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REA Response:
Clean Heat Market Mechanism

The Association for Renewable Energy & Clean Technologies (REA) is pleased to submit this response to the above call for evidence. The REA represents industry stakeholders from across the whole heat sector and includes dedicated member forums focused on green gas & hydrogen, biomass heat, biomass power, renewable transport fuels, thermal storage and energy from waste (including advanced conversion technologies). Our members include generators, project developers, heat suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 500 corporate members of the REA, making it the largest renewable energy trade association in the UK.

1. **Do you agree with the proposals here for what constitutes a qualifying heat pump installation? Yes/No. Please provide reasoning to support your response.**

No, we would like to see the inclusion of Biomass boilers and Air to Air heat pumps as qualifying installations. Both are low-carbon heating technologies that have the potential to play a significant role in reducing greenhouse gas emissions and increasing energy efficiency. In particular, biomass boilers use renewable biomass fuel sources, while Air to Air heat pumps extract heat from outdoor air to provide space heating and cooling. Both technologies can provide an alternative to fossil fuel heating systems and contribute to decarbonising the heating sector.

Furthermore, excluding these technologies from the CHMM could limit the range of options available to scheme participants to meet the obligation and generate heat pump credits. Inclusion of biomass boilers and Air to Air heat pumps would provide more opportunities for obligated parties to achieve the installation of a certain number of heat pumps up to 45kWth to existing UK properties, as proposed under the CHMM.

We should also note there are plenty of existing properties that need heating systems with a capacity in excess of 45kWth. There should be a mechanism to include these in this,or other, heat deacbonisation schemes.

Biomass boilers provide an important heating option for rural off-grid consumers who may not have properties appropriate for a heat pump installation. Heat pumps typically require a connection to the grid and a suitable property with adequate insulation and a compatible heating system. However, many rural properties, especially those located off-grid, may not have the electrical capacity or have the appropriate infrastructure to support a heat pump installation.

In these cases, biomass boilers can provide a reliable and cost-effective alternative for heating. Biomass boilers can burn a range of fuels, such as wood pellets, chips, and logs, which can be sourced locally and sustainably. This provides an important economic boost for rural communities by supporting local forestry and wood processing industries.

By including biomass boilers as qualifying installations under the Clean Heat Market Mechanism, the government can support the deployment of this important low-carbon heating technology in rural off-grid communities. This will help to reduce carbon emissions from heating while also supporting local economies and providing reliable heating options for off-grid consumers. Biomass heating, in particular log and chip systems, typically have lower fuel costs than fossil heating and could therefore support efforts to reduce fuel poverty.

Therefore, it is recommended that biomass boilers and Air to Air heat pumps be included as qualifying installations under the CHMM, subject to meeting the other installation and appliance criteria. This will ensure that obligated parties have access to a wider range of low-carbon heating technologies, while also promoting market development and innovation in the heating sector.

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?**

Retrofit properties are likely to have less effective energy efficiency measures than new build properties. Heat pumps can work in such situations, but they may not always be the optimal solution. In addition to installing the heat pump technology, significant work may be needed on the property to make it heat pump ready. This could involve retrofitting insulation, replacing windows and doors, upgrading ventilation systems, and more. It is, therefore, essential that any mechanism that encourages the installation of heat pumps takes a 'whole house' approach to ensure householders are left with a system that is fit for purpose.

The CHMM should be aiming to deliver the right technology for the right situation. Without taking these steps to improve the energy efficiency of the property, it's likely that a lot of the work and investment put into installing the heat pump technology could go to waste, as the property may not be able to effectively retain the heat generated by the system. This could lead to increased costs for the consumer and a reduced overall impact on reducing carbon emissions.

In light of this, it's important to consider support for other renewable heat technologies. These technologies may be more appropriate for properties where a heat pump, while able to work, is demonstrated not to be the optimal solution, and could help to reduce carbon emissions in a cost-effective manner. Ultimately, a holistic approach to decarbonizing the heating sector will be needed, which takes into account both the technology and the property in which it is being installed.

On the positive side, focusing on the retrofit market could help to increase the demand for heat pumps and other low carbon heating technologies, which will ultimately benefit the entire renewable heating industry, including the newbuild market. It could also help to improve installer skills, as more trained professionals may be needed to retrofit existing buildings with heat pumps.

However, there could also be some negative impacts on the newbuild market. If the focus on the retrofit market results in a lack of attention and investment in the newbuild market, it could hinder the growth and development of that sector. This could ultimately lead to a shortage of skilled installers and supply chain issues, as fewer companies may be willing to invest in the market.

3. **Do you agree with the proposals for obligated parties here? Yes/No. Please provide reasoning to support your response.**

We strongly support the proposals for obligated parties outlined in the Clean Heat Market Mechanism (CHMM) consultation. We believe that these proposals will help to maximise the amount of support for renewable heating systems and accelerate the transition to a low-carbon economy.

The obligation on the manufacturers of relevant fossil fuel heating appliances (natural gas, LPG, and oil boilers) to achieve the sale of a certain level of heat pumps is a crucial step towards reducing carbon emissions from the heating sector.

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.**

We support the proposal to base the administration of the CHMM on corporate groups. Treating related parties, business units, or brands within the same corporate group as one 'appliance manufacturer' entity will simplify the administration of the obligation and ensure that scheme obligations and scheme credit balances are pooled together following a merger or acquisition, and vice versa following a sale.

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.**

No, we believe that the obligation should cover all fossil heating manufacturers, regardless of size.

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, we believe that this obligation should apply to all manufacturers of relevant fossil fuel appliances sold for installation in the UK, regardless of whether the manufacturing takes place in the UK or whether the company has a UK corporate presence. This approach will ensure that the obligation is applied fairly and does not have a disproportionate impact on UK manufacturers relative to non-UK manufacturers.

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?**

We support the proposal to ask manufacturers annually to publish a Heat Pump Supply Chain Plan. This will improve the monitoring and oversight of the scheme and improve planning throughout the supply chain. It will also help to strengthen and build heat pump supply chain resilience, which is crucial for the long-term success of the CHMM.

Although we would encourage the plan to be renamed to the "Low Carbon Heating System Supply Chain Plan" to include other renewable heating systems.

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.**

No, we believe that Option 2 for setting targets for the proposed scheme is the most beneficial policy response for the renewable heating industry.

While we recognise the appeal of Option 1's phased approach, we believe that Option 2's steady growth rate towards a target of 400,000 installations in 2028 will provide greater certainty and stability for the industry. This option will enable businesses to plan their investments and strategies with greater confidence, leading to a more efficient and effective deployment of low-carbon heating solutions.

Furthermore, Option 2's higher initial targets will drive greater early adoption of heat pumps and other low carbon heating systems, as we all provide a more significant boost to the renewable heating industry's growth. The proposed targets for Year 1 and Year 2 under Option 2 are more ambitious than those in Option 1, with an obligation target of 5.5% in Year 1 and 8% in Year 2. These higher targets will stimulate demand and help to kickstart the market for renewable heating solutions.

Option 2's consistent, ambitious growth trajectory towards a clear target is the best approach for the proposed scheme. This policy response will provide greater certainty and stability for businesses, encourage early adoption of renewable heating solutions, and drive the growth of the renewable heating industry in the UK.

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/No. Please provide reasoning to support your response.

Hybrid heat pumps should not qualify. In a system such as this, which has no ongoing monitoring of heat use, there are concerns that there is a high chance that gas boilers with a 'token' heat pump capability will dominate the market. If the government awards 0.5 credits for hybrid systems, appropriate regulation must be in place to ensure such systems are designed properly and actually used.

10. Do you agree with the proposal to use obligated parties' UK sales of relevant fossil fuel boilers to calculate their obligation? Yes/No. Please provide reasoning to support your response.

We support the government exploring further the practicalities of obligating on global sales to reduce the greatest number of carbon emissions. But we accept basing the obligation on UK sales could be the most practical and easy to implement.

11. Do you have views on the proposed requirement that fossil fuel boiler sales data be independently verified by a third-party organisation?

We strongly support the proposed requirement that fossil fuel boiler sales data be independently verified by a third-party organisation. This verification process would ensure accuracy and transparency in the reporting of sales data, which is essential in calculating obligations under the scheme.

Using sales data provided by obligated parties as the basis for calculating obligations is a logical approach. However, relying solely on self-reported data can lead to errors and misreporting. Therefore, we believe that the second option of requiring obligated parties to have their sales data independently verified by a third-party organisation is the best course of action.

By adopting a risk-based approach to auditing beyond this third-party verification, the scheme administrator can identify any potential errors or misreporting and take corrective action where necessary. Comparable obligation schemes, such as the Emissions Trading Scheme (ETS) and Renewable Transport Fuel Obligation (RTFO), use independent verifiers to ensure the accuracy of information provided. This process has been successful in ensuring transparency and accuracy in the reporting of data in these schemes.

12. Do you have views on the appropriate standards to be applied to any independent verification process, such as ISAE 3000?

We believe that the appropriate standards for any independent verification process should be rigorous and robust to ensure the accuracy and transparency of information provided. Therefore, we strongly advocate for the use of ISAE 3000, or an equivalent standard for assurance processes.

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.

We strongly agree with the proposal to require installations to be notified via an appropriate certification scheme in order to generate credits under the CHMM.

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.

Yes, the criteria set out for an appropriate certification scheme in the consultation document are reasonable and necessary. We support the use of MCS or an equivalent scheme to generate credits towards the CHMM, as this will ensure that only high-quality renewable heating installations are eligible for support. We urge the government to continue to support the renewable heating industry and implement the CHMM as soon as possible, with appropriate certification schemes in place to support the industry's growth.

However, we should note the REA believes there should be an option for installations over 45kW to qualify, but these are excluded from MCS.

15. Do you have views on the proposed digital system, including any other functionalities or users we should consider in its design?

16. Do you agree with the proposal to limit credit ownership to scheme participants? Yes/No. Please provide reasoning to support your response.

There are significant potential benefits in being able to install a qualifying heating system and then sell the credit to a scheme participant that needs it - would incentivise renewable heating

providers to find suitable properties in which to install low carbon heating systems and would offset the cost of these to their customers.

17. **Do you agree with the proposal to limit credit-purchasing to obligated parties? Yes/No. Please provide reasoning to support your response.**

It might be appropriate to limit purchasing of credits to scheme participants, but there should be a simple mechanism created whereby those that hold credits that they have generated can sell them to scheme participants in a transparent manner.

18. **Do you have views on what information or data related to an account-holder (e.g. their current credit holding, their contact details) should be visible on the digital system to other account-holders?**

19. **Do you agree with the proposals here on credit carry-over for obligated parties? Yes/No. Please provide reasoning to support your response.**

20. **Do you agree with the proposals here on credit carry-over for non-obligated heat pump manufacturers? Yes/No. Please provide reasoning to support your response.**

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.**

Yes, It would be relatively easy to offer a 'carry over' option with a percentage uplift. Eg 20% uplift on any obligations carried over. This should allow flexibility whilst incentivising swift action.

22. **Do you agree with the proposal to apply a modest disincentive to target carryforward, by multiplying the target amount carried forward by a factor of 1.2? Yes/No. Please provide reasoning to support your response.**

Yes

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.**

We support the proposed approach to payments-in-lieu of missed targets outlined in the chapter. We believe that setting payments as high as possible will incentivize fossil boiler manufacturers to meet their mechanism targets, thereby contributing to the growth of the renewable heating industry. In turn, this will ensure that the incentives align with the aim of the CHMM to support an expansion of the UK renewable heating market

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

We believe that enforcement on fossil boiler manufacturers should be as rigorous as possible, in order to ensure a level playing field for renewable heating technologies and to achieve our goal of transitioning to a low-carbon economy.

It is essential that the CHMM is enforced effectively in order to incentivise compliance and ensure that obligated parties meet the requirements of the scheme. We agree a civil sanctions-based regime, including financial penalties, is an appropriate mechanism for enforcing the CHMM. We also agree that criminal sanctions may be necessary in some circumstances, such as fraudulent activity in relation to the scheme.

Furthermore, we believe that repeat non-submission of required information and repeat non-payment of penalties should be criminal offences under the scheme regulations. This would send a clear message that non-compliance will not be tolerated and help to ensure that obligated parties take their obligations seriously.

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?

Great care in the scheme design is required to ensure that households are not forced into fuel poverty by the installation of expensive to run and ineffective heating systems. It is absolutely essential that the heating system installed is appropriately designed and capable of satisfying the heating demand from the building - this includes matching heat emitters to the heating system, assessing the heat loss characteristics of the property and realistic assessment of possible fabric upgrades. Householders must also be made fully aware of the impact of the installation on their ongoing fuel bills.