



Department for
Energy Security
& Net Zero

Addendum to the Clean Heat Market Mechanism Consultation - Government Response

Summary of responses received and
government response

November 2024



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Introduction

Summary of consultation

On the 14 March 2024 an addendum to the 2023 government response to the Clean Heat Market Mechanism consultation, was published. This launched a focused consultation on the proposal to delay the scheme start date to April 2025. This additional consultation closed on 9 May 2024. This document summaries the responses to the two consultation questions and outlines the government’s position on the topics raised.

Prior to this additional consultation in 2024 there have been two consultations relating to the Clean Heat Market Mechanism (CHMM). In the first consultation published in late 2021, the government sought views on the overall concept and role of a potential market-based mechanism for low-carbon heat. The second consultation published in March 2023 consulted on a range of key proposals relating to the specific design of the scheme.

Summary of stakeholder responses to the consultation proposals

The consultation was published on GOV.UK. In total 42 individual responses were received. A range of industry professions, trade bodies and members of the public responded to this consultation. We have carefully considered all the views we received.

Table 1 provides a breakdown of responses by category of respondent.

Table 1: Consultation responses by respondent type

Respondent type	Number of responses
Energy suppliers (and related trade associations)	5
Fossil fuel heating appliance manufacturers (and related trade associations)	5
Other heating supply chain actors (and related trade associations)	16
Specialist heat pump manufacturers (and related trade associations)	4
Other organisations (including individuals; NGOs; and local government)	12

In relation to whether respondents supported delaying the launch of the scheme until 2025, respondents answered this question in a variety of ways. We have grouped these responses to Question 1 into three categories set out in the next section of this document. Half of all respondents stated that they did not support the delay and would have preferred that the scheme launch as planned in April 2024.

In the course of their responses to both Question 1 and Question 2, respondents commented on various elements of the scheme design, including target levels; credit weightings; payments-in-lieu; scheme guidance and regulations; certification schemes; and credit trading. Both supportive and unsupportive views were raised in relation to the current scheme design as a whole and individual elements of it.

The majority of responses also set out views on how the CHMM relates with and can be supported by a wider policy framework supporting the decarbonisation of home heating and acceleration of heat pump deployment over the coming years.

Summary of government response

Having carefully considered the responses to this consultation addendum, the government can confirm that the CHMM will launch on 1 April 2025, with two adjustments to the scheme design.

Firstly, the payment-in-lieu level that obligated parties will be required to make for each missing credit will be reduced from £3000 to £500 for the first scheme year.

Secondly, the period over which boiler sales are counted, as the basis for the obligation under the scheme, will be adjusted to run from 1 April 2025 to 31 March 2026, as opposed to 1 January to 31 December 2025. This is to allow obligated parties more time to prepare in response to the confirmation of the details of the scheme.

The scheme regulations giving effect to the policy have been introduced to Parliament alongside the publication of this consultation response.

While the government acknowledges the other concerns raised by some respondents, it believes that introducing the CHMM in April 2025 is an important and valuable component of the comprehensive policy framework needed to help accelerate the transition to clean heating. This transition over time away from heating largely based on fossil fuels is vital both for reducing emissions and for strengthening UK energy security since over 40% of the UK's current annual natural gas consumption is for heating.

It is the government's view that introducing the CHMM will help to provide market actors with the confidence and clarity to underpin investments and spur innovation in developing the UK's heat pump market over the coming years. This will help create the opportunity for UK engineering and manufacturing to acquire a growing share of domestic and export demand as leading companies continue to develop this market. Industry leadership in creating a vibrant competitive supply chain making, promoting and installing heat pumps in the UK will make it

easier and more affordable for consumers to make the switch to a heat pump. It will also support skilled, futureproof low-carbon jobs throughout the supply chain in producing, installing and maintaining the technologies of the future.

The first year of the scheme will form an effective baselining year ahead of its future evolution. Targets for Year 2 (2026/27) onwards, as well as other potential changes, will be the subject of further consultation next year.

The postponement of the scheme to April 2025

Question 1: Do you support postponing the launch of the CHMM scheme to 1 April 2025 to allow more time for the market to develop? Please provide reasoning to support your response.

Summary of responses

There were 42 responses to this question.

Respondents answered 'Yes' and 'No' to this question in a variety of ways. We have grouped responses below in a way that best summarises the views expressed.

The first group comprises respondents who were not supportive of the postponement and suggested that they would have preferred that the scheme had launched in April 2024; some of these accepted that April 2025 is now the most viable option. Included in this category are a couple of respondents whose reasoning for not supporting the postponement was because the announcement to delay the scheme was made close to the original launch date. In total there were 21 respondents in this category.

The second category, containing 13 respondents, is those who responded that they were supportive of the postponement of the scheme's launch until at least April 2025. Some respondents in this category have expressed the view that they do not believe this policy approach is the most suitable means of meeting the government's ambition to grow the heat pump market, but that if the scheme is to go ahead, they supported its postponement.

A third category comprises respondents who stated that they would prefer that the scheme does not go ahead at all or that it is delayed until 2030 or beyond. Seven of the 42 respondents were in this category. Finally, there was one response that did not express a view on the postponement.

The majority of respondents expanded on their answer to this question, with several respondents suggesting actions that they would like to see the government take in conjunction with introducing the scheme, on both the scheme's design and wider enabling policy for heat pumps. A significant proportion of these views were closely linked with answers provided in response to Question 2. Therefore, we have taken the decision to summarise these views, grouped by topic, in combination with the summary of responses to Question 2. An overview of the remaining comments provided in support of responses to Question 1, which do not relate to the topics discussed under Question 2, is provided below.

Several respondents who were not supportive of the postponement to the scheme's launch outlined that they believed that the delay would cause uncertainty for the heat pump market and reduce or forestall investment into this market. It was also felt that delaying the scheme could negatively impact the ability to scale up heat pump deployment across the UK and, more

broadly, the ability to reach emissions reduction targets, given the importance of building decarbonisation to reducing overall UK greenhouse gas emissions.

Reasons given in support of delaying the scheme until April 2025 were more varied. Some respondents felt that delaying the scheme would provide additional time for elements of the scheme to be reconsidered; for industry stakeholders to be further engaged; for the market to further develop; and for consumer attitudes towards heat pumps to be considered further.

Finally, some of the respondents who supported the scheme being abandoned or significantly delayed stated that they did not believe the scheme to be the correct policy approach for the government to pursue and that alternative approaches should be considered. Some argued that it is unfair to require obligated manufacturers to make a payment in lieu of a shortfall against credit targets, as in most cases manufacturers do not directly sell their products to the consumer; a number of these suggested that they felt that the scheme's design had been premised on a poor understanding of how the UK heating market works. A similar view was also expressed by a small number of respondents in the other categories.

Government response

The views shared by respondents to the consultation addendum have been carefully considered. The government is of the view that the CHMM can play an important role, in concert with a wider suite of complementary policies, in supporting and accelerating the transition to low-carbon, energy-secure heating. It is also the government's view that the scheme will provide a range of market actors with the clarity and confidence to pursue efforts to contribute to the development of the UK heat pump market and in this way help to make installing a heat pump a simpler, more attractive option for consumers.

The government therefore intends to proceed with launching the scheme in April 2025. Having considered responses to the consultation, the government has decided to lower the payment-in-lieu level that obligated parties would be required to pay for each missing heat pump credit from £3000 to £500 for the first scheme year, as discussed further in the next section. The government has also decided to adjust the period over which boiler sales are counted, to run from 1 April 2025 to 31 March 2026, as opposed to 1 January to 31 December 2025. Qualifying heat pump installations will begin from 1 April 2025, as had been proposed by the previous government in March 2024. The government has introduced the scheme regulations to Parliament, and the Scheme Administrator will publish scheme guidance in due course.

Scheme design and wider policy framework

Question 2: In adjusting the start of the CHMM, are there any specific factors that the government should take into account?

The responses provided to Question 2 covered a range of topics relating to the design of the CHMM scheme and wider building decarbonisation policy. We have grouped these comments by topic. As explained above, these summaries also incorporate views on the same topics provided in response to Question 1 within this section, to avoid significant repetition throughout this document.

Target Levels and Credit Weightings

Summary of responses

In total, 15 respondents discussed the topic of target levels and/or credit weightings.

A few respondents were supportive of the target level for Year 1 remaining at 6%, as proposed, or higher. These respondents reasoned that reducing target levels would reduce market certainty. The majority of the 15 respondents who discussed target levels, however, did not support 6% being the target for Year 1. This group primarily comprised of fossil fuel appliance manufacturers and other supply chain actors. Several of the responses suggested that the planned target was unachievable or could put obligated parties at risk. A small number of the respondents suggested alternatives to the 6% target for Year 1; 4% was the most commonly proposed alternative (by 4 of the 42 respondents).

A range of respondents also made suggestions, similar to those made during the 2023 consultation, about what activities scheme credits should be awarded for, beyond the retrofit installation of heat pumps; this included for the installation of heat pumps into new-build properties and for the provision of installer training. Some respondents also commented on the credit weighting awarded to different heating technologies. In particular, a small number of respondents proposed that hybrid heat pump installations should be awarded more than the planned 0.5 credits and others proposed that heating appliances other than heat pumps should be considered for half or whole credits.

Government response

Having carefully considered the range of views on this topic, the government has decided to proceed with setting the 2025/26 target at 6% of relevant boiler sales, as planned. The government is confident that the target level for Year 1 is realistic and achievable for obligated parties. Several flexibilities, such as the target carry-forward allowance, have been built into the scheme to help obligated parties to meet target levels in a range of ways.

The government does not see a case for adjusting the approach with respect to heat pump installations in new-build properties at this stage. The focus of the CHMM in the baseline year will be on growing the market for retrofit heat pump installations. Future standards will encourage the deployment of heat pumps in new-build properties. Similarly, installer training is being supported in a number of ways, and the government does not believe that there is merit in increasing the complexity of the CHMM's design by awarding scheme credits for training and thereby reducing market clarity on the expected impact of the scheme on heat pump installations per se.

The decision to award qualifying hybrid heat pump installations with 0.5 scheme credits will also be maintained. This weighting strikes an appropriate balance between encouraging hybrid installations and providing greater flexibility to scheme participants in how they meet targets, while also accounting for the lower greenhouse gas reductions and energy efficiency levels of hybrids compared to standalone heat pumps.

Payments-in-Lieu

Summary of responses

Seven of the 42 respondents mentioned this topic.

A number of these respondents expressed concerns about the requirement for obligated parties that do not meet scheme targets to make a payment-in-lieu, suggesting that they viewed this as unfair or unlikely to be effective. One reason given was that the need to make a payment could negatively impact obligated parties' future investment plans.

By contrast, one respondent stated that they were concerned that any further reduction in the proposed payment-in-lieu level would likely result in the reduced effectiveness of the scheme.

Finally, a number of the respondents expressed the view that any money collected from payments-in-lieu should be reinvested into the heat pump sector rather than going to the Consolidated Fund.

Government response

Having considered views raised on this topic, the government has decided to reduce the payment-in-lieu from £3000 to £500 per missing heat pump credit for the first scheme year. The government believes that this payment-in-lieu level will ensure there remains an incentive for obligated parties to invest and build their heat pump sales, while limiting potential cost impacts for obligated parties during this initial transitional phase.

However, given the substantial financial support available for heat pump installations through schemes like the Boiler Upgrade Scheme (for which the Government has announced a near doubling of the budget for 2025-26) and given flexibilities built into this scheme such as the target carry-forward allowance and the option to acquire credits from other manufacturers, the government in any case does not believe that making payments-in-lieu should be necessary

for any manufacturer. Any payments-in-lieu collected in the baseline year, will go to the Consolidated Fund, as is common for most such schemes.

The government will keep this under review and continue to consider how the payment-in-lieu may need to evolve, subject to further consultation, after the first scheme year in order to ensure that there is sufficient incentive for market actors to invest in developing the heat pump market at the rate the energy transition requires.

Scheme Administration and Compliance

Summary of responses

13 respondents discussed the scheme's administration, regulations and compliance information in their responses.

Nearly all these respondents requested that the government publish and introduce the scheme regulations to Parliament as soon as possible to provide reassurance and clarity about the scheme's launch. Respondents also mentioned that the dates for the start of the obligation period and the scheme launch need to be confirmed. This was seen as necessary to allow industry to begin preparations. A few respondents expressed the view that publishing the scheme regulations after the start of the boiler sales period should be avoided.

Around half of these respondents also asked for relevant scheme documentation and guidance to be published ahead of the scheme's launch (and in the view of most of these responses, ahead of the start of the boiler sales period), including detail on how evidence requirements and third-party verification processes will work, for instance in relation to the exclusion of sales of boilers bound for new-build properties. Several respondents were also interested in understanding more about the digital system and its development and were keen for the opportunity to familiarise themselves with the system requirements as soon as practicable.

Government response

The government has introduced the secondary legislation for the CHMM, the scheme regulations, in Parliament alongside the publication of this response.

As outlined above, the boiler sales period will be adjusted to begin on 1 April 2025 and run to 31 March 2026, as opposed to 1 January to 31 December 2025. The scheme's launch, from when heat pump installations will begin generating scheme credits, will remain 1 April 2025.

The Environment Agency (EA), the Scheme Administrator, will publish scheme guidance in advance of the scheme's launch. Supplementary guidance on independent verification of boiler sales data will be published shortly after the scheme's launch. The EA will also engage industry stakeholders in advance of launch to ensure operational readiness. As noted in the 2023 consultation response, the EA has significant relevant experience in administering and engaging with industry participants in a range of similar schemes, including the UK Emissions

Trading Scheme. Scheme participants will also have further opportunities to familiarise themselves with the digital system in advance of launch.

Certification Schemes

Summary of responses

There were 10 respondents that referred to the expected role of the Microgeneration Certification Scheme (MCS) in certifying heat pump installations to generate credits under the CHMM.

Several of these respondents highlighted concerns over the present coverage of the scheme, such as installers that operate outside of the MCS and the incentive for certification of installations that are not government-supported (e.g. via the Boiler Upgrade Scheme). Three respondents requested that the Microgeneration Installation Database (MID) be updated to ensure that it differentiates between new-build and retrofit heat pump installations prior to scheme launch. One respondent suggested that heat pump credits should be awarded based on sales 'from the factory gate' rather than based on installations verified through certification schemes.

Some respondents also expressed the view that there is a need for MCS to update some of its guidance and standards documents, such as the Microgeneration Installation Standard 3005d (MIS3005d) to clarify how hybrid heat pumps will be certified. Three respondents also requested the government to publish guidance on the approval of certification schemes for the CHMM as soon as possible or cited potential alternative certification schemes.

Government response

The CHMM will require heat pump installations to be notified to an approved certification scheme in order to ensure that only assured, qualifying installations in the UK generate credits. Certification schemes ensure that consumers can have confidence in receiving adequate levels of consumer protection and installations and products that meet appropriate quality standards. Using certified installation data, rather than upstream bulk sales data, also obviates the risk that, for instance, a heat pump is counted that is ultimately exported and installed in another market.

The government estimates that there are currently around 7,000 MCS-certified installers, and the number is growing steadily. The government is confident that there is sufficient qualified installer capacity at this stage and that it can continue to expand in line with the targeted growth in the UK heat pump market. This will be kept under close review.

While MCS's decisions related to its operational processes and publications are independent, the government engages closely with the organisation on a range of matters. The government understands that MCS have made updates to their systems to facilitate data collection for the CHMM, and that these will be rolled out in advance of the CHMM's launch. MCS is also in the

process of updating its MIS 3005d standard which will clarify the certification process for hybrid heat pumps; and they expect to complete this work prior to the launch of the CHMM.

The government will publish details of the process and criteria for schemes to apply to be deemed a CHMM certification scheme in advance of the scheme's launch.

Credit Trading and Market Impacts

Summary of responses

Market dynamics, including in relation to credit trading under the CHMM, were mentioned by eight respondents, of which half were specialist heat pump manufacturers.

Some of these respondents expressed concerns about the impact that the scheme, and in particular its credit trading element, could have on the heat pump market. One concern voiced was that obligated parties could have a competitive advantage as a result of being able to potentially take part in credit trading both as a buyer and as a seller of credits, whereas non-obligated manufacturers could only sell credits. Another concern raised was that obligated manufacturers selling both boiler and heat pumps could generate additional revenue from boiler prices in order to offer discounts or other incentives on heat pumps, which non-obligated specialist heat pump manufacturers might struggle to compete with.

A small number of respondents requested that the government issue guidance about credit trading, and particularly about how companies could ensure to remain in compliance with competition law. One respondent took the view that guidance would be inadequate and proposed that credit trading should be directly regulated.

Additionally, several respondents mentioned a range of concerns relating to the increase of some boiler prices seen earlier this year, with a couple of respondents stating that they would welcome a review of the home heating market by the Competition and Markets Authority (CMA), as requested by the previous Secretary of State.

Government response

Credit trading is an important element of the CHMM and provides obligated parties with additional flexibility in how they can meet scheme targets. It enables all heat pump installations (including all those supported by government funding schemes) to contribute to meeting those targets, supports competition between a wide range of both well established and newer entrants to the UK heat pump market, and so overall helps to keep costs as low as possible for businesses and consumers. The government believes that credit trading will also continue to incentivise investment in the development of the heat pump market by both obligated and non-obligated parties.

Guidance will be provided by the Scheme Administrator about how parties will be able to report, and effect agreed credit transfers on the CHMM's digital platform. As set out in the 2023

consultation response, the Scheme Administrator will not be involved in or party to commercial credit-trading agreements between companies.

Future Scheme Years

Summary of responses

Six respondents mention future years of the CHMM scheme beyond 2025/26, and specifically the question of credit targets for future scheme years.

These respondents expressed a desire for targets for future scheme years to be published and consulted upon. It was highlighted that while the previous 2023 consultation response outlined targets for the first two years of the scheme, the delay to the scheme has meant that the second year of scheme targets (i.e. targets for 2026/27) is not known by industry. Without this knowledge, these respondents suggest that obligated parties will have difficulty preparing well for future years of the scheme. A range of timelines were proposed for when these future targets should be published, consulted upon or confirmed.

Additionally, one respondent requested that the scheme should be evaluated after 18 months of implementation to assess how effective it has been in achieving its aims.

Government response

The 2023 consultation response set out the government's intent to confirm targets at least six months in advance of the start of any scheme year. Where possible, however, the government's aim will be to provide industry with policy clarity against which to plan over a longer, multi-year, time horizon. A consultation on future scheme years will be published in 2025. As with all policies, the government will have a plan in place to monitor and evaluate the scheme to assess its impact and inform policy review and any evolution to the scheme's design over time.

Other Government Policies and Enablers

Summary of responses

Several respondents commented on wider enabling policy action that they would like the government to accelerate to further support the development of the heat pump market.

The topic most frequently mentioned was the rebalancing of gas and electricity prices, with 12 respondents highlighting the challenge of consumer uptake of heat pumps while there is no guarantee that a household's running costs will be lower than with a gas boiler. Some suggested that heat pump-specific 'type-of-use' tariffs could be used as an interim measure if fuller or faster rebalancing of unit prices was not feasible.

Several respondents called for further policy support for the insulation of homes and other buildings, including through 'whole-house' approaches. A few respondents were also keen to see rapid action to finalise reforms to Energy Performance Certificates (EPCs) and the Home Energy Model that would ensure that EPC ratings are improved by the installation of a heat pump (or hybrid heat pump).

Electricity network infrastructure was another area highlighted, with a number of respondents urging action both on distribution network upgrades and the speed of approval and registration by Distribution Network Operators for heat pump installations.

Nine respondents commented on support for growing the numbers of skilled heating installers to keep pace with the targeted growth in deployment, with several calling for the government's Heat Training Grant to be expanded and made more accessible.

Financial support for heat pump installations was discussed among a similar number of the responses, with around half of these also promoting an increase in support for hybrid heat pumps. Comments included calls for the Boiler Upgrade Scheme to be expanded; for greater funding for heat pumps through other schemes such as the Social Housing Decarbonisation Scheme, Home Upgrade Grant and Energy Company Obligation; for Council Tax incentives; and for government-supported low-cost finance.

Consistency of government messaging, communications and signalling in relation to the transition to low-carbon heat and the path to net zero more broadly was highlighted by several respondents as important for industry, investor and consumer confidence.

Finally, a few respondents each encouraged the government to take further action on consumer education and information related to heat pumps, on reforms to planning permission in relation to installations, and on establishing a phase-out date for fossil fuel boiler installations.

Government response

The government notes these comments, which will help to inform considerations on its wider plans for the heat and buildings sector, including the Warm Homes Plan.

Next Steps

As the government moves forward with preparations for the launch of the scheme in April 2025, engagement with stakeholders will continue, particularly in relation to the use of the scheme's digital platform.

Scheme guidance will also be published by the Environment Agency (EA), the administrator for the CHMM, and the EA will undertake further engagement with scheme participants in relation to the guidance and to scheme registration and compliance.

Annex A List of respondents

- AOS Energy Efficient Heating System Ltd
- Baxi Heating UK Ltd
- Better Planet UK Ltd
- Blygold (UK) Ltd
- Carrier Residential & Light Commercial (RLC) Europe
- Central Plumbing & Heating Ltd
- Daikin Airconditioning UK Ltd
- EDF Energy Ltd
- Energy UK
- Energy Utilities Alliance (EUA)
- E.ON UK plc
- Heat Pump Association (HPA) Ltd
- Ideal Heating
- Kane International Ltd
- Kingsley Bathroom Plumbing and Heat Centre (BPHC)
- Myenergi Ltd
- Oil Firing Technical Association (OFTEC) and UK and Ireland Fuel Distributors Association (UKIFDA)
- Ongas Ltd
- OVO Energy Ltd
- Pickering & Ferens Homes
- Robert Price (Builders' Merchants) Ltd
- Sayes Service Ltd
- Scottish Power Ltd
- Scottish And Northern Ireland Plumbing Employers' Federation
- The Builders Merchants' Federation (BMF) Ltd
- The Gas Company UK Ltd
- The Kensa Group Ltd
- The MCS Foundation
- Thermal Storage UK
- UK100

- Vaillant Group UK Ltd
- West Midlands Combined Authority
- Williams Trade Supplies Ltd
- Worcester Bosch

In addition, responses were received from eight individuals

This publication is available from: www.gov.uk/government/consultations/clean-heat-market-mechanism-adjustment-to-scheme-introduction-date

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