

Clean Heat Market Mechanism: Revisions ahead of Scheme Year 2 (2026/27)

Energy UK response

2 July 2025

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs. From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice. Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders. We are equally committed to our team and are proud to be recognised as a 'Gold' Investors in People employer.

Executive Summary

Energy UK welcomes the Government's decision to commit £13.2 investment into its Warm Homes Plan, as announced at the Spending Review.

The Clean Heat Market Mechanism (CHMM) is an important part of the policy framework for supporting the growth of the clean heat sector in the UK, and it is welcome that the Government is consulting early on the arrangements for Scheme Year 2. However, it is important to recognise that the mechanism is in its infancy and there is insufficient data to understand the full market impact of this scheme.

In future consultations, the Government should look to improve the CHMM scheme design by introducing mechanisms that improve liquidity in the market, for example increasing the number of credits that can be carried forward from Scheme Year 1.

The Government should also look at the potential benefits of ratcheting up the financial penalty on manufacturers that do not purchase or produce their obligated number of heat pump credits to ensure that the mechanism boosts the clean heat market as intended.

The consultation notes that the Government is confident it will see strong growth in the heat pump sector, but policy support is needed to build the demand side, and this should include:

- [Progress on domestic policy cost rebalancing](#) to ensure that households switching to low-carbon heating are benefitting from lower energy bills.
- A thriving Government-backed green finance sector that supports domestic and non-domestic customers in all tenures.
- A successor scheme to ECO4 that is a long-term scheme focussing on the delivery of clean heat.
- A comprehensive consumer protections regime that provides appropriate enforcement and redress for privately and publicly-funded green home upgrades.
- The provision of independent retrofit information and advice.
- Extending the Boiler Upgrade Scheme to 2030, with a rising budget to keep pace with demand.

Energy UK welcomes the continuation of the Heat Pump Investment Accelerator Competition to support domestic UK manufacturing, and the Heat Training Grant as further enabling schemes. The CHMM, and broader policy framework, should drive heat pump manufacturing in the UK.

The consumer journey for a heat pump install can be further improved by bringing forward a better and more standardised approach to noise assessments, expanded Permitted Development Rights in England that allow larger units to be installed, and an adaptive and strategic approach to DNO fuse upgrades that avoid consumers waiting longer for a new heating system.

Consultation response

Target levels

Question 1: Do you agree with a target within the range of 8-10% for Year 2? Yes/No. Please provide reasoning to support your response. If yes, where in the range should it be set?

Energy UK supports a target within the range of 8% - 10%.

It is welcome that the Government is consulting early on the arrangements for Scheme Year 2, however it is important to recognise that the mechanism is in its infancy and there is therefore insufficient data to understand the full market impact of this scheme.

The heat pump market is growing, and it is right that the target increases in line with demand.

A policy framework that drives the demand-side for the clean heat sector must be implemented. The Warm Homes Plan should include support for the rebalancing of policy costs on energy bills, and the continuation and expansion of grant schemes that focus on the delivery of clean heat, including the Energy Company Obligation, and the Warm Homes: Social Grant.

Question 2: Do you have an alternative suggestion for a Year 2 target? Yes/No. If yes, please provide reasoning to support your response.

Certification scheme

Question 3: Do you agree that there should only be one certification body? Yes/No. Please provide reasoning to support your response.

Energy UK is calling for the Government to issue a standalone consultation that reviews the consumer protections landscape broadly for green home upgrades, in which having only one certification body could form a part.

There are clear advantages of a sole certification scheme, and these include:

- Simplifying the consumer protections landscape for consumers and installers. This would improve trust and confidence in the certification scheme, as well as brand awareness.
- Providing consistency in quality of service and standard of installation provided.
- Reduce the risk of rogue installers gaining accreditation from multiple different certification schemes. Currently, where a rogue installer is removed from one

scheme they can still gain credibility through accreditation of another, avoiding any cross-scheme scrutiny.

Question 4: Do you agree that, if there is to be only one certification body, it should be MCS? Yes/No. Please provide reasoning to support your response.

Energy UK would support a standalone consultation from Government that reviews the consumer protections landscape broadly for green home upgrades, in which mandating MCS as the sole certification scheme could form a part.

There are specific issues that need to be considered, including the read across with consumer protections for heat networks to ensure a holistic approach. Elsewhere, mandating MCS will reduce competition with other providers, so there needs to be appropriate consideration of how the same outcomes of competition can be achieved. Finally, it is also important to consider whether MCS is sufficiently resourced to take on this additional activity.

Question 5: Are there any other elements of the scheme you would like the Government to consider consulting on revisions to in the future?

In future consultations, the Government should look to improve the CHMM scheme design by introducing mechanisms that improve liquidity in the market by incentivising the trading of credits.

This can be delivered by increasing the number of credits that can be carried forward from Scheme Year 1 to at least 25%, as was the original policy intention.

The Government should also look at the potential benefits of ratcheting up the financial penalty on manufacturers that do not purchase or produce their obligated number of heat pump credits to ensure that the mechanism boosts the clean heat market as intended. Revenue from the financial penalties paid through the CHMM should be ringfenced and used to boost demand and supply within the clean heat sector.

In future consultations, the Government should also consider the potential to bring a wider range of technologies in scope, such as heat batteries.