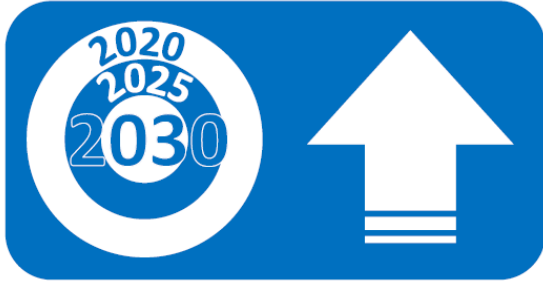

The Clean Heat Grant



Context



We have clear and world-leading targets:

- New commitment to net zero greenhouse gas emissions by 2050.
- Carbon Budgets 4 (2023-2027) and 5 (2028-2032)
- Phasing out high-carbon fossil fuels off the gas grid during the 2020s.



Government has set out some of the strategic moves to deliver these:

- Manifesto commitments pledged over £9bn for energy efficiency and low carbon heat: public sector, social housing, home upgrade grants.
- Clean Growth Strategy.
- Heat and Buildings Strategy in due course.



There are several deliverables in the short-term:

- Immediate support to project developers and suppliers affected by COVID-19.
- Designing Spending Review 2020 support and Industrial Energy Transformation Fund.

Clean Heat Grant

Why?

Supply chains: Prepare retrofit supply chain for regulation to phase out high carbon fossil fuel heating off-grid.

Carbon savings: Deliver carbon savings against Carbon Budgets 4 and 5.

What?

Heat pumps: Maintain supply chains for strategic technology. Heat pumps are the low-regrets option for the 4m off-gas buildings.

Biomass: A targeted role in decarbonisation of buildings. Ensure there is a low-carbon heat option for properties not suitable for heat pumps. Strict air quality criteria consistent with the Clean Air Strategy

The change from tariff to grant

A tariff system was used for the RHI as a means to make investment in renewable heating financially attractive, as well as support a variety of renewable energy sources and project sizes.

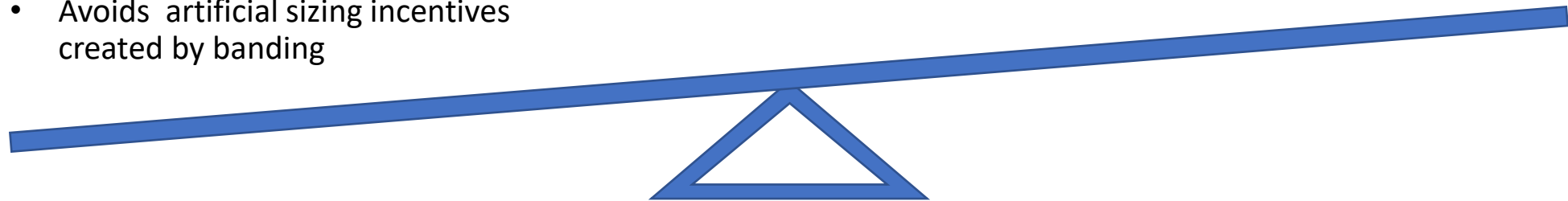
However, social research suggests that upfront installation costs have remained a key barrier to investment. The costs of tariff-based support are not sustainable for the longer-term transition.

Benefits of a grant model include:

- *VfM*: Improved value for money and reduced risk of overcompensation.
- *Appeal for consumers and SMEs*: future return often disregarded in relation to immediate payback.
- *A better distributional impact*: wider scheme access through reduction of upfront costs.
- *Simpler*: Grant scheme avoids need to meter heat production, providing opportunity for simplification of scheme rules and administration.

Amount and Budget Cap

- Technology-neutral, flat-rate grant of £4,000.
- Based on ASHPs, which are the lowest-cost technology and 81.5% of the DRHI.
- BEIS looked at international schemes, pre-existing industry reports, and price elasticity data.
- We have sought to strike a balance:
 - Drives the market to find most cost-effective options
 - Easier to understand and administer
 - Avoids artificial sizing incentives created by banding
 - GSHP and biomass have higher capex
 - Larger systems have higher capex



- We welcome further evidence, especially on how to ensure sufficient deployment of GSHPs, biomass, and systems throughout the eligible size range.

Scope of Clean Heat Grant

Targeted at:

- Retrofit in domestic and small non-domestic buildings.
- Air-source, ground-source and water-source heat pumps and biomass boilers.
- Space and hot water heating.

Not supported under consultation proposals:

- Large non-domestic installations (proposed size cap: 45kW).
- Hybrid heat pumps.
- Solar thermal.
- Bioliquids/LPG

Voucher Scheme

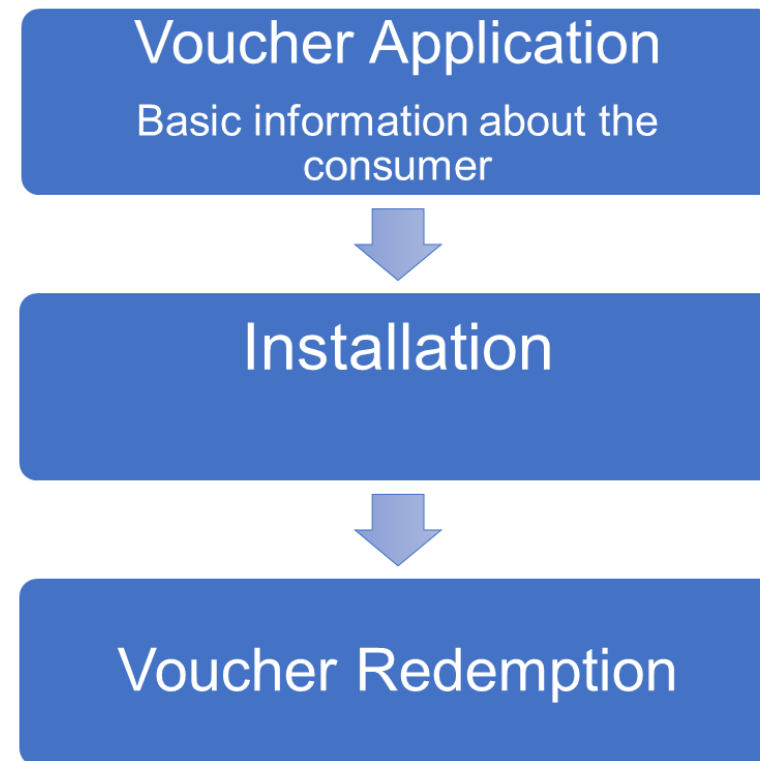
We believe that a voucher scheme will be effective in:

1. Tackling the upfront cost of low carbon heating installation
2. Minimising the risk of fraudulent claims
3. Ensuring the right balance of roles and responsibilities between installers and consumers

Consultation voucher proposal:

1. Consumers use the voucher to obtain a reduction (by grant amount) on invoice from installer
2. Installers would then claim the actual funds back from Ofgem

We are keen to implement this scheme in a way that minimises risk of non-compliance and works for consumers, installers and Ofgem.



Role of Heat Pumps

- Our current projections anticipate ASHPs will be the prevalent technology under the Clean Heat Grant, as they have the lowest upfront cost.

Projected deployment scenarios

	2022/23	2023/24	Total
ASHP	10,850	10,850	21,700
GSHP	1,300	1,300	2,600
Biomass	350	350	700

N.B. deployment is demand-led and not limited by technology

- Modelling shows that ASHPs are *a suitable* option for the vast majority of off-gas-grid properties, but there may be constraints due to building heat loss and a range of other factors.
- However, it is essential that the scheme also supports our strategic ambitions for GSHPs and Biomass, recognising that these technologies may have higher costs.

Support for Biomass Boilers

- **Targeted at ‘hard to treat’ buildings:** Focus on non-urban, off gas grid properties that are not suitable for a heat pump.
- **Air Quality:** We continue to place increasing importance on managing the air quality impacts of burning biomass. Propose to exclude properties in urban areas and those with access to the gas grid, where the impacts of air pollution are likely to be more acute. Need for strong sustainability criteria and appropriate fuel quality and maintenance standards.

Next steps and Q&A

- Happy to answer questions on these proposals and will take away any for wider BEIS teams that cannot be answered today.
- Thank you