



Department for  
Business, Energy  
& Industrial Strategy

**Lord Callanan**  
Minister for Business, Energy and  
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Our ref: MCB2022/15788  
Your ref: GO17001

13 July 2022

Dear Dr Skorupska,

Thank you for your letter dated 25th May. I am grateful to you and your members for your engagement with both the consultation and the Government Response on the Market-based Mechanism for Low-Carbon Heat.

Our view in Government, like the majority of those who responded to the consultation, is that the market-based mechanism should focus on deployment of heat pumps, as opposed to other low-carbon heating technologies. It is this critically important supply chain that needs to expand at pace during the coming years in order for the UK to remain on track for the decarbonisation of buildings under all strategic scenarios. Other heating technologies may have an important supporting role to play in the journey to net zero, but it is in the market for hydronic heat pumps where the clarity and stimulus to accelerate investment and deployment are most needed.

This objective of building the heat pump supply chain is one reason why the scheme's target design will focus principally on the number of heat pump sales / installations as opposed to focusing on the exact extent of carbon savings. Targets based on sale / installation numbers is also a less complex option than targets based on emissions abatement, and simplicity of compliance and administration will be a key factor in the success of the scheme. This view was shared by the majority of respondents to the consultation. This approach also has a more direct, predictable and explicit link to the ambition for 600,000 heat pump sales per year by 2028, in a way that a more open average efficiency or carbon intensity target does not. However, we will continue to explore the right balance of policy incentives to promote product efficiency and carbon savings as we take forward policy design.

As stated in the Government response to the consultation published in May, we will retain the option to bring technologies other than heat pumps into the scope of the

scheme in future years, should market or technological developments warrant it. As the response notes, we also expect hybrid heating systems to play a role within the scheme since they support the policy objectives of growing the heat pump supply chain and reducing emissions in the short term. A forthcoming consultation to be published shortly will consider further the role of hybrid systems in the 2020s and 2030s.

Relatedly, we are currently analysing the feedback we received on our recent consultations on phasing out fossil fuel heating in homes and non-domestic buildings off the gas grid and will respond to those consultations in due course. Off the gas grid, we view heat pumps as the lead low-carbon heating solution, and we expect the market mechanism, alongside other policy measures, will play a key role in making heat pumps an attractive and affordable option for off-grid households and businesses.

We do recognise that not all off-grid properties will be suitable for a heat pump, and the recent consultations sought views on the potential role of biomass heating systems of various types where heat pumps cannot be used. The Boiler Upgrade Scheme (BUS) also provides targeted support for solid biomass systems.

I agree with you regarding the importance of improving the efficiency of the UK building stock. While we do not think the market mechanism policy is a suitable primary lever for driving action on efficiency, the wider policy landscape seeks to improve efficiency with a fabric-first approach. Furthermore, relevant installation standards provide for systems which must be sufficient to meet the heat demand of the homes in which they are installed.

We expect to publish a more detailed second consultation on the market mechanism in due course, and I hope you will continue to engage with officials both in the run up to and as part of that consultation.

A handwritten signature in blue ink, appearing to read 'Martin Callanan', with a long horizontal flourish extending to the right.

**LORD CALLANAN**