended hybrid credits should be lower or excluded from the scheme entirely to reflect that they require medium term use of fossil fuels. Eight respondents recommended different hybrid types should be weighted differently; generally advising tiers based on energy efficiency.

Some respondents also suggested that there should be conditions on hybrids being included in the scheme such as a high minimum output from the heat pump, or that measures should be in place to lower carbon emissions from hybrids.

Standalone heat pumps

In terms of the value of standalone heat pumps, a few respondents thought that, within this category, ground source heat pumps should be distinguished from other standalone heat pumps with, for instance, a 1.2 credit value. Respondents argued the scheme should uphold the distinction between air- and ground-source heat pumps made in other policies, such as the Boiler Upgrade Scheme at its launch, and noted additional efficiency and longevity advantages associated with ground source heat pumps compared with air source heat pumps.

Government response – Weightings and Question 9

After carefully considering responses, the government has decided to retain its consultation position and confirm that qualifying fossil fuel hybrids will receive 0.5 credits. The government maintains the view, as expressed in the consultation, that this approach appropriately balances the lower energy efficiency and carbon reduction potential of a hybrid in comparison to a standalone heat pump with the need to build the market for heat pumps in the longer term.

The government will not require additional conditions for a hybrid to be eligible for a half-credit beyond the eligibility criteria set out in the consultation, including that it be certified by an appropriate certification scheme. The government will set out further thinking on hybrids policy in the government response to the Improving Boiler Standards and Efficiency consultation.

At the outset, the scheme will not award different weightings to different types of hybrids. The government will keep all weightings and incentives within the scheme under review and adjust them if appropriate for future scheme years.

As stated in the consultation document, installations that combine a heat pump and other low-carbon heating appliances – but do not involve a fossil fuel heating element – will receive a full credit, where they are certified by a scheme such as MCS.

At this stage, we are not introducing differentiation of credit weighting between different types of standalone heat pump installation – for instance, between ground-source and air-source heat pumps, or between more efficient and less efficient air-source heat pumps. The government takes the view that maximising the scheme's simplicity is important, at least for its initial phase. However, these design parameters will be reviewed, with the potential for adjustment in future scheme years.

Data and Digital requirements

Fossil fuel boiler sales data

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

Summary of responses

There were 53 responses to this question. A majority of respondents (33) were in favour of the proposal to use boiler sales data to calculate the obligation for obligated parties and 20 respondents were against the proposal.

Respondents in favour argued that there is limited installation-level data about boilers available, and that therefore sales data would be the more accurate source. Some also noted that recording information about boiler sales might be of use 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 with the proposals argued that the same category of data should be used to calculate the obligation and record progress against targets, i.e., stating that boiler sales should be compared to heat pump sales, or certified boiler installations compared to certified heat pump installations. Some of those 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 variation in certification scheme membership across the UK.

Requirements and standards of independent verification

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

Summary of responses

There were 53 responses to this question. The majority of respondents (35) were in favour of the proposed requirement, a minority of respondents (11) were against the proposal, and there were 7 other responses.

Those that agreed argued that independent verification was a necessary step to ensure transparency and fairness within the scheme and to mitigate fraud and noncompliance risks. Some respondents (6) noted their agreement with the proposal was contingent on the requirement being applied to both UK and international companies and more clarification on what third party verification would involve.

Respondents who were against the proposals stated concerns around the additional costs or administrative burdens associated with independent verification.

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

Summary of responses

There were 29 responses to this question. Of those who responded, 13 indicated that they support the use of ISAE 3000 or an equivalent standard, 4 disagreed with the proposals, and 12 were neutral.

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

Those who disagreed with the proposal said that independent verification was not necessary or would increase administrative burden, or suggested certification of boiler installations as an alternative.

Government response – Questions 10, 11 and 12

The government agrees with the majority of respondents to Q10 that obligations under the scheme should be calculated based on relevant UK sales of fossil fuel boilers. Relevant sales will exclude appliances bound for export and those sold to be installed in new-build properties (see Q1 above for further information), where appropriate evidence can be provided to demonstrate this is the case, via the independent verification process.

All boiler manufacturers with sales above or near the obligation thresholds will be asked to submit relevant boiler sales figures to the scheme administrator on a quarterly basis. Obligated parties will also be asked to submit an annual Boiler Sales Report, and to have this independently verified by a third party. Basing the obligation on relevant sales reported by scheme participants will mean that they are able to directly track and manage their obligations under the scheme, whilst ensuring clarity and transparency in the obligation calculation.

The responses to Q11 and Q12 indicate support for the proposed requirement that fossil fuel boiler sales data be independently verified by a third party, stating that it was important to ensure fairness, accuracy and transparency when calculating the obligation. There were mixed views on the appropriate level of assurance standard to apply to the verification process.

The government intends to proceed with implementing 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).

Heat pump installation data

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

Summary of responses

There were 61 responses to this question. Of these, a slim majority of respondents (34) were in favour of the proposal, some respondents (22) disagreed with the proposal, and a few (5) were neutral.

Most respondents in favour of the proposal said that it would ensure minimum quality standards for heat pump products and installations and provide consumer protection benefits. Several respondents also said that it would provide assurance that scheme credits relate to genuine UK heat pump installations and support audit and compliance procedures.

Most respondents who disagreed with the proposal took the view that credits should be based on 'upstream' sales by heat pump manufacturers rather than certified installations to ensure that all appliance sales generate credits. Several respondents also suggested that MCS data provides insufficient coverage of the UK heat pump market and that installations registered with MCS currently only account for approximately 50% of reported heat pump sales (i.e., of upstream sales by manufacturers, including for instance heat pumps destined for new-build properties).

Some respondents also said that the digital Benchmark scheme or competent person schemes could provide an alternative certification scheme. One respondent suggested Distribution Network Operator (DNO) data could be used as an alternative source of heat pump installation data.

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

Summary of responses

There were 57 responses to this question. A majority of respondents (34) agreed with the proposed criteria for an appropriate certification scheme. Some respondents (19) did not agree with the proposal, and a few (four) gave a neutral response.

Most respondents in favour stated that the proposed criteria would support robust consumer protections and ensure high-quality installations. Some noted that public trust in heat pumps would be important in encouraging uptake, and the proposed criteria could increase consumer confidence in making purchases.

Of the respondents who disagreed with the proposed certification scheme criteria, many opposed basing credits on certified heat pump installations (instead of appliance sales), rather than disagreeing with the proposed criteria for a certification scheme specifically. Many of

those who disagreed stated that there is a risk of underreporting if installations are required to be MCS certified. Some listed other potential appropriate certification schemes, including digital Benchmark Scheme and competent person schemes. Amongst both those in favour and those who opposed the given criteria, respondents across all stakeholder groups suggested that the scheme may run more effectively if more than one body was deemed an appropriate certification scheme.

One respondent suggested that an appropriate certification scheme should be required to run a review scheme for customers to rate the quality of their installation and an audit scheme to monitor the performance of installed heat pumps, and where installations are deemed sub-standard a credit should not be generated.

Government response – Questions 13 and 14

The government will require that heat pump installations are notified by an appropriate certification scheme (i.e., MCS and/or an alternative scheme) to generate credits in the scheme. This will help ensure only qualifying installations generate credits, in line with the criteria set out above in response to Q1. Using certified installation data as opposed to 'factory gate' sales data will also mitigate the risk that a proportion of heat pumps counted within the scheme could end up being exported from the UK or 'cycled' and counted multiple times, which was highlighted by as a risk by respondents to our previous consultation on the scheme.

The government agrees with the majority of respondents to Q13 who said that CHMM certification would ensure minimum quality standards and provide consumer protection benefits. It will also provide consistency and alignment with current incentive schemes that support heat pump installations, such as the Boiler Upgrade Scheme.

The government recognises that this requirement is polarising among stakeholders, with those against it highlighting that not all heat pump installers are MCS certified, and estimates that installations registered with MCS account for only a proportion of total UK heat pump sales. However, the intention of the scheme is not to generate credits for all heat pump sales, but for installations that meet the qualifying criteria (e.g., retrofit installations within capacity limits, which comply with relevant building regulations and other relevant regulatory requirements).

The government agrees with the majority of respondents to Q14 on the need for clear criteria to determine the requirements of an appropriate certification scheme. Due to data provision requirements and timescales to conduct assessments and implement changes, we do not expect any certification schemes other than MCS are likely to achieve CHMM certification prior to the initial implementation of the CHMM. We will publish further details of the process and criteria for applying to become an appropriate certification scheme for the CHMM in the scheme guidance, and will provide further information on how these might apply to other DESNZ programmes in due course.

Digital system

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

Summary of responses

There were 30 responses to this question. 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) also expressed a view on the digital design, particularly that the product should be simple, easy to use, flexible/design-agnostic, and integrated with existing systems; that user testing is important; and that industry should be consulted. Some respondents also queried whether there would be enough time available to successfully build the system for April 2024.

Government response – Question 15

The digital development process is currently in progress. The Discovery phase was completed in January 2023 and Alpha in September 2023. Development is currently in Private Beta, being delivered by a contracted third party, following which the service will open to all users in Public Beta.

The government recognises the importance of the security of sensitive commercial data submitted to the digital system. The scheme system will adhere to all Government Digital Service (GDS) standards⁵ which includes creating a secure service which protects users' privacy.

The government agrees with those respondents who suggested the digital system should reflect users' needs. The GDS standards set out the importance of understanding users and their needs, solving a whole problem for users, making the service simple to use, and making sure everyone can use the service. Interviews and testing with key users have been ongoing throughout the scheme digital development process so far and will continue until launch. Expected system users who have not yet engaged in user research and testing are welcome to contact the Department to enable their participation.

The government does not intend for the service to provide an on-system credit-trading facility. Credit-trading between manufacturers, including any financial agreements, will take place directly between the two parties i.e., off-system. The digital system will enable parties to submit notification of these trades to the scheme administrator and have their credit balances updated. More detail on visibility of users' data to other users for credit-trading purposes can be found in the Data visibility section below.

⁵ <https://www.gov.uk/service-manual/service-standard>

Data visibility

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

Summary of responses

There were 30 responses to this question. Respondents were divided with respect to the data that should be visible to other users on the digital system. Several (13) described benefits to data being visible to other system users to help initiate credit trades. For some (8) this included all users' credit holdings, but for others it would be limited to heat pump manufacturers' credit holdings, or just contact details only. Most respondents (18), including the majority of boiler manufacturers, expressed concern about data visibility due to commercial sensitivity and risks of exploitative behaviours or credit price manipulations.

Government response – Question 18

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. Whether manufacturers' names and contact details should be visible to other system users to help credit-trading will be determined through the continuing user research within the digital development process. Expected system users who have not yet engaged in user research and testing are welcome to contact the department to enable their participation.

Credits: Ownership, Trading and Transfer

Credit-trading

Eligibility to own and purchase heat pump credits

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

There were 48 responses to this question. Forty-three respondents, including all manufacturers, agreed with proposals to limit credit ownership to relevant appliance manufacturers; two respondents were neutral, and three respondents disagreed with the proposals.

Those in agreement noted that allowing third parties to own credits could lead to third party credit hoarding with the potential for intentional market distortion, credit shortages and inflated credit prices. Another common reason for agreement was that allowing third parties to participate would add unnecessary scheme administration complexity.

A group of boiler manufacturers, whilst supportive of the proposals if the credit-trading mechanism goes ahead, expressed general disagreement with the credit-trading mechanism as a whole. Concerns raised included that heat pump manufacturers may not sell their credits, which it was felt might lead to credit market manipulation.

A few suggestions were made to reduce this risk, such as mandating heat pump manufacturer participation in the credit-trading market and setting a ceiling cap on the value of credits on the trading market.

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

There were 42 responses to this question. Thirty-nine respondents agreed with the proposal, two were neutral and only one respondent disagreed. Those who agreed gave similar reasons as outlined in response to Question 16, noting that were parties other than obligated parties able to purchase credits, this could lead to market distortions.

One respondent suggested a way to reduce market distortion could be to introduce a cap on the number of credits an obligated party could purchase.

Government response – Questions 16 and 17

The government's view is that credit-trading is an important component of the scheme. It allows obligated parties added flexibility by providing an additional route to complying with the requirements of the scheme, alongside the sale and installation of heat pumps. It also acts to incentivise continued heat pump market growth amongst specialist heat pump manufacturers.

In line with the majority of respondents' views, the government will continue with the proposed approach to limit credit ownership to obligated parties and non-obligated heat pump manufacturers, and limit the purchase of credits to obligated parties. This is an important step to limit the possibility of third-party market manipulation and other unintended consequences, and therefore protect scheme participants against gaming activities by those with a solely financial interest.

The government will not at this stage be introducing a cap on the number of credits a scheme participant can purchase; however, we will keep this under review once the scheme is live, and will consider introducing a cap at a later time if required.

Credit carryover

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

There were 41 responses to this question. A large proportion of respondents (33) agreed with the proposals to allow obligated parties to carry over up to 25% of their credit holdings into the following scheme year.

Several respondents disagreed with the credit carry-over mechanism, citing a risk that this could lead to credit hoarding and an under-supply of credits.

Those who agreed highlighted the importance of building in flexibility so as not to penalise ambitious efforts amongst scheme participants and account for installation peaks and troughs during the year. Half of boiler manufacturer respondents (5) and a further two trade representative groups were in favour of the carry-over mechanism but felt it would not be used in practice, due to there not being surplus credits available.

Consumer interest groups, NGOs, energy suppliers and other stakeholders were generally supportive of the carry-over mechanism, so long as an appropriate cap is in place, and an appropriate balance is struck between flexibility and market growth.

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

Summary of responses

There were 38 responses to this question. The response to the proposal to allow non-obligated parties to carry over 25% of credits accrued per scheme year was mixed with 22 respondents in agreement and 16 respondents in disagreement.

Those in favour of the proposal 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 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 first year of the scheme.

Government response – Questions 19 and 20

The government has carefully considered responses in respect of these questions. In particular, we have noted the feedback received on ensuring an appropriate balance is achieved between allowing obligated and non-obligated scheme participants flexibility and encouraging active engagement in the credit-trading market.

The government has decided to amend proposals for the maximum number of credits that non-obligated heat pump manufacturers will be able to carry forward, to up to 10% of the credits earned during the scheme year, instead of the 25% proposed in the consultation. Equally, obligated manufacturers will only be able to carry forward up to 10% of their credit-holding on 'surrender day' each scheme year after settling their obligation for the current period, as opposed to the previously proposed 25%. Our intention is that these changes will increase the ready supply of credits into the trading market and deter any credit hoarding.

However, it will not be mandatory for heat pump manufacturers to sell their credits. In addition to increasing scheme administration costs, a mandatory requirement would require the scheme administrator to play an active role in enforcing credit-trading. Our intention is that the scheme administrator will not be involved in such commercial credit-trading agreements.

It is our view that these revised proposals strike a good balance between all the considerations; however, we will keep the proposal under review and may seek to make amendments in line with evolving market conditions during future scheme years.

Payments-in-lieu, Penalties and Enforcement

Payments-in-lieu of missed targets

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

There were 47 responses to this question. Twenty-seven agreed with the need for a payment-in-lieu to incentivise compliance with the scheme. Of those in favour of a payment-in-lieu, the majority (19) were in favour of the proposed level of £5000 per missing heat pump credit, whilst a few recommended the figure be higher (5) or lower (3). Fifteen respondents were against the proposal to have a payment-in-lieu for missed targets. Five respondents gave a neutral response.

Some respondents (13) highlighted the importance of the payment level being set higher than the cost of compliance in order to incentivise compliance with scheme aims i.e., the installation of heat pumps. A few respondents (9), across all stakeholder groups, proposed that moneys collected from payments-in-lieu be invested in wider heat decarbonisation policies such as the Boiler Upgrade Scheme.

Most boiler and component manufacturers and associated trade organisations did not agree with the need for a payment-in-lieu. A few (3) suggested that the government needed to put in place more demand-side policies before supply-side policies such as the scheme could be effective. Several suggested that if set at a high level, the payment-in-lieu could reduce funds available to invest in heat pump manufacturing, or lead to job losses and business closures.

Compliance and Enforcement

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

There were 42 responses to this question. Twenty-eight respondents, across all stakeholder groups, agreed with the approach to compliance and enforcement proposed in the consultation. Six respondents, mostly energy suppliers and smaller boiler manufacturers, disagreed with the approach. Eight respondents, across a range of stakeholder groups, were neutral.

Many respondents who expressed opposition to the proposed compliance and enforcement approach noted their fundamental opposition to the CHMM itself, rather than any specific reservation on the compliance and enforcement regime.

Some respondents (14) from boiler and component manufacturers, gas and oil distribution companies, and associated trade bodies, queried whether the government will have the ability to enforce the regime against non-UK manufacturers.

A few respondents recognised the Environment Agency as a suitable scheme administrator given their experience of administering similar schemes. Several others highlighted the importance of the scheme administrator having sufficient resources to undertake the role.

Government Response – Questions 23 and 24

In line with the majority of responses, the government intends to require obligated parties to make a payment-in-lieu where they have failed to meet their credit obligation, if this shortfall exceeds the obligation that can be carried into the subsequent year under the target carry-forward rules. In taking this decision, the government has considered the need to ensure that compliance with the scheme through actions to expand the heat pump market should be more cost-effective to participants than making a payment-in-lieu. Any moneys collected from the payment-in-lieu will go to the Consolidated Fund and other heat decarbonisation policies will be funded separately, given the need for predictable funding arrangements.

Whilst the consultation proposed the payment be set at £5,000 per missing heat pump credit, taking into consideration concerns around excessive financial impacts on manufacturers, the government is now proposing to set the payment-in-lieu at £3,000 per missing heat pump credit. We believe this change, as well as other actions outlined in this document, will increase the options and flexibilities available to obligated parties in meeting their targets, and ensure that unnecessarily severe financial penalties can be avoided, while still ensuring that the potential payment still provides sufficient incentive to drive investment in developing the heat pump market.

As the scheme administrator, the Environment Agency (EA) will be responsible for managing and enforcing the scheme. As noted by several respondents, in appointing the EA the government has considered their experience of administering related obligation schemes such as the Climate Change Agreements scheme (CCAs), the UK Emissions Trading Scheme (UK ETS), and the Energy Savings Opportunity Scheme (ESOS).

In line with the majority of responses, the government intends to implement a compliance and enforcement plan which is proportionate and rigorous. The EA will impose civil penalties for failure to make a required payment by the due date, failure to submit verified boiler sales data by the due date, the submission of inaccurate data, failure to register with the scheme, failure to notify of change to corporate status or structure, failure to comply with an information notice, and for refusal to allow access to premises. In addition, the provision of false or misleading information and the failure to comply with a warrant will be criminal offences. These penalties will vary according to the type, severity and frequency of non-compliance, and the nature and culpability of participants that fail to comply. Penalty levels will be in line with similar schemes enforced by the EA and detailed information will be set out in the EA's Enforcement and Sanctions Policy in due course.

To aid scheme administration and enforcement, scheme participants who are part of a wider corporate group be required to appoint a single Responsible Undertaking who will be the legally responsible entity for ensuring the group as a whole is meeting CHMM targets.

The government recognises concerns around the EA's ability to enforce the obligation overseas. As set out in the response to Q6, whilst recovering financial penalties from non-UK companies is a more complex process than for UK companies, such actions are already taken under the enforcement rules of other schemes.

The government also intends to make it mandatory for any UK-based entity (if one exists) with the participating corporate group to be appointed as Responsible Undertaking, to limit cases of overseas enforcement and reduce administrative complexity. If the scheme participants were based on today's market, we would not expect any obligated scheme participants to be without a UK corporate presence.

Heat Pump Supply Chain Plan

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?

Summary of responses

We received 55 responses to this question. Almost half of responses (26) did not agree with the proposal to ask manufacturers to publish an annual Heat Pump Supply Chain Plan. Some respondents (12) were in favour of the proposal.

Many respondents across different stakeholder groups raised concerns regarding the additional administrative burden that the proposal to ask manufacturers to publish Plans may place on manufacturers.

Some respondents questioned whether requiring such Plans could have a meaningful influence on the source of heat pumps and the percentage of UK content within each product sold.

Of those opposed to the proposal, most expressed some concerns regarding the commercially sensitive nature of documentation and questions over whether such information might need to be disclosed under the Freedom of Information Act.

Several respondents highlighted the benefits the proposal could bring, including greater market visibility and transparency, greater information on the impacts of the scheme and supporting the upskilling of installers and heat pump supply chain resilience.

Government response – Question 7

The government recognises respondents' reservations over the additional administrative requirements that would be placed on manufacturers if they were asked to publish an annual Heat Pump Supply Chain Plan. The government agrees that it would create an additional layer of reporting, particularly at the outset of the scheme while manufacturers are adjusting to broader scheme requirements.

The government believes that there are clear potential benefits of this proposal for the scheme, as highlighted by several respondents, including the consideration of potential supply chain issues.

In consideration of the above, the government will not implement this requirement from the launch of the scheme, but will continue to explore whether a proposal of this nature may be useful in future scheme years, if deemed both beneficial and appropriate.

Equality Act 2010

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?

Summary of responses

We received 39 responses to this question. While responses did not identify specific likely impacts of the policy proposals on groups with protected characteristics, there were a number of themes among responses to this question, in particular pointing to the potential impact on low-income consumers, vulnerable consumers and those in the private rental sector.

Several respondents were of the view that the policy might particularly impact low-income households who are responsible for replacing their own heating systems, including asset-rich but lower-income consumers such as pensioners. These respondents felt that, even with the Boiler Upgrade Scheme grant, the high upfront cost of a heat pump might be a particularly acute barrier for consumers with less income flow, especially for more expensive retrofit scenarios where multiple components, such as radiators and hot water tanks, are needed for the retrofit.

Some respondents also said that boiler replacements tend to be distress purchases, and that generally boilers will be replaced like-for-like unless the consumer asks for a heat pump, so given the higher upfront cost, less able-to-pay consumers are most likely to opt for a new boiler. Noting this, respondents were of the view that there might be an increasing disparity between able-to-pay, wealthier consumers and consumers who either cannot afford the upfront costs of a heat pump (e.g., those in fuel poverty and pensioners) or are not in a position to choose their heating appliances (e.g., the private rental sector).

Some respondents said that unaffordable prices could push some low-income consumers towards lower quality products; others felt that vulnerable consumers such as the elderly might be misled or targeted by installers, with recommendations of cheap, low-quality products, and inappropriately installed products. These respondents argued that inappropriate heating systems can have higher running costs and decreased levels of thermal comfort, and that therefore adequate levels of consumer protections must be put in place to mitigate these risks.

Another common view amongst respondents was that, if the policy impacts the price of boilers, this may have a disproportionate impact on less wealthy households.

A couple of respondents thought that consumers who are unable to afford the upfront cost of a heat pump, or unable to secure credit finance, as well as consumers living in private rental properties, will subsequently remain for longer on the gas grid. They felt that, as more households switch to heat pumps and come off the gas grid, the bills for gas grid maintenance will fall to fewer and fewer consumers, meaning those who remain on the gas grid will be hit with increasingly high gas bills.

Some commented that this policy might impact homeowners, because installing a heat pump can at times at present lower a property's EPC rating instead of improving it.

Some respondents used this question to point towards the importance of considering groups with protected characteristics in the wider energy transition, such as energy efficiency and energy system reform.

Government response – Question 25

The government agrees with respondents' general views that it is unlikely that the policy will have disproportionate direct negative impacts on population groups with protected characteristics under the Equality Act 2010.

However, we recognise the risks highlighted among responses to this question. In particular, we share respondents' view that it is important that consumers are protected against poor-quality or inappropriate installations that lead to poor outcomes such as higher running costs or lower thermal comfort.

Building regulations have an important part to play in this in establishing minimum standards. The government's decision to require that, to qualify for credits under the scheme, heat pump installations must be accredited by an appropriate certification scheme, such as MCS, extends this consumer protection and quality assurance further, which we think is appropriate during this period of market expansion. Among other things, it ensures that only certified products can be installed, that heating system design and commissioning is performed in line with best practice, and that there is a route for redress if issues do arise.

More broadly, the government will continue to assess where extra policy support may be needed over time, including financial support for the upfront costs of heat and building decarbonisation, building on the current role of the Home Upgrade Grant, for instance. The government will also be mindful of the need to balance the objectives of ensuring that energy remains affordable and continuing to reduce fuel poverty, while assessing the options for rebalancing energy pricing and ensuring that consumers are not disincentivised from making the switch to clean technologies such as heat pumps.

Next steps

We are grateful to all those who took the time to respond to this consultation.

The government will continue to engage with key stakeholders as we prepare for the launch of the CHMM, particularly in relation to the design and use of the scheme's digital platform. The government will also bring forward scheme regulations when parliamentary time allows under the powers granted by the Energy Act 2023.

The Environment Agency, as scheme administrator, will publish more detailed guidance in due course and ahead of scheme launch.

Annex A List of respondents

- Aberdeen Heat and Power
- Alpha Heating Innovation
- Avanti Gas
- Baxi
- Benchmark
- Building Engineering Services Association (BESA)
- Builders Merchants Federation (BMF)
- Building Products Distributors Ltd
- BUUK Infrastructure
- Cadent
- Calisen
- Calor Gas
- Centrica
- Chartered Institute of Housing (CIH)
- E.ON UK
- E3G
- EDF Energy
- Energy UK
- Energy Utilities Alliance (EUA)
- Enertek International Ltd
- Environmental Investigation Agency (EIA)
- Energy Saving Trust
- Freedom Heat Pumps
- Glen Dimplex Heating & Ventilation
- Greater Manchester Combined Authority
- Grant Engineering (UK) Ltd
- Green Alliance
- Green Heat
- Greenpeace UK
- Ground Source Heat Pump Association
- HIES Consumer Code
- Heat Pump Association
- Heat Pump Federation
- Ideal Heating
- Institution of Gas Engineers and Managers (IGEM)
- Indivisula
- Intergas
- Kane
- Malvern Boilers Ltd
- MCS Charitable Foundation
- MCS Service
- Mitsubishi Electric Europe – UK
- Myenergi
- Nesta
- NHG Housing association
- NIBE UK
- Octopus Energy
- Oil Firing Technical Association (OFTEC) and UK and Ireland Fuel Distributors Association

(UKIFDA)

- The Regulatory Assistance Project (RAP)
- The Renewable Energy Association
- Scottish Power
- Sustainable Energy Association (SEA)
- SGN
- Scottish and Northern Ireland Plumbing Employers' Federation (SNIPEF)
- Solar Energy
- Tepeo
- The Heating Hub
- The Kensa Group
- Thermal Storage
- TrustMark
- United Kingdom Accreditation Service (UKAS)
- Vaillant UK
- Viessmann UK
- Warmflow
- Worcester Bosch
- Wolseley
- WWF-UK

In addition, responses from three individuals and an early-stage start-up company were received.

This publication is available from: www.gov.uk/government/consultations/clean-heat-market-mechanism

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