

## Chartered Institute of Housing (CIH) response to DESNZ consultation on the Clean Heat Market Mechanism

### Summary of our response

CIH welcomes and supports the Clean Heat Market Mechanism (henceforth CHMM) as an important intervention that could drive necessary growth in the heat pump market and help meet the government's targets on heat pump installations. The main points included in our response to the consultation questions are as follows:

- CIH broadly supports the government's proposals for what constitutes a qualifying heat pump installation. We support the inclusion of low- and high-temperature heat pumps and steps to ensure that the policy is focused on domestic scale heating appliances.
- CIH however has no view on whether hybrid heat pumps should be included within the scheme. If the government does decide to proceed with its proposal to include hybrid heat pumps, it should ensure that the scheme supports hybrids that are designed and installed to be able to meet the full heating demand requirements of a property, to eliminate the possible need for future retrofit.
- If they are included within the scheme, CIH also supports the weighting of credits and the assigning of 0.5 credits to hybrid systems, and believes the government should keep this under review for the first two years of the scheme.
- CIH agrees with proposals to place the obligation on parties irrespective of their manufacturing or corporate presence in the UK. This is an appropriate way of ensuring, to the greatest degree possible, a level playing field for UK and overseas companies.
- CIH agrees with the government's proposals on certification, and encourages the government to ensure that the chosen approach to accreditation is synchronised to the greatest degree possible with existing schemes that support heat pump installations (e.g. Social Housing Decarbonisation Fund).
- The government's proposed penalty scheme is appropriate, because it ensures the disincentive for missed targets is more costly than fulfilling the obligation.

However, CIH lastly notes that the CHMM must be accompanied by wider complimentary measures to make heat pumps accessible and affordable for lower-income homes. If lower-income homes are to benefit from heat pump

technologies, the CHMM must in time be accompanied by a long-term cross-tenure retrofit programme and strategy that can accelerate the accessibility and installation of heat pumps and any necessary energy efficiency works in low-income homes. It must also be accompanied by a concerted strategy to reduce the price of electricity both generally and for low-income homes specifically. CIH feels that these policies, of which the CHMM is an important part, will ensure that the government can enable a transition to net zero that not only minimises negative distributional impacts, but also enables an accessible and affordable transition across the whole of society.

## Responses to consultation questions

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

CIH broadly agrees with the government's proposed scope.

Specifically, CIH supports the inclusion of low- and high-temperature heat pumps that provide both space heating and hot water ('air-to-water', 'ground-to-water' and 'water-to-water'). We also support the government's proposals to ensure that the policy is focused on domestic scale heating appliances, and the government's proposal that it should retain the option to include other low-carbon heating technologies in the scheme in the future should market or technological developments warrant it.

CIH has no view on whether hybrid heat pumps should be included within the scheme. However, we would note that if the government does decide to proceed with its proposal to include hybrid heat pumps, two important factors will need to be considered:

- **Eliminating the need for future retrofit.** The mechanism should encourage the installation of hybrid heat pumps which do not require a further retrofit or new heat pump installation to meet the heat demand of the home when the boiler is removed. The principle of eliminating the possible need for any future retrofit is also central to the proposed Future Homes Standard and should be mirrored in the CHMM. Hybrid heat pumps should therefore be designed and installed to be able to meet the full heating demand requirements of a property.
- **Reduced credits.** As recognised in the consultation, hybrid heat pumps will have a lower carbon reduction potential and lower energy demand reduction potential than standalone heat pumps. Assigning hybrid systems with a lower credit weighting will therefore help to balance the need to encourage standalone heat pump installations with the need to maintain a range of options for scheme participants and households. We support the government's view that, if included, hybrid heat pumps should be assigned no more than 0.5 credits, and that this should be kept under review in the initial years of the scheme.

### **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?**

The CHMM will be to the retrofit market what the Future Homes Standard is to the new build market. We therefore support the decision to exclude new builds from the scope of the CHMM, and encourage the government to proceed with its planned timeline for the Future Homes Standard without delay.

**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.**

Yes, CIH agrees with these proposals. The government's proposal to include parties irrespective of whether they manufacture or have a corporate presence within the UK is an appropriate way of ensuring, to the greatest degree possible, a level playing field for UK and overseas companies.

**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?**

CIH has no view on this proposal.

**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.**

Yes, CIH supports Option 1 because it will give the market more time to adjust to the mechanism in the first two years of the scheme. In addition, we would encourage the government to consider the targets for years three, four, and five of the scheme as early as possible, to provide the market with certainty and sufficient time to scale up after the first two years.

**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, for the reasons noted in our response to Question 1 above.

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

CIH agrees with this proposal.

**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?**

CIH has no view on this proposal.

**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.**

CIH agrees with these proposals, and supports the view that certification is the most appropriate way to ensure minimum standards and good outcomes for consumers. We would encourage the government to ensure that the chosen approach to accreditation is synchronised to the greatest degree possible with existing schemes that support heat pump installations (e.g. Social Housing Decarbonisation Fund).

**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 accountholder (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 nonobligated 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.**

CIH agrees with the government's proposals, which should, to the greatest degree possible, balance market growth and flexibility with incentives for credit trading.

**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.**

Yes, CIH agrees with the proposed approach. For the scheme to operate effectively, the disincentive for missed targets must be more costly than fulfilling the obligation, and the government's proposal is sufficient to accomplish this.

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

CIH has no view on this approach.

**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?**

We agree with the government's impact assessment that there should not be any significant direct impact of the CHMM on fuel poverty. However, as the core market mechanism through which heat pump installations will be encouraged in the domestic retrofit market, we would underline the government's observation that the impact of the policy will be limited for lower-income groups. Lower income groups face [considerable challenges](#) in accessing and benefitting from low-carbon heating, including the capital cost of heat pump installations, the relative energy inefficiency of their homes, and the required running costs.

The recognition in the government's impact assessment that the CHMM must form part of a wider policy framework for net zero and that the transition must be accessible and affordable for lower-income homes is therefore extremely welcome. If lower-income homes are to benefit from heat pump technologies, the CHMM must in time be accompanied by a long-term cross-tenure retrofit programme and strategy that can accelerate the accessibility and installation of heat pumps and any necessary energy efficiency works in low-income homes. It must also be accompanied by a concerted strategy to reduce the price of electricity both generally and for low-income households specifically, which should include a fair and equitable rebalancing of gas and electricity levies, the finalisation of the government's review of electricity market arrangements, and the introduction of a social tariff in the energy market, which will enable eligible low-income households to better afford the running costs of a heat pump.

CIH feels that these policies, of which the CHMM is an important part, will ensure that the government can enable a transition to net zero that not only minimises negative distributional impacts, but also enables an accessible and affordable transition across the whole of society.

### **About CIH**

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple - to provide housing professionals and their organisations with the advice, support, and knowledge they need. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: [www.cih.org](http://www.cih.org).

**Contact:** Dr Matthew Scott, policy and practice officer, [matthew.scott@cih.org](mailto:matthew.scott@cih.org)