

UKGBC Response to BEIS Consultation on a market-based mechanism for low-carbon heat

January 2022

Introduction

The UK Green Building Council (UKGBC) is an industry network with a mission to radically improve the sustainability of the built environment, by transforming the way it is planned, designed, constructed, maintained and operated. As a charity with over 600 member organisations spanning the entire sector, we represent the voice of the industry's current and future leaders who are striving for transformational change. We warmly welcome the key proposal in this consultation to place an obligation on companies selling fossil fuel heating appliances to achieve a growing number of heat pump installations in parallel.

Responses to individual Consultation Questions:

Question 1: Do you have views on the proposal to apply this mechanism to the heating appliance market, basing the obligation on the sale of fossil fuel boilers and applying it to appliance manufacturers?

We strongly support this proposal, which was an unexpected bonus in the Heat & Buildings Strategy. BEIS rightly identifies that a raft of measures needs to be in place if the UK is to build a thriving, cost-optimised market for heat pumps, which have a crucial role to play in our low carbon future. Current levels of heat pump installations – c.30,000 a year – remain stubbornly low, when compared with the 600,000 annual installations that Government is targeting by 2028. The Climate Change Committee sets an even higher target – 900,000 annual installations by the same year, expanding to 1.1 million by 2030. In order to achieve these ambitious increases, it is imperative that the mechanism proposed in this consultation sits alongside other complementary measures, such as a stamp duty incentive for higher-performing homes, support for green finance and concessional loans, and action to reduce the cost of electricity relative to gas while protecting vulnerable consumers. It is also vital that a successor to the Green Homes Grant voucher scheme is put in place to enable householders to install the necessary energy efficiency measures without which heat pumps will perform sub-optimally.

Question 2: Do you have comments on how the market would be likely to evolve once this obligation was in place? For instance, do you envisage that it would be most likely to lead to growth in certain business models or consumer propositions?

No response.

Question 3: Do you have views on how competitive pressure can be maintained to support cost reductions and efficiencies in the heat pump market over time, as have been seen in other sectors? Are there further steps that you feel would be justified to take within the design of this market-based mechanism to support this?

No response.

Question 4: Do you have views on how future financial support to the heat pump market, such as financial support for certain heat pump consumers, might work most effectively alongside this market-based mechanism, and how reliance on such support can be reduced over time?

We are concerned that the promised funding for the forthcoming Boiler Upgrade Scheme is too low to drive market transformation. A 3-year scheme with £450m total funding will support only around 30,000 heat pump installations per year, just under the number that are currently being installed anyway. Also, given that the usual cost of an air source heat pump varies between £8,000 and £18,000, the proposed maximum grant of £5,000

looks low. In advance of the Heat & Buildings Strategy, we were calling for substantial grants for so-called able to pay households (in the order of up to £7,000 per household) and critically for the full cost of a heat pump to be grant-funded for low income households. We therefore call on the Government to increase overall funding for the scheme and to raise the grant ceiling per household. At all costs we must avoid a situation where low income households fall further and further behind on the low carbon journey.

Question 5: Do you have views on the alternative ‘supplier obligation’ proposal? If the government were to pursue this approach, what design considerations would help to make it work best for the energy retail market and for consumers?

We do not support the alternative ‘supplier obligation’ proposal. It is not well aligned with the heating appliance market; and moreover it is highly likely that the costs of the obligation would be passed through to householders, with the greatest financial burden falling disproportionately on those households least able to pay.

Question 6: Do you have views on the treatment of ‘air-to-air’ heat pumps in the market-based mechanism? Please provide evidence to support your response.

We do not support the inclusion of ‘air-to-air’ heat pumps in the market-based mechanism. As they do not heat water, we consider them to be less pivotal for the net zero transition.

Question 7: Do you have views on the treatment of high-temperature heat pumps in the market-based mechanism? Please provide evidence to support your response.

Wherever practicable, households must make the requisite energy efficiency improvements to enable low-temperature heat pumps to perform optimally. However, there are some properties, e.g. listed and older properties, where significant levels of insulation are not possible and therefore low-temperature heat pumps will not provide adequate levels of heat or hot water. We therefore believe that high-temperature heat pumps should be included in the mechanism.

Question 8: Do you agree with the proposal to apply a 45kWth heat pump capacity limit? Yes/No. If no, please provide evidence to support a higher or lower capacity limit.

Yes.

Question 9: a) Do you have views on the proposal for a 70kWth capacity limit for fossil fuel boilers to generate an obligation under the policy? Yes/No. b) Do you believe that this is an appropriate level to avoid a substantial risk that this could lead to ‘over-sizing’ of boilers sold above the policy’s limit? Yes/No. Please provide evidence to support your answers and views on how risks may best be mitigated.

We are not convinced by the proposed 70kWth capacity limit as it will limit the scope of the mechanism for reasons that are not well articulated in the consultation.

Question 10: a) Do you have views on whether the market-based mechanism is an appropriate tool for supporting the ‘smart’ heat pump capability and use, and any limitations of this? Please explain your answer.

The mechanism could indeed be usefully used to promote digital enablement to allow for increasing demand-side flexibility across the electricity grid.

b) Do you have views on whether this should be through differentiated incentives, through the exclusion of ‘dumb’ heat pumps from qualifying scope, or another approach?

We do not believe ‘dumb’ heat pumps should be excluded from qualifying scope, but it may be appropriate to consider differential incentives to encourage heat pumps that do not have to be retrofitted to be smart. Such

differentiated incentives could, for example, also apply to heat pumps which use natural refrigerants, to help accelerate the phase-out of f-gases.

Question 11: Do you agree that hybrid heat pump systems should be included in the market-based mechanism? Yes / No. Please explain your answer.

No. Hybrid heat pumps rely on continued connection to the gas grid and are therefore not net zero-compatible. There is also a danger that hybrid heat pumps are incorrectly sized, making it costlier to remove the gas boiler later.

Question 12: Do you agree that the mechanism should differentiate between different types of hybrid system/product to focus incentives on those which are most consistent with the policy's objectives? Yes / No. Please explain your answer.

See our response to Q.11 – we do not think that hybrid systems should be included in the mechanism.

Question 13: Do you have suggestions on ways in which the government, the heating industry or others could manage the challenges and gain the assurances outlined, in order to include hybrid systems in a market-based mechanism without impacting on the policy's primary objectives to grow the heat pump supply chain and significantly reduce greenhouse gas emissions?

See our responses to Qs.11 and 12 – we do not think that hybrid systems should be included in the mechanism.

Question 14: Do you have views on our proposed approach for alternative low-carbon heating appliances under the market-based mechanism?

We agree, for the reasons outlined in the consultation, that standalone solar thermal, alternative electric heating technologies, solid biomass boilers and liquid biofuel boilers should be excluded from the mechanism.

Question 15: Do you agree with the proposal to distinguish qualifying installations under the obligation by appliance capacity rather than by building use? Yes/no. Please explain your response.

Yes. It is important to extend the useful reach of the mechanism as fully as possible. See also our response to Q. 9.

Question 16: Do you believe there is a need to go further to limit the scope of qualifying installations in non-domestic properties under the obligation, for instance through an upper limit on floor-size of properties? Yes/no. Please provide evidence to support your response.

No.

Question 17: What challenges may be involved in focusing the obligation on retrofit installations only, excluding those in new-build properties, and how might these be addressed?

We do not understand the thrust of this question. We fully support the exclusion of new-build properties from the mechanism, as they will already be covered by the regulatory requirement in the Future Homes Standard for low carbon heating systems to be installed as standard.

Question 18: Do you agree with the proposal to focus the policy on appliance installations, in order to enable a range of risk mitigation and impact-enhancing measures? Yes/no. Please provide evidence to support your response.

Yes, for the reasons outlined in the consultation.

Question 19: Do you support the proposal to incentivise the installation of low-carbon heating systems that replace fossil fuel heating systems more strongly than those that do not? Yes/no. If yes, do you have comments on how this could work most effectively?

Yes.

Question 20: Do you support the proposal to incentivise the installation of low-carbon heating systems that replace more carbon-intense fossil fuel systems more strongly than others? Yes/no. If yes, do you have comments on how this could work most effectively?

Yes.

Question 21: Do you support the proposal to incentivise the installation of standalone heat pump systems more significantly than hybrid heat pump systems? Yes/no. If yes, do you have comments on how this could work most effectively?

Yes. We do not think that hybrid systems should be included in the mechanism.

Question 22: Do you support the proposal to attach a higher obligation to the sale of the most carbon-intense heating appliances, such as oil boilers? Yes/no. If yes, do you have comments on how this could work most effectively?

Yes.

Question 23: Do you have suggestions for other outcomes, beyond those outlined here, for which differentiated incentives within the obligation might be appropriate? Please provide evidence to support your response.

No response.

Question 24: Do you have views on the most appropriate central target for the policy? What metric, including but not limited to those here, do you believe would work best to meet the policy aims and design principles? Please provide reasoning to support your response.

We support the 'proportion of sales with tradable certificates' model, to allow existing heat pump manufacturers to benefit from the introduction of the mechanism. Certificate numbers should be based on a rising number, aligned initially with Government targets, with consideration given to boosting these to align with the Climate Change Committee's balanced pathway scenario.

Question 25: Do you have views on the most appropriate trading mechanism for the policy? What market arrangements, including but not limited to those here, do you believe would work best to meet the policy aims and design principles? Please provide reasoning to support your response.

No response.

Question 26: Do you have views on options for, or considerations related to, the delivery and administration of the proposals set out in this consultation and/or to the role of an administrator? Please provide reasoning to support your response.

No response.

Question 27: Do you have suggestions on how monetary and non-monetary penalties may be designed and administered in order to ensure compliance with the obligation?

It is critically important that penalties are set at a high enough level to optimise compliance. If penalties are too low, there is a risk that manufacturers will simply choose to pay them and accept the policy as a new form of taxation, instead of switching their production lines and innovating new customer offers.

Question 28: Do you agree with the proposal to apply the obligation to the manufacturers of all fossil fuel boilers sold on the UK market, including non-UK companies? Yes/no. Please provide reasoning to support your response.

Yes.

Question 29: Do you have views on how either the proposed or the alternative approach to ensuring the obligation applies fairly across both UK-manufactured and imported products could be delivered most effectively, while keeping administrative complexity proportionate?

No response.

Question 30: Do you have views on whether, and to what extent, the policy proposals here might disproportionately impact upon certain types of consumer, with a particular focus on those in groups with protected characteristics? Please provide evidence to support your response.

No response.

**UKGBC
January 2022**

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