

Energy UK Explains: The Clean Heat Market Mechanism

Heating homes and cutting energy bills for your constituents

January 2024

Key Points

- The Clean Heat Market Mechanism (CHMM) is a Government proposal to increase competition and drive down prices for clean heat technologies.
- Greater use of clean heat technologies will result in lower customer bills, increased energy security and a reduction in UK carbon emissions.
- The CHMM gives UK industry long-term incentives to invest in heat pump supply chains and should give customers the choice of when to decarbonise their heating.
- With a typical lifespan of 15 years and benefit from a Government grant of up to £7,500, heat pumps could save a household around £295 per year compared to a G-rated boiler.¹
- Since the Government's Boiler Upgrade Scheme (BUS) grant was increased to £7,500, weekly applications for heat pump grants rose by 60%.²
- This transition will stimulate job creation in key industries such as construction and manufacturing, as the UK moves from a workforce of around 3,000 engineers today to the 27,000 needed to reach existing targets.³
- It is critical that the UK Government implements the CHMM, making sure the market demand for heat pumps continues to scale in alignment with the ambition set out, to ensure a sustainable transition for customers and the industry.

What is the Clean Heat Market Mechanism?

- The CHMM is a Government initiative to incentivise investment in heat pump supply chains and give customers more choice over how and when they decarbonise their heating demand.
- It is critical to making heat pumps more economical for businesses and households by lowering the cost of the unit and installation as the market grows in scale. The CHMM gives businesses the certainty to invest and grow at a sustainable rate, developing supply chains and supporting more customers to make the switch to a heat pump.
- Before the CHMM has even begun, heat pump sales are already in line with the 4% of UK sales mandated by the scheme, with an expectation that recent market growth will continue.
- The CHMM will obligate heating appliance manufacturers to meet targets for the proportion of heat pumps they sell each year. Under this, a £3,000 payment would be required for any missed heat pump sales, a clear incentive to invest in the nascent UK heat pump market.
- Many boiler manufacturers already sell heat pumps, and with significant grants available and rising consumer interest, Energy UK analysis does not expect a financial impact on manufacturers until at least 2026.
- Flexibilities in the CHMM allow obligated manufacturers to carry forward up to 35% of the annual target from one year to the next, giving them more time to adjust their business operations where needed. Obligated manufacturers can acquire credits from other manufacturers to supplement credits they earn from their heat pump sales, and we expect these credits to be abundantly available, leading to a low relative cost compared to the £3,000 figure.

Why have some manufacturers increased prices for boilers citing the CHMM?

- Some boiler manufacturers have claimed that they will not be able to meet the obligations of the CHMM and are obliged to increase the cost of gas boilers to offset fines for non-compliance.
- Despite clear evidence that manufacturers are unlikely to face fines and a visible lack of resulting cost implications, some companies have increased the cost of their gas boilers stating that this is a direct result of the CHMM.

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- The Competition and Markets Authority is currently investigating whether these new charges constitute anticompetitive behaviour.

Why is it important that we decarbonise our buildings?

- The UK's households represent around 17% of emissions and they're currently the oldest and draughtiest housing stock in Western Europe.⁴ As a consequence of this, the energy demand is significant and bills are higher than they could be if greater energy efficiency measures, including heat pumps, were to be installed.
- Fuel poverty continues to be a major challenge in the UK. Many regions that have the highest rates of fuel poverty are also dependent on the gas grid for heating.
- Incentivising a change to a heat pump will help protect UK customers from international gas prices, reduce the UK's dependence on gas imports and increase the use of home-grown clean energy.
- The world is moving towards low-carbon and the UK has the potential to be a global leader, resulting in economic growth, job creation, and export potential.

How are customers being supported?

- Heat pumps are currently available with grant funding via the Energy Company Obligation (ECO) and Boiler Upgrade Scheme (BUS). Additionally, many energy suppliers offer further help around installation and can apply for grants and funding on customers' behalf.
- From May 2022 to November 2023, 25,000 heat pumps were installed via the BUS scheme.⁵ DESNZ has reported a 60% increase in the weekly number of applications to the grant since the BUS grant was increased from £5,000 to £7,500 in October 2023, demonstrating the high demand from customers looking to decarbonise.
- The Government recently announced a tripling of the future budget for the BUS scheme to £1.5 billion over three years.

References

1. [Is now a good time to get a heat pump? \(Energy Savings Trust, 2023\)](#)
2. [Heat pump applications surge after increase in government grant. \(DESNZ, 2023\)](#)
3. [The heat pump installer gap. \(Nesta, 2022\)](#)
4. [Decarbonising the UK's Homes: A Housing Stocktake, \(Lloyds Banking Group, 2023\)](#)
5. [Boiler Upgrade Scheme statistics: November 2023, \(DESNZ, 2023\)](#)

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology.

Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses. The sector invests £13 billion annually and delivers nearly £30 billion in gross value - on top of the nearly £100 billion in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100 billion over the course of this decade in new energy sources.

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