



Department for
Energy Security
& Net Zero

Clean Heat Market Mechanism

Consultation

March 2023



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General information

Why we are consulting

To set out policy proposals and invite stakeholder views on the introduction of a market-based mechanism to support the development of the market in low-carbon heating appliances, principally electric heat pumps.

Consultation details

Issued: 30 March 2023

Respond by: 8 June 2023

Enquiries to: Heat Market Mechanism Team

Email: heatmarketmechanism@beis.gov.uk

Consultation reference: Clean Heat Market Mechanism

Audiences:

The consultation will be of particular interest to stakeholders in the heating and wider energy industry, representative groups, and those with wider interest in the UK's net zero ambition.

Territorial extent:

The United Kingdom of Great Britain and Northern Ireland

How to respond

We encourage respondents to make use of the online e-Consultation platform, Citizen Space, to respond to this consultation wherever possible. This is the department's preferred method of receiving responses. However, responses submitted in writing, or by email will be accepted.

Respond online at: <https://beisgovuk.citizenspace.com/heat/clean-heat-market-mechanism>

or

Email to: heatmarketmechanism@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Introduction

In recent months, the government has set out an ambitious package of policy measures to help the United Kingdom move towards greater energy independence and become less dependent on volatile global gas markets. The commitments in the March 2023 *Powering Up Britain* publications take this further. The war in Ukraine, and the pent-up demand due to the COVID-19 pandemic, pushed global gas prices to record highs, and many families have genuine concerns about their energy bills in the context of cost-of-living pressures.

In the longer term, in order to retain and enhance the UK's energy self-sufficiency, we need to generate more clean, affordable, home-grown power. But we also need more efficient homes and buildings to use less energy in the first place. Around half of the UK's total annual natural gas consumption is currently used in heating buildings. Making homes more energy efficient is the best way to cut household energy use and reduce energy bills, while also creating jobs across the country.

In the Chancellor's 2022 Autumn Statement, the government committed to driving improvements in energy efficiency, announcing a new ambition to reduce the UK's final energy consumption from buildings and industry by 15% by 2030. Supporting this, the government also announced a new ECO+ scheme, which will run from Spring 2023 to 2028 and will see hundreds of thousands of households receive support for measures such as loft and cavity wall insulation. This £1 billion scheme is backed by a new £6 billion commitment to energy efficiency and clean heat from 2025 announced in the Autumn Statement, on top of the existing £6.6 billion energy efficiency funding commitment over 2022 to 2025.

In addition to measures such as insulation to improve the fabric efficiency of buildings, an important part of reducing energy demand is switching to more efficient heating appliances. Electric heat pumps have a crucial role to play in this. Because most of the heat output of a heat pump is drawn from the ground or outside air, heat pumps produce several units of heat for every unit of energy consumed, meaning replacing a boiler with a heat pump is often the most impactful measure for reducing a building's energy demand.

At the same time, as the UK electricity generation mix produces increasingly lower greenhouse gas emissions each year, so do electric heating systems. In this way, expanding the deployment of efficient, electric heating systems – especially when replacing fossil fuel heating – has an important role both in reducing overall energy demand, and in reducing the approximately 25% of total UK greenhouse gas emissions currently arising from heat in buildings.

As the previous consultation on this policy and the 2021 Net Zero Strategy therefore set out, it is important that we rapidly grow the heat pump market towards around 600,000 installations per year by 2028 to make heat pumps a mainstream consumer solution alongside gas boilers, approximately 1.8 million of which are currently installed each year. This level of heat pump deployment, including in new-build properties, is strategically important for any of the potential transition pathways to net zero, including those where hydrogen heating plays a major role too.

To enable this level of deployment, the market and supply chains need to continue to develop substantially in order to provide a wide range of attractive choices for consumers, with compelling and simple consumer journeys, supported by a wide base of skilled advisors and installers. We expect this to support up to 90,000 low-carbon jobs by 2035. This clear trajectory for the UK heat pump market, and growing demand across Europe and around the world, also represents an exciting opportunity for the UK engineering, manufacturing and related industries to develop to serve as large a share as possible of domestic and export demand.

The next section of this document details some of the wider complementary policy support and steps that the government is taking to enable and stimulate the growth of the heat pump supply chain from end to end, and to provide confidence to consumers and industry alike.

The Clean Heat Market Mechanism (CHMM) is designed to work as part of that wider policy framework in order to provide further clarity and stimulus for investment and innovation throughout the manufacturing and installer supply chain and enable the heating industry to transform the consumer proposition of heat pumps in the UK.

We would welcome views from a wide range of stakeholders on the proposals set out here, building on the valuable responses from many respondents to our first consultation. There is no doubt that developing the market for heat pumps in the UK to the scale needed requires a major transformation. However, it is one that is already bringing both substantial opportunities for businesses and benefits for consumers here in the UK, just as it has in other countries where the heat pump market is thriving. We look forward to hearing in responses how we can finalise the scheme design to work best for consumers and for the businesses involved.

Policy overview and wider context

Aims

The Clean Heat Market Mechanism (CHMM), for which enabling powers are being taken in the Energy Security Bill introduced to Parliament in July 2022, aims to provide the heating appliance industry – and wider market – with a clear, stable policy framework and the accompanying incentives to invest with confidence in scaling up the consumer market for heat pumps, thereby accelerating deployment and driving down energy demand from buildings.

It is supported in this by, and itself complements, wider government action summarised below, which aims more directly to:

- Reduce the upfront costs of heat pumps and support households and building-owners with heat pump installations to kickstart the market;
- Reduce the running costs of heat pumps, including relative to fossil fuel boilers;
- Support an expansion of heat pump manufacturing in the UK;
- Grow the numbers of skilled heat pump installers, and maintain high standards in the quality of heat pump installations; and
- Support a range of other innovations to broaden the appeal, efficiency and ease of adoption of heat pumps.

Complementary wider policy

There are a wide range of UK Government schemes and policy action alongside the CHMM which are designed to address and support the aims outlined above, alongside action being taken by the Devolved Administrations.

To support households with heat pump installations and kickstart growth in the market, driving economies of scale, the government has brought forward a package of financial support measures, including the Boiler Upgrade Scheme (BUS), amounting to investment of £6.6bn in total over this Parliament on clean heat and improving energy efficiency in buildings, reducing our reliance on fossil fuel heating. VAT has also been reduced to zero on the installation of energy saving materials such as heat pumps until 2027 and the [Heat Pump Ready research programme](#) is providing up to £60m to develop innovative solutions to make heat pumps more affordable and easier to install at scale.

In addition to these existing spending commitments, in the 2022 Autumn Statement, the Chancellor announced new funding plans for energy efficiency initiatives, including heat pump deployment, to help deliver on the ambition of a 15% reduction in energy consumption from buildings and industry by 2030. This amounts to a further £6bn of new funding over three years from 2025, which will include an extension to the Boiler Upgrade Scheme to 2028.

The growth and development of green finance products will also help to support with the upfront costs of heat pumps and make them more widely accessible. Since the Green Finance Strategy was published in 2019, the government has taken major steps to advance the development of the sector including placing finance front and centre at COP26 in Glasgow, and launching the UK Infrastructure Bank with £22 billion of financial capacity aimed at crowding-in private investment to support the UK's net zero target and local and regional economic growth. In a similar vein, a number of high street mortgage lenders have recently begun offering financial support to mortgagors towards the cost of installing a heat pump, and we expect to see a growing range of heat pump finance products come on to the market in the coming years.

As the market reaches greater scale, regulatory approaches will play an important role in driving further growth. The CHMM is part of this, alongside for instance, in England, the incoming Future Homes Standard which will drive the installation of clean heating technologies in homes, and the planned action to phase out fossil fuel heating installations off the gas grid.

Equally important is the parallel action on wider enablers for the mass deployment of heat pumps, including to build capacity throughout the supply chain. As demand increases significantly over the coming years, capacity to manufacture and install heat pumps in the UK will also need to increase. To support this, the government is launching a £30 million Heat Pump Investment Accelerator Competition (HPIAC) in 2023. The Competition will award grant funding for eligible capital costs relating to the construction of new factories, or the expansion or retooling of existing factories, to produce heat pumps or their components.

The government is also supporting training for heating installers. In March 2023, the government announced a further £5m of support for heat training, expected to support training for over 6,000 heat pump installers. This is in addition to the £15m which has already been committed to building skills in energy efficiency and low-carbon heating since 2019. We expect the majority of heat pump installers in 2028 will be current heating engineers who train to install heat pumps alongside other heating technologies. Despite this we also expect the workforce to expand overall, creating new opportunities for apprentices. A new three-year Low Carbon Heating Technician apprenticeship will launch in 2023, and the existing Plumbing & Domestic Heating Technician apprenticeship is being revised to ensure that all heating apprentices learn the core skills needed for low-carbon heating.

As the size of the installer base increases, we will need to ensure that quality is maintained, which is why the government is working to ensure that all installations meet clearly defined technical standards, supported by clearly defined competence standards. All new heating installations are expected to comply with relevant Building Regulations, as well as Gas Safety Regulations and Fluorinated Gas Regulations where applicable. Where work fails to meet these standards, consumers must have confidence that work will promptly be put right. The requirement set out in this consultation that in order to generate credits under the CHMM heat pump installations must be notified via an appropriate certification scheme (i.e. the Microgeneration Certification Scheme (MCS) or an equivalent scheme) will help to ensure that this is the case.

Ensuring that the running costs of a heat pump are as affordable as possible is another key enabler to mass deployment. To this end, the government has proposed that it will mandate that all hydronic heat pumps in Great Britain must have smart functionality, meaning that they must be capable of shifting or modulating their electricity consumption in response to an external signal such as a time-of-use tariff. This will help to ensure that more consumers are able to use electricity when it is cheaper and/or greener, and therefore help to reduce heat pump running costs whilst supporting our net zero ambitions.

More broadly, the government has also accepted the Independent Review of Net Zero recommendation that it should commit to outlining a clear approach to the 'rebalancing' of gas and electricity prices and should make significant progress affecting relative prices by the end of 2024. Rebalancing prices will help to make it more attractive for households and businesses to switch to lower-carbon, more energy-efficient technologies like heat pumps.

Design overview

The CHMM is designed to work in tandem with the measures outlined above, and with action being taken by the Devolved Administrations, to further strengthen the conditions for investment in the UK heat pump market and overall deployment.

This section gives an overview of the proposed design of the policy. Some design features were considered through our [first consultation](#), other proposals are discussed in more detail in the sections that follow, with views sought from respondents through the questions in those sections.

The CHMM will, from 2024, place an obligation on the manufacturers of heating appliances to meet targets for the proportion of low-carbon heat pumps they sell each year, relative to fossil fuel boilers. These targets will steadily increase year-on-year, providing firms with the certainty to invest in building the heat pump market.

For the first year of the scheme, 2024/25, the preferred Option 1 in this consultation proposes that the manufacturers of fossil fuel heating appliances will need to hold low-carbon heat pump credits corresponding to 4% of their relevant gas boiler sales above 20,000 units and 4% of their relevant oil boiler sales above 1,000 units. Only boiler sales for the UK market will count towards the calculation of the obligation; exports will be excluded. Similarly, only heat pumps installed in the UK will qualify towards meeting the obligation.

For the second year of the scheme, 2025/26, the credit target will increase under Option 1 to 6% of relevant gas boiler sales above 20,000 units and 6% of relevant oil boiler sales above 1,000 units.

We expect these targets to correspond to credits for qualifying heat pump installations totalling around 60,000 in 2024/25 and around 90,000 in 2025/26. Targets for future years could be set to correspond to deployment of 150,000 heat pumps in 2026/27, 250,000 in 2027/28 and 400,000 in 2028/29.

Companies with boiler sales less than 20,000 relevant gas boilers and 1,000 relevant oil boilers, corresponding to roughly 1% of the UK market, will be exempt, as will Small Companies with respect to the Companies Act 2006.

This consultation proposes that a heat pump manufacturer will be able to earn a credit for the installation of a qualifying domestic-scale hydronic heat pump notified via an appropriate certification scheme (i.e. MCS or an equivalent scheme). In order to provide flexibility in how the obligation can be met, these credits will be tradable. Obligated parties – that is, manufacturers of relevant fossil fuel boilers above the minimum thresholds – will therefore be able to meet their credit obligation, in part or in whole, through acquiring credits from other heat pump manufacturers.

Providing further optionality in how the obligation may be met, certain installations of hybrid heat pump systems that involve both a heat pump and a fossil fuel boiler element will also qualify, receiving 0.5 heat pump credits.

Flexibility will also come from the fact that obligated parties will be able to carry forward a limited proportion of their target from one year to make up in the subsequent year, and from all scheme participants being allowed to carry forward some level of unsold or unused credits to the following year.

We are planning that relevant fossil fuel boiler sales between 1 January and 31 December 2024 will form the basis for the obligation in Year 1 of the scheme. Obligated parties will then be required (under Option 1 in the 'Targets' section below), to hold heat pump credits corresponding to 4% of their relevant boiler sales above the minimum thresholds in that period on the credit surrender date: 1 October 2025. These credits will be generated in respect of heat pumps installed between 1 April 2024 and 31 March 2025 and notified via MCS or an equivalent scheme by 30 June 2025. Any trade in heat pump credits between parties related to the 2024/25 compliance year must be completed and notified to the scheme administrator before the credit surrender date.

Year 2 of the scheme will then be based on relevant UK boiler sales between 1 January and 31 December 2025. Obligated manufacturers will be required, in the Option 1 approach to targets, to hold heat pump credits corresponding to 6% of their relevant boiler sales above the minimum threshold in that period on the credit surrender date: 1 October 2026. These credits will be generated in respect of heat pumps installed between 1 April 2025 and 31 March 2026 and notified via MCS or an equivalent scheme by 30 June 2026.

If an obligated party should fail to acquire and surrender to the scheme administrator from their account the correct number of heat pump credits on the due date, it will be required to make a payment of £5,000 per missing credit.

The government has identified that the Environment Agency (EA) could be the appropriate scheme administrator for the CHMM. The Environment Agency has agreed to consider undertaking this role and to work with us to develop the administrative and legislative proposals for the scheme. The scheme administrator will be responsible for the overall delivery of the scheme, ensuring compliance with the scheme and carrying out appropriate

enforcement action in instances of non-compliance, potentially in partnership with other enforcement agencies. The compliance and enforcement regime will be designed to incentivise compliance and early settlement and will adhere to the principles of fairness and proportionality.

The following sections provide further detail and invite views on considerations related to the proposed scheme design outlined above.

Scheme Design

Relevant boiler sales

The sale of fossil fuel boilers fired by natural gas, liquefied petroleum gas (LPG), or oil on the UK market, up to 70kWth capacity, will be considered relevant boiler sales under the CHMM and generate a corresponding obligation.

As detailed further in the 'Boiler sales data' section below, which sets out how information on the volume of such sales will be received from obligated appliance manufacturers and verified, relevant boiler sales include the first sale of any such boilers to a UK buyer, whether to a wholesaler or other bulk purchaser or direct to an end consumer. The only exception to this is the sale of any boilers that are provably and verifiably bound for export from the UK to end-consumers in other markets.

'Hydrogen-ready' gas boilers – those that burn natural gas but are designed to be readily convertible to burn 100% hydrogen if parts of the gas network are in future converted to supply hydrogen – will also be considered relevant fossil fuel boiler sales that will contribute to the calculation of a manufacturer's heat pump credit targets under the CHMM.

The proposed product regulations requiring all boilers to be hydrogen-ready from 2026¹ will provide manufacturers with the policy framework to invest in developing that appliance class.

Qualifying heat pump installations

We propose that obligated parties will be required to achieve the installation of a certain number of heat pumps up to 45kWth to existing UK properties (see 'Target design' below).

As previously set out, the CHMM is focused on supporting the market development of electrically driven heat pumps which can provide both space heating and hot water. 'Air-to-air' heat pumps will therefore not be in scope of the obligation. Scheme credits will only be issued for the installation of an 'air-to-water', 'ground-to-water' or 'water-to-water' heat pumps. These can be retrofitted to the more than 85% of UK domestic properties which have hydronic (water-based) central heating systems. Hot water-only heat pumps, which do not provide space heating, will also not be qualifying installations under the scheme.

Low-temperature heat pumps can deliver high levels of energy efficiency, emission reductions and thermal comfort, generally have lower running costs than many other low-carbon heating systems and can be widely deployed. However, at least at the outset of the scheme, we do not intend to treat higher-temperature heat pumps differently from low-temperature systems, not least because many modern higher-temperature heat pumps are themselves highly efficient and operate at low flow temperatures most of the time. Nonetheless, we will monitor market

¹ GOV.uk [Improved boiler standards and efficiency: Consultation](#), Dec 2022

developments and consider whether any differentiation of treatment or weighting may be justified in later years of the scheme.

We plan to introduce a 45kWth appliance capacity limit for qualifying heat pump installations, to ensure that the policy is focused on domestic-scale heating appliances. This is consistent with the limit imposed in both the BUS and the majority of heat pump installations supported under the domestic Renewable Heat Incentive (RHI).

Heat pump installations will only generate credits where they meet the high level of quality expected by the sector. This means both that the products themselves are high-quality, and that the installation itself has been conducted by a competent installer, in accordance with Building Regulations, and with strong consumer protections in place. To this end, we intend to require that heat pump installations are notified via an appropriate certification scheme (MCS or an equivalent scheme) to generate credits in the CHMM. This will provide effective oversight to ensure that these standards are met. It will also ensure that heat pump credits relate to qualifying sales to end consumers in the UK and that necessary information is recorded, such as the appliance make, model, and capacity, allowing credits to be reliably attributed to the relevant heat pump manufacturer.

Installations where multiple heat pumps within the 45kWth appliance capacity limit are installed together to heat one premises, summing to a total installed capacity larger than 70kWth, will be out of scope and not qualify for a scheme credit.

Hybrid heat pumps

Installations of hybrid heating systems that include both a heat pump and a fossil fuel boiler and that are certified under an appropriate certification scheme such as MCS will also qualify towards meeting the obligation, since in many cases they support the policy objectives of growing the heat pump supply chain and reducing emissions in the short term. Their inclusion also increases the range of options available to scheme participants to generate heat pump credits and meet the obligation.

As the 'Weightings' section below sets out in further detail, we propose to apply a lower credit weighting to installations of qualifying hybrid heat pumps in order to ensure that the focus remains on growing the market for the installation of standalone heat pumps.

Alternative low-carbon heating appliances

As set out in the government response to our first consultation, hydronic electric heat pumps are to be the focus of this scheme, as opposed to other low-carbon heating technologies such as direct electric heating, solar thermal heating, or solid biomass boilers. We nevertheless retain the option, should market or technological developments warrant it, to bring technologies other than heat pumps into scope in future years.

Installations in non-domestic properties

Heat pump installations in non-domestic properties will be qualifying installations, provided that the other installation and appliance criteria (such as on maximum appliance capacity) are met.

Installations in new-build properties

Heat pump installations in new-build properties will not qualify towards meeting the obligation. The forthcoming Future Homes Standard and Future Buildings Standard in England are intended to ensure that these properties are fitted with low-carbon heating, and similar regulations may be brought forward in other UK nations. This will also ensure that there is an equal incentive across all participants to invest in expanding the retrofit market and that obligated parties do not bear undue risk in relation to fluctuations in the new housing development market.

QUESTION 1: Do you agree with the proposals here for what constitutes a qualifying heat pump installation? Yes/No. Please provide reasoning to support your response.

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?

Scheme participants

The CHMM will create an obligation on the manufacturers of relevant fossil fuel heating appliances (natural gas, LPG, and oil boilers) sold in the UK to achieve the sale of a certain level of heat pumps to final UK consumers proportional to their fossil fuel boiler sales in each obligation period, through meeting heat pump credit targets (see 'Targets' and 'Compliance Periods' below).

We propose that the administration of the CHMM be based on corporate groups. That is, we propose that related parties, business units, or brands within the same corporate group be treated as one 'appliance manufacturer' entity for the purposes of determining targets under the scheme and of awarding heat pump credits. Our expectation is that scheme obligations and scheme credit balances would be pooled together following a merger or acquisition, and vice versa following a sale.

We also propose that manufacturers of fossil fuel appliances with less than 20,000 relevant gas boiler sales or less than 1,000 relevant oil boiler sales (at corporate group level), currently equivalent to a little over a 1% market share in each case, will not be in scope of the obligation with respect to those appliances. Companies subject to the small companies regime under the Companies Act 2006 at the time of their last filing of an annual report and accounts prior to the start of an obligation period will also not be in scope of the obligation for that period.

These minimum thresholds and the exclusion of small companies will limit the number of obligated companies and limit the costs to smaller firms or those with only limited activities in

the UK. It will also ensure that the administrative complexity and costs of administering the obligation are kept proportionate.

As previously indicated, we are proposing to apply the obligation to all manufacturers of relevant fossil fuel appliances sold for installation in the UK, who are not excluded as per above, regardless of whether the manufacturing takes place in the UK or of whether the company has a UK corporate presence. This approach aims to ensure the obligation is applied fairly and does not have a disproportionate impact on UK manufacturers relative to non-UK manufacturers.

Companies other than manufacturers who may be responsible for first placing certain products on the UK market, such as wholesalers, will therefore not be subject to the obligation under this proposal; it is the manufacturers of those products that will. However, we will keep the market 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.

We also aim to strengthen and build heat pump supply chain resilience. Therefore, in order to strengthen the monitoring and oversight of the scheme and improve planning throughout the supply chain, we are also considering whether to ask manufacturers annually to publish a Heat Pump Supply Chain Plan which describes, for instance, the anticipated source of heat pumps that will receive CHMM scheme credits when installed, the percentage of anticipated UK content for each product sold, plans to ensure UK supply chain resilience for products and parts, and how the manufacturer will improve the visibility of opportunities to suppliers within international and UK supply chains.

QUESTION 3: Do you agree with the proposals for obligated parties here? Yes/No. Please provide reasoning to support your response.

QUESTION 4: Do you agree that related parties, business units, or brands within the same corporate group should be treated as one ‘appliance manufacturer’ entity for the purposes of determining targets under the scheme and awarding heat pump credits? Yes/No. Please provide reasoning to support your response.

QUESTION 5: Do you agree with the proposed minimum thresholds for the obligation and treatment of small companies? Yes/No. Please provide reasoning to support your response.

QUESTION 6: Do you agree with the proposal to apply the obligation to all above-threshold manufacturers of fossil fuel boilers sold on the UK market regardless of those manufacturers’ location, instead of obligating only UK-based companies responsible for first placing appliances on the UK market? Yes/No. Please provide reasoning to support your response.

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?

Targets

As set out above, we are proposing to introduce an obligation on the manufacturers of gas and oil boilers sold on the UK market to hold credits corresponding to qualifying installations of heat pumps in proportion to their relevant UK boiler sales. This proportion will be stepped up over time in line with the scale of growth in low-carbon heating that is needed.

We are considering two options for the approach to setting targets for the scheme.

Option 1

In this option, the scheme would begin with relatively low targets, while the market adjusts to the obligation, before accelerating growth in later scheme years as the market scales.

This is the government's preferred option.

The proposed targets for Year 1 and Year 2 in this Option 1 would be:

Year 1:

- Manufacturers must hold credits representing qualifying heat pump installations between 1 April 2024 and 31 March 2025 and surrender these credits on the appointed day.
- The target will be credits equivalent to 4% of the manufacturer's relevant gas boiler sales over 20,000 units and 4% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2024 (i.e. If a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,200).

Year 2:

- Manufacturers must hold credits representing qualifying heat pump installations between 1 April 2025 and 31 March 2026 and surrender these credits on the appointed day.
- The target will be credits equivalent to 6% of the manufacturer's relevant gas boiler sales over 20,000 units and 6% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2025 (i.e. If a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,800).

A 4% obligation target across a boiler market of 1,800,000 sales (the approximate size of the UK boiler market in 2021), taking account of minimum thresholds, would lead to around 60,000 heat pump installations. Within this, we would expect to see upwards of 50,000 heat pumps supported through a combination of the policies and schemes detailed in the 'Complementary wider policy' section above, such as the BUS, the Homes Upgrade Grant, and ECO4. A 6% obligation target in Year 2 would support around 90,000 heat pumps being delivered.

Under Option 1, our current expectation is that targets for later scheme years, with accelerating market growth, could indicatively be set to support a market size roughly as follows:

- Year 3: 150,000 retrofit heat pumps
- Year 4: 250,000 retrofit heat pumps
- Year 5: 400,000 retrofit heat pumps

We will confirm targets for the third year of the scheme at least six months in advance of the start of that year. Future scheme targets will be set with a view to a range of considerations such as a feasible growth rate, the contribution of wider policy action to heat pump deployment, supply chain capacity, and the pace of market development necessary to meet strategic aims related to energy efficiency and emissions reductions.

Option 2

In this option, the yearly scheme targets would be set such that a roughly constant growth rate in retrofit heat pumps is applied towards the aim for around 400,000 installations in 2028.

The proposed targets for Year 1 and Year 2 in this Option 2 would be:

Year 1:

- Manufacturers must hold credits representing qualifying heat pump installations between 1 April 2024 and 31 March 2025 and surrender these credits on the appointed day.
- The target will be credits equivalent to 5.5% of the manufacturer's relevant gas boiler sales over 20,000 units and 5.5% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2024 (i.e. if a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 1,650).

Year 2:

- Manufacturers must hold credits representing qualifying heat pump installations between 1 April 2025 and 31 March 2026 and surrender these credits on the appointed day.
- The target will be credits equivalent to 8% of the manufacturer's relevant gas boiler sales over 20,000 units and 8% of their relevant oil boiler sales over 1,000 units over the obligation period January to December 2025 (i.e. if a party sells 50,000 relevant gas boilers (and no oil boilers), its target will be 2,400).

A 5.5% obligation target across a boiler market of 1,800,000 sales (the approximate size of the UK boiler market in 2021), taking account of minimum thresholds, would lead to around 85,000 heat pump installations. An 8% obligation target in Year 2 would support around 125,000 heat pumps being delivered.

QUESTION 8: Do you agree with the preferred Option 1 in relation to the setting of targets? Yes/No. Please provide reasoning to support your response.

Weightings

Standalone heat pumps

Qualifying individual standalone heat pump installations will generate a single scheme credit for the manufacturer.

Hybrids of heat pumps and fossil fuel boilers

We propose that qualifying installations of hybrid heat pump systems that involve both a heat pump and a fossil fuel boiler element receive 0.5 heat pump credits. As for all heat pump installations under the scheme, only installations of products listed on the MCS Product Directory and notified via an appropriate certification scheme (i.e. MCS or an equivalent scheme) will qualify for this half-credit.

Allowing hybrid heat pumps to contribute to the earning of credits towards meeting the obligation helps to increase the range of options available to scheme participants and their consumers.

At the same time, the proposed lower weighting for hybrid heat pump installations compared with standalone heat pumps is intended to reflect: (1) the lower carbon reduction potential of these systems (given their reliance on fossil fuels); and (2) the lower energy demand reduction potential given their lower overall system efficiency, when compared to standalone heat pumps. Further, given that the majority of UK homes are either already suitable or can be made suitable for a standalone heat pump with minor energy efficiency improvements², we want to ensure that the market is incentivised to prioritise these.

A lower credit weighting will help to maximise the impact of the scheme on reducing emissions from heating by encouraging promotion and deployment of standalone heat pumps as the more energy-efficient, more strategically important technology for the transition to net zero.

The carbon reduction potential of a hybrid heat pump, and its total energy efficiency, is dependent on the design and use of the system, and how much of the heating demand is met by the heat pump element. High heat pump utilisation rates may be technically possible. However, the Electrification of Heat Demonstration Project performance report shows that the median heat pump energy output (as a percentage of total space heating output in hybrid systems) was 38.7%, when optimised for cost.³

Taking these considerations in mind, as well as the need to focus the scheme's incentives primarily on building the market for standalone heat pumps, we are proposing a lower hybrid heat pump credit weighting, of 0.5 credits per installation.

² The Electrification of Heat (EoH) demonstration project did not identify any particular type or age of property that cannot have a successful heat pump installation. It concluded that the suggestion there are particular home archetypes in Britain that are 'unsuitable' for heat pumps is not supported by project experience and data.

³ Energy Systems Catapult (2023), ['BEIS Electrification of Heat Project: Interim Heat Pump Performance Data Analysis Report'](#), Table 9.1, page 76.

Other hybrid systems

Hybrid heating systems that do not involve a fossil fuel heating element (e.g. configurations of other low-carbon appliances alongside a heat pump), will be treated the same as standalone heat pumps.

Hybrid heat pumps that do include a fossil fuel boiler element but are not certified by a scheme such as MCS, will not qualify towards earning credits or half-credits.

Future review of weightings

We may revise the weighting for hybrid heat pumps, or indeed introduce different weightings for other technologies, in later years of the scheme, in response to the latest evidence and changes in market conditions or deployment patterns.

Existing energy labels for space heating appliances have been in place since 2015 and are intended to help installers and consumers choose efficient heating appliances. The label establishes a single efficiency scale for all hydronic space heating appliances and allows comparison between different types of technologies such as boilers and heat pumps. As set out in the Energy-related products policy framework⁴, the government is considering improvements to the existing energy labels for space heating.

The energy label for space heating could be used to inform credit weightings that distinguish between different types of heating systems, based on their relative energy efficiency. However, planned updates to the existing space heating label are subject to consultation and would not be expected to come into effect until 2025 or later. We will consider whether applying a credit weighting based on the updated efficiency labelling framework, or an alternative, in the later years of the scheme could provide an effective means of applying differentiation in the award of credits to favour the most efficient appliances or configurations of appliances.

QUESTION 9: Do you agree that, at least for the first year, all qualifying fossil fuel-heat pump hybrids should receive 0.5 credits at the outset of the CHMM scheme? Yes/No. Please provide reasoning to support your response.

⁴ BEIS, 2021, Energy-related products policy framework, available at: <https://www.gov.uk/government/publications/energy-related-products-policy-framework>

Scheme Timelines

Using the first obligation period as an example, the table below illustrates how the proposed full compliance cycle for an obligation period.

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 July 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

Scheme Administration

Having undertaken a review of potential scheme administrators, the government has identified that the Environment Agency (EA) could be the appropriate scheme administrator for the CHMM. The Environment Agency has agreed to consider undertaking this role and to work with us to develop the administrative and legislative proposals for the scheme. The Environment Agency's formal agreement will be sought later in the year before finalising the scheme.

The EA has experience administering and enforcing environmental and climate change related regulatory schemes for the UK Government, some on a UK-wide basis, for example Climate Change Agreement (CCAs), the UK Emissions Trading Scheme (UK ETS), and the Extended Producer Responsibility obligations.

While we would expect the EA to act as scheme administrator for whole of the UK, subject to further design considerations and consultation with the relevant authorities, certain scheme compliance and enforcement activities may need to be carried out by or in conjunction with a relevant devolved agency, such as the Scottish Environment Protection Agency (SEPA), Natural Resources Wales (NRW), and the Northern Ireland Environment Agency (NIEA).

Boiler sales data

We intend to use fossil fuel boiler sales data provided by obligated parties as the basis for calculating parties' obligations under the scheme. Under this approach obligated parties will be asked to submit relevant boiler sales figures to the scheme administrator on a quarterly basis using a pro forma template or online digital portal. Imported fossil fuel appliances placed on the UK market will be relevant sales, whereas exported appliances will be excluded. Obligated parties will need to ensure that their reported boiler sales data reflects this scope.

Basing the obligation on sales in this way will mean that obligated parties are able to directly track and manage their obligations under the scheme and will ensure clarity and transparency in the obligation calculation (i.e. as a percentage of these boiler sales).

We are considering two main options for boiler sales data to be audited and assured. Under the first option, the obligation would be based on data provided by obligated parties only. The scheme administrator would develop a robust audit regime to identify error or misreporting and take corrective action where appropriate. This may involve the use of both risk-based or random-sampling of the records and evidence held by scheme administrator (and potentially third parties) and the requirement for obligated parties to produce documentary evidence as part of checks.

Under the second option, obligated parties could be required to have their sales data independently verified by a third party, with the scheme administrator adopting a risk-based approach on any auditing beyond this third-party verification. Under this approach, obligated parties could be asked to submit an independently verified report of their boiler sales figures on a regular basis, e.g. annually in arrears. This would be prepared in line with the relevant International Standard on Assurance Engagements, ISAE 3000, or an equivalent standard for assurance processes. Comparable obligation schemes, such as the Emissions Trading Scheme (ETS) and Renewable Transport Fuel Obligation (RTFO), use independent verifiers to ensure the accuracy of information provided.

QUESTION 10: Do you agree with the proposal to use obligated parties' UK sales of relevant fossil fuel boilers to calculate their obligation? Yes/No. Please provide reasoning to support your response.

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

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

Heat pump installation data

As set out above, we intend to require that heat pump installations are notified via an appropriate certification scheme (i.e. MCS or an equivalent scheme) to generate credits

towards the CHMM. Credits for heat pump installations will be issued to the manufacturer's account for the relevant obligation period based on when the certified installation took place, rather than the point at which the data is subsequently recorded onto the digital system by the scheme administrator, using either a manual or automated data entry process.

Using certified installation data for heat pumps, as opposed to upstream sales reported directly by heat pump manufacturers, will help mitigate the risk highlighted by respondents to the first scheme consultation that certain heat pump installations counted within the scheme could end up being exported from the UK or 'cycled' and counted multiple times. We believe that there are also clear benefits in increasing the use of heat pump installer and installation consumer protection schemes to ensure minimum standards and to improve the quality of data on heating appliance installations. We believe that requiring certification by MCS or an equivalent standards organisation would help to achieve this. It will also provide consistency and alignment with current incentive schemes that support heat pump installations, such as the BUS.

We propose that MCS and any equivalent certification scheme conduct appropriate audit and assurance checks to provide confidence that registered heat pump installations generating credits towards the CHMM are genuine, and so to mitigate the risks of fraud, error, and non-compliance. The scheme administrator will work with MCS and any other equivalent certification scheme to integrate these assurance activities into the wider scheme audit and assurance approach.

Requirements of an appropriate certification scheme (i.e. MCS or an equivalent)

For a certification scheme's notifications to be considered equivalent and suitable to generate credits towards the CHMM, it would need to demonstrate, at minimum:

- That both the product installed and the installation itself comply with industry best practice, product standards and relevant building regulations;
- Appropriate certification procedures, including proportionate assessment and audit of installers and installations;
- Appropriate accreditation by the United Kingdom Accreditation Service (UKAS) (e.g. to ISO 17065);
- Robust protections to ensure that work which does not meet scheme standards is put right promptly, with clear guidance on the expected conduct of installers and an effective investigations and complaints process;
- An ability and willingness to collect and provide the data required by the CHMM.

MCS is already recognised as meeting these conditions for other government schemes, e.g. the BUS. However, other organisations that wish to apply to be recognised as equivalent for both the CHMM and other government schemes are invited to contact the operations team in the Department for Energy Security and Net Zero for further information.

Due to data provision requirements and timescales to conduct assessments and implement changes, we do not expect that other certification schemes are likely to achieve equivalence prior to the initial implementation of the CHMM.

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? Yes/No. Please provide reasoning to support your response.

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? Yes/No. Please provide reasoning to support your response.

Digital system

We expect the collection, handling and use of the data required by the CHMM to be underpinned by digital infrastructure. We have therefore commissioned a Digital Discovery to investigate questions such as potential users and their needs, the technical landscape, and requirements for the development of the digital infrastructure. This infrastructure is likely to be required to, for instance, facilitate registration processes, enable the submission of boiler sales data and heat pump installations data, and support the administration of the obligation and the scheme credit accounts.

The digital infrastructure will need to be designed around the needs of its users. These are likely to include the scheme administrator, the obligated parties, and other heat pump manufacturers earning tradable credits under the scheme. We are grateful for the engagement of a wide range of stakeholders in the Digital Discovery and will continue to consider the needs and views of users throughout the development of the 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?

Credits: ownership, trading and transfer

Credit trading within the CHMM is intended to provide greater flexibility to obligated parties in how they meet the requirements of the scheme, to reduce costs, and to strengthen the incentives for the continued development of a thriving sub-sector of specialist heat pump manufacturers.

The scheme's digital infrastructure is expected to act as a tool for obligated parties to monitor their credit levels and make requests for heat pump credits to be transferred between accounts, reflecting commercial agreements on the transfer of credits. Any commercial

agreements between manufacturers in relation to the transferring of credits will not take place on the digital system.

Eligibility to own and purchase heat pump credits

We propose that only scheme participants – that is, heat pump manufacturers and obligated parties – will be allowed to own credits on the digital system, rather than permitting third-party traders or other entities to request accounts and to buy and sell scheme credits.

This will reduce the complexity of the administrative system by limiting the number of accounts needed. It will also mitigate potential risks related to allowing non-manufacturer third parties to own credits, whose incentives might be to engage in activities primarily aiming to drive up the price of credits.

Opening the ownership of credits on the digital system to ‘non-manufacturer’ entities could have some benefits, as potential intermediaries between buyers and sellers may find it easier to play a more active role in facilitating the transferring of credits if they are able to own the credits themselves. However, our current view is that broadening the ownership of credits in this way is likely to pose greater risks and potentially greater costs to manufacturers than benefits.

If there is sufficient demand in the market, it is plausible that one or more credit-trading exchange or auction platforms could be set up by third parties in order to help match buyers and sellers of credits, as has happened in a number of comparable schemes.

Further, we propose that only obligated parties will be allowed to purchase credits (i.e. to receive credits in a transfer from another credit account-holder). Allowing non-obligated manufacturers to purchase credits generated and owned by other parties may risk individual parties taking ownership of large portions of available credits with a view to control prices. Ensuring only obligated parties can purchase credits, and limiting the number of credits that can be carried over at the end of an obligation period (see below) helps to limit this risk.

QUESTION 16: Do you agree with the proposal to limit credit ownership to scheme participants? Yes/No. Please provide reasoning to support your response.

QUESTION 17: Do you agree with the proposal to limit credit-purchasing to obligated parties? Yes/No. Please provide reasoning to support your response.

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?

Credit carryover

In order to increase flexibility for scheme participants further, we are considering allowing for parties with a surplus of credits to carry forward a portion of these from one period to the next.

We propose that the maximum number of credits that obligated manufacturers would be able to carry forward is equal to 25% of their credit-holding on ‘surrender day’ prior to settling their obligation for the current period. Parties’ obligation for the current obligation period must then be settled in full before any surplus credits (up to that maximum) can be carried forward. (See *example in table below.*)

Relatedly, we propose that non-obligated heat pump manufacturers be able to carry forward 25% of the credits that they have earned during the obligation period. However, only credits held on the surrender date (i.e. not sold to other parties) would be able to be carried forward. (See *example in table below.*)

Worked Examples	Obligated Manufacturer	Non-Obligated Heat Pump Manufacturer
Target for Year 1	10,000	N/A
Credits earned	8,000	6,000
Credits bought	4,000	N/A
Credits sold	0	4,000
Credits held on surrender day (1st Oct 2025)	12,000	2,000
Maximum potential credit carry-over	3,000 (i.e. 25% of 12,000)	1,500 (i.e. 25% of 6,000)
Actual credit carry-over to Year 2	2,000	1,500

As well as increasing flexibility, providing a degree of credit carryover would arguably ease planning pressures for obligated manufacturers, by removing the need to precisely meet target levels within each obligation period. It would also ensure that across the whole market there remains an incentive to expand heat pump deployment beyond the aggregate of company-level credit targets, creating some headroom for annual growth.

At the same time, limiting the proportion of credits that can be carried forward will ensure that there remains a clear incentive for all parties to engage in agreeing the transfer of heat pump credits between parties, helping to keep the market efficient and overall costs as low as possible.

QUESTION 19: Do you agree with the proposals here on credit carry-over for obligated parties? Yes/No. Please provide reasoning to support your response.

QUESTION 20: Do you agree with the proposals here on credit carry-over for non-obligated heat pump manufacturers? Yes/No. Please provide reasoning to support your response.

Target carry-forward

We also propose to allow companies to carry forward a limited proportion of their target to the next obligation period, in order to increase the flexibility for firms in meeting their obligation and to help ensure compliance. An obligated manufacturer, which has acquired credits marginally beneath their target requirement will therefore remain compliant, but they will be required to make up the difference in the next obligation year.

The maximum credit deficit we are proposing for this target carry-forward is whichever is the greater of:

- 25% of an obligated party's target for the relevant year, or
- 300 credits (for parties with relevant gas boiler sales over 20,000) or 50 credits (for parties with only relevant oil boiler sales over 1,000).

(See the worked examples in the table below.)

Allowing for a very large proportion of a year's target to be carried forward would clearly present significant risks, slowing down investment in expanding the heat pump market and supply chain and potentially leading to higher levels of non-compliance in later scheme years. All actors in the market need to be sufficiently confident in the scale of activity that other market participants will be making in order to pursue their own plans with confidence.

We believe that limiting the proportion of target carry-forward to the subsequent obligation period to the level proposed above will minimise these risks, whilst providing firms with flexibility in growing their heat pump sales and achieving their obligation over time.

We are also considering whether target carry-over should come with a small disincentive to encourage companies to fully meet their targets within each obligation period. For example, a multiplier of x1.2 could be applied to target carry-over, such that a deficit of one credit carried forward from one year's target, would result in 1.2 credits added to the subsequent year's target. This would help to ensure the maximum impact from the scheme on energy demand and greenhouse gas emissions reductions. Since all market participants will generally benefit from high levels of heat pump deployment, it would also support and sustain a supply chain and consumer market well set for further growth.

By definition, no obligated manufacturer will be permitted to carry forward credits and carry forward a target deficit in the same year, since credit carry-over will only apply to a surplus after full obligation settlement.

Worked Examples	Obligated Party 1	Obligated Party 2
Boiler Sales in Year 1	60,000	22,000
Credit Target in Year 1 at 4% (using Option 1 targets)	$(60,000 - 20,000) \times 4\% =$ 1,600	$(22,000 - 20,000) \times$ 4% = 80
May carry forward target to Year 2 up to	400	300
Must Surrender on Year 1 Surrender Day, at least	1,200	0
Carried-forward target, after 1.2 multiplier	480*	96**
Boiler Sales in Year 2	60,000	22,000
New Credit Target in Year 2 at 6% (using Option 1 targets)	2,400	120
Full Credit Target in Year 2, after carry-forward	2,880	216
May carry forward target to Year 3 up to	600	300
Must Surrender on Year 2 Surrender Day, at least	2,280	96***

*Assuming Obligated Party 1 carries forward a target for 400 credits from Year 1, corresponding to its maximum target carry-over level for that year.

**Assuming Obligated Party 2 carries forward a target of 80 credits from Year 1, corresponding to its whole target for that year.

***The carried-forward target of 96 carried from Year 1 must be surrendered in Year 2, even though Obligated Party 2's full Year 2 target does not exceed 300.

QUESTION 21: Do you agree with the proposal to allow obligated manufacturers to carry forward up to 25% of their target (or up to a target of 300 credits, if higher) to the following obligation period? Yes/No. Please provide reasoning to support your response.

QUESTION 22: Do you agree with the proposal to apply a modest disincentive to target carry-forward, by multiplying the target amount carried forward by a factor of 1.2? Yes/No. Please provide reasoning to support your response.

Payments-in-lieu of missed targets

Where obligated parties fail to meet their credit obligation, and where this shortfall exceeds the obligation that can be carried over into the subsequent year under the target carry-forward rules above, we propose that they will be required to make a payment in lieu of the remaining shortfall. For example, if a party falls short of its obligation target by 28%, it would be able to carry forward 25% of its target to the next obligation period and would need to make a payment in lieu of the remaining 3% in the current obligation period.

We intend that this payment will be set on a per credit basis, at £5,000 per missing heat pump credit. This level would provide a strong incentive for companies to meet their targets through the sale and installation of heat pumps, or through the acquisition of heat pump credits, thereby ensuring the incentives align with the aim of the CHMM to support an expansion of the UK heat pump market.

In establishing this level, we have taken into account the need to ensure that compliance through expanding the heat pump market should be more cost-effective than making a payment-in-lieu and have also considered the relative cost of lifetime carbon emissions of a heat pump compared to a gas boiler. This level is also in line with a number of the responses to the first consultation on the scheme.

Worked Example	Obligated Manufacturer A	Obligated Manufacturer B
Target for Y1 (credits)	10,000	10,000
Credits earned	7,200	7,000
Credits bought	200	600
Credits sold	0	0
Credits held on surrender day	7,400	7,600
Initial credit shortfall	2,600	2,400
Target carried forward (up to 25% of Target)	2,500 (i.e. 25% of 10,000)	2,400
Final credit shortfall	100 (i.e. 10,000 - 7,400 - 2,500)	0
Payment-in-lieu	£500,000 (i.e. 100 x £5,000)	£0

The final credit shortfall will be calculated at the Credit Surrender Date when final target, credit and target carry-forward levels are all known. We propose that obligated parties with such a shortfall will be required to make an appropriate payment-in-lieu within a specified timeframe of e.g. two months.

If the payment-in-lieu is not made by the specified deadline, a financial penalty for its full value will be issued by the scheme administrator and may also be subject to late payment fees.

QUESTION 23: Do you agree with the proposed approach to payments-in-lieu of missed targets as set out above? Yes/No. Please provide reasoning to support your response.

Compliance and enforcement

The scheme administrator will be responsible for managing the scheme. Subject to further design considerations, certain enforcement and compliance responsibilities for the CHMM may be carried out by devolved agencies, at least to some extent, in coordination with the scheme administrator. We will work closely with the scheme administrator and any other potential

enforcing authorities to ensure that the scheme's design, while as light-touch as possible, supports and incentivises compliance.

In contributing to the design of the compliance and enforcement regime the EA will draw on their experience administering and enforcing other related obligation schemes such as the Climate Change Agreements scheme (CCAs), the UK Emissions Trading Scheme (UK ETS), the Producer Responsibility Obligations (PRO), and the Energy Savings Opportunity Scheme (ESOS).

The enforcement mechanisms must be proportionate yet rigorous enough to ensure that obligated parties seek to meet the requirements of the scheme, rather than merely accept the penalties for non-compliance. The scheme administrator will always seek to help participants into compliance as a first step – for example, issuing guidance and information notices to scheme participants well in advance of scheme deadlines. We propose that enforcement responses should vary according to the type, severity and frequency of non-compliance, and the nature and culpability of participants that fail to comply.

We propose that the scheme will be enforced primarily through a civil sanctions-based regime, including financial penalties. Criminal sanctions may also be applicable in some circumstances. For example, fraudulent activity in relation to the scheme, by any party, will be a criminal offence. We also propose to make repeat non-submission of required information and repeat non-payment of penalties criminal offences under the scheme regulations.

Obligated parties will have the right to appeal against regulatory decisions where appropriate. We intend that appeals against decisions will follow well established appeals procedures. Further detail on compliance, enforcement and appeals provisions in the scheme regulations will be set out in scheme guidance.

QUESTION 24: Do you agree with the approach to compliance and enforcement set out above? Yes/No. Please provide reasoning to support your response.

Territorial extent

As set out in the rest of this consultation, the CHMM is designed to operate UK-wide, encompassing all relevant boiler sales and qualifying heat pump installations on the UK market, including placing an obligation on manufacturers outside the UK where relevant. Applying the scheme to the whole UK market for heating appliances will also help to avoid risks that could arise if different rules applied to sales of heating appliances in one part the UK market from another and help to keep complexity of compliance for businesses to a minimum.

We are grateful for the engagement of the Scottish and Welsh Governments and Northern Ireland Executive on the scheme's development to date, and we will continue to work with them on its design and implementation to complement heat and energy efficiencies policies in Scotland, Wales and Northern Ireland.

Equality Act 2010

Under the Public Sector Equality Duty, the government must take steps to understand how policies will affect different groups in society in different ways, with a particular focus on removing or minimising disadvantages suffered by people due to the following protected characteristics: age; gender reassignment; being married or in a civil partnership; being pregnant or on maternity leave; disability; race including colour, nationality, ethnic or national origin; religion or belief; sex; and sexual orientation.

Our assessment to date, in part informed by responses to the first consultation on the scheme, is that we do not expect that the policy will have disproportionate negative impacts on population groups with protected characteristics. This is because deployment of heat pumps under the scheme will be on a voluntary basis for individual consumers and households. The main overall benefits of the policy – carbon emissions reductions and climate change mitigation – are public goods and expected to benefit the whole population without different impacts for specific groups.

We recognise, as a number of respondents to the first consultation also did, that there is a risk that those in certain groups (in particular older people and those with certain disabilities) may be at greater risk of being mis-sold heating appliances, including low-carbon heating appliances, which in turn could lead to poor thermal comfort and/or higher costs. It is therefore important, both for this policy and more broadly, that there are robust consumer protection safeguards and standards in place. The recent strengthening of guidance in the Approved Document for Part L of the Building Regulations is part of this, as is the proposal in this consultation to require that to earn a credit under the CHMM, heat pump installations must be certified by an appropriate certification scheme, such as MCS or an equivalent scheme.

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?

Consultation Questions

QUESTION 1: Do you agree with the proposals here for what constitutes a qualifying heat pump installation? Yes/No. Please provide reasoning to support your response.

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?

QUESTION 3: Do you agree with the proposals for obligated parties here? Yes/No. Please provide reasoning to support your response.

QUESTION 4: Do you agree that related parties, business units, or brands within the same corporate group should be treated as one 'appliance manufacturer' entity for the purposes of determining targets under the scheme and awarding heat pump credits? Yes/No. Please provide reasoning to support your response.

QUESTION 5: Do you agree with the proposed minimum thresholds for the obligation and treatment of small companies? Yes/No. Please provide reasoning to support your response.

QUESTION 6: Do you agree with the proposal to apply the obligation to all above-threshold manufacturers of fossil fuel boilers sold on the UK market regardless of those manufacturers' location, instead of obligating only UK-based companies responsible for first placing appliances on the UK market? Yes/No. Please provide reasoning to support your response.

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?

QUESTION 8: Do you agree with the preferred Option 1 in relation to the setting of targets? Yes/No. Please provide reasoning to explain your response.

QUESTION 9: Do you agree that, at least for the first year, all qualifying fossil fuel-heat pump hybrids should receive 0.5 credits at the outset of the CHMM scheme? Yes/No. Please provide reasoning to support your response.

QUESTION 10: Do you agree with the proposal to use obligated parties' UK sales of relevant fossil fuel boilers to calculate their obligation? Yes/No. Please provide reasoning to support your response.

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

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

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? Yes/No. Please provide reasoning to support your response.

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? Yes/No. Please provide reasoning to support your response.

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

QUESTION 16: Do you agree with the proposal to limit credit ownership to scheme participants? Yes/No. Please provide reasoning to support your response.

QUESTION 17: Do you agree with the proposal to limit credit-purchasing to obligated parties? Yes/No. Please provide reasoning to support your response.

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?

QUESTION 19: Do you agree with the proposals here on credit carry-over for obligated parties? Yes/No. Please provide reasoning to support your response.

QUESTION 20: Do you agree with the proposals here on credit carry-over for non-obligated heat pump manufacturers? Yes/No. Please provide reasoning to support your response.

QUESTION 21: Do you agree with the proposal to allow obligated manufacturers to carry forward up to 25% of their target (or up to a target of 300 credits, if higher) to the following obligation period? Yes/No. Please provide reasoning to support your response.

QUESTION 22: Do you agree with the proposal to apply a modest disincentive to target carry-forward, by multiplying the target amount carried forward by a factor of 1.2? Yes/No. Please provide reasoning to support your response.

QUESTION 23: Do you agree with the proposed approach to payments-in-lieu of missed targets as set out above? Yes/No. Please provide reasoning to support your response.

QUESTION 24: Do you agree with the approach to compliance and enforcement set out above? Yes/No. Please provide reasoning to support your response.

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?

This consultation is available from: <https://www.gov.uk/government/consultations/clean-heat-market-mechanism>

If you need a version of this document in a more accessible format, please email alt.formats@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.