



DEPARTMENT FOR ENERGY SECURITY AND NET ZERO

CLEAN HEAT MARKET MECHANISM

PUBLIC CONSULTATION: 30 MARCH TO 08 JUNE 2023

The Builders Merchants' Federation is the trade association for businesses in the building materials' supply chain in the United Kingdom and Ireland. Since 1908 years, we have represented builders, plumbing & heating, roofing, insulation and timber merchants and manufacturers who make and deliver building materials, home improvement products and renewable energy systems. The BMF's 880 members have combined annual sales of over £44 billion, employ some 205,000 people and trade from more than 5,900 merchant branches throughout all 4 home nations.

OVERVIEW

Improving the energy & thermal performance of buildings to decarbonise and electrify them is central to our members' businesses. They deliver, on a daily basis, the materials & products for energy efficiency and micro-generation that ministers have sought advice over the last 15 years. BMF members earn a living from selling (amongst others) insulation of all types, heating & hot water systems, thermostatic controls, underfloor heating, heat pumps and double/triple glazing.

For hundreds of years, merchants have performed a vital national function in distributing materials & products to where they are needed. They are the most efficient route-to-market - and are the 'last-mile' link in the supply chain. Merchants are an established source of non-bank lending for SMEs who want working credit - and many also provide technical guides & hands-on practical training.

The BMF neither agrees with, nor supports, these proposals given our unique position for the reasons set out in this response. Moves to obligate boilermakers to make heat pumps - and encourage them to leap-frog merchants to sell direct to installers - are wholly unacceptable.

We are exasperated at not being consulted by the Department when formulating these proposals given the direct consequences for the companies we represent. As the DESNZ (and its predecessors, DBEIS and DECC) is our sponsoring department, this is astonishing.

DETAILED OBSERVATIONS ON THE CONSULTATION DOCUMENT

The BMF is an economic b2b trade association and for some questions, we support contributions and conclusions that other associations & federations are putting to the Department.

INTRODUCTION

The BMF notes that the UK Government's declared policy is to rapidly grow the heat pump market towards around 600,000 installations per year by 2028 to make them a mainstream consumer choice for home heating. This is a laudable aim but the DESNZ is going about it in entirely the wrong way. We regard this concept as unproven, overly complicated and unduly burdensome.

It is logical and desirable to develop an enabling environment in which businesses can grow the overall heat pump market. The BMF acknowledges that companies like ours are preparing to move away from fossil fuels towards low- or zero-carbon heating for good commercial reasons. But there is a difference between (a) market transformation and (b) market distortion, disruption or interference.

We firmly believe it must be demand-led, not imposed as a supply-side intervention from Whitehall. The DESNZ should be in no doubt the BMF cannot support these proposals. The Clean Heat Market Mechanism is fundamentally and irredeemably flawed. The proposals are wholly misconceived and the economics do not stack up. This reinforces the BMF view that the Department does not comprehend the heating market and the supply chain that our manufacturers & merchants represent.

Manufacturers

The 5 largest boilermakers that represent circa 95% of all fossil fuel boiler sales are subsidiaries of European or American parent companies - namely Bosch & Vaillant (German); Baxi/BDR Thermea (Dutch); Ideal/Groupe Atlantic (French); and Carrier (USA).

All of them have heat pump manufacturing operations that serve more mature, higher volume markets than the United Kingdom. The UK is not a low-cost centre of manufacturing. If cost minimisation is the aim, production will be in low-cost parts of Europe (inc. Turkey) or with Asian partners in the Far East.

The idea that a few tens of thousands (or even hundreds of thousands) of UK installations is going to drive manufacturers' corporate strategy - or economies of scale in a global market - is naïve. These proposals are nothing more than 'Soviet style' production quotas and this is no way to make coherent industrial & economic policy in the 21st century.

Insulation

There is mismatch in scale between the CHMM and other supporting policies. While any public spending to improve the energy & thermal performance of buildings is very welcome, more home insulation completed does not (in & of itself) boost heat pump installations.

Workforce

The enormity of the capability, capacity & competence of the workforce needed to decarbonise buildings and electrify heating does not appear to be sufficiently well-understood in Whitehall.

The number of available workers needed is a major undertaking that will take more than 5 years. Today, we have approx. 145,000 Gas Safe Registered installers who (a) maintain & service existing boilers and other appliances and (b) install the 1.6 million or so new gas boilers a year. On average, each engineer fits approx. 12 boilers a year. But this is misleading because many never work on new installations; others do nothing else; and the rest have mixed order books.

For SMEs and the self-employed, training as a heat pump installer will be insurance against future trends. On the day they first qualify, most of their existing customers will still have fossil fuel systems - and most of their time will be spent looking after those customers and maintaining existing heating systems. Newly-installed heat pumps will be a fraction of all the jobs these workers carry out.

It is a massive mistake to assume that training 6,000 installers means 6,000 individuals will spend every day of every week installing heat pumps. Ten times that number are needed. Who offers this training? Most of it is carried out now (and for many years hence) is by boilermakers. Installer numbers are already too low - and the CHMM will add to this decline as obligated manufacturers miss their quotas, and are fined, leading to cuts in training budgets, with predictable consequences.

Retrofitting an air-source heat pump is much more time-consuming - and requires a much wider theoretical & practical skill set than simply replacing a gas boiler that can usually be accomplished in day. Installing a heat pump can take a week or more - after upgrading other elements of the system like (a) larger radiators or heat emitters and (b) making space outside to put the external unit.

The most experienced engineers & plumbers are in the twilight of their working career. They are likely to choose not to retrain - relying on the remaining number of gas systems to earn their living prior to retirement. While they will naturally be replaced by a next generation of trainees, these newly-qualified installers will take years to gain the experience required to retrofit heat pumps.

The other potential source of more installers is electricians - many of whom will have much of the necessary theoretical knowledge and some understanding of heating & hot water systems. But with the expansion in electric vehicles and the charging network, the DESNZ is unwise to rely on any significant switch away by electricians to become heat pump installers.

POLICY OVERVIEW AND WIDER CONTEXT

Aims

Moves to obligate boilermakers to make heat pumps - and encourage them to leap-frog merchants to sell direct to installers - are wholly misguided, unwelcome and present a clear threat to BMF members. Whitehall zeal to force this policy on our supply chain is highly controversial - not least because it widely seen as applying production quotas. To add insult to injury, the DESNZ wants to impose significant financial penalties, and criminal sanctions, on British business that fail to do something that none of them believe is achievable in the first place.

We remind the DESNZ of what Citizens' Advice, KPMG, National Infrastructure Commission and National Audit Office recently said about the level of take-up of heat pumps and affordability. They were not complimentary and the DESNZ ought to take heed before proceeding.

Complementary Wider Policy

Boiler Upgrade Scheme: the track record of the BUS is poor and does not inspire confidence. It currently acts as a cap on the number & rate of installations. Extending the BUS to 2028 will exacerbate this - and the £5,000 cash offer is insufficient to entice households to act in the numbers required.

VAT: we welcome and thank the Chancellor of the Exchequer for reducing the VAT rate to zero on the supply & professional installation of (among others) insulation, heating controls & heat pumps.

Future Homes Standard: the CHMM is due to come into force in 2024, approx. 3 years before the FHS. The BMF queries the timing & alignment of these policies. It is preferable to incentivise all concerned to sell low-carbon heating appliances to house-builders in a co-ordinated manner to grow the overall market. We recommend that the CHMM be delayed for 12-18 months to allow for this and other policies (notably the Future Homes Standard) to be introduced at broadly the same time.

Design Overview

We are alarmed that the DESNZ is encouraging manufacturers to leap-frog merchants to sell direct. This is a serious threat to the livelihoods of BMF members (esp. SMEs). The main consequences are:

- manufacturers have no experience of consumer financing which is why merchants are the preferred and most efficient route-to-market for heating products. They are a long-established source of trade credit for SMEs. Merchants are familiar with credit risks and have the expertise to manage that. Manufacturers do not and have no desire to take on such a role - because it leads to higher costs to service direct sales that will (inevitably) be passed onto the consumer.
- if boilermakers chose to sell direct to end-customers, merchants would adopt a 'merchant-only supply' position and refuse to stock, promote or sell goods from those manufacturers. This would have a knock-on effect for the trade in components, ancillary products & spare parts.
- merchants deliver to local geographical areas from local branches around the entire UK. As stated earlier, they are the 'last-mile' link in the supply chain and deliver plumbing & heating products in a timely manner. Local journeys mean their vehicles have low levels of carbon dioxide or nitrogen dioxide emissions - and with higher take-up of electric vans, this will help to reduce harmful roadside emissions. If manufacturers started delivering direct to end-customers from factories & depots further away, journey times will be longer, traffic congestion will worsen, and transport emissions will increase. This cannot be right.

We urge ministers & officials to reconsider and (at the very least) discuss this further with the BMF before proceeding with any draft regulations.

SCHEME DESIGN

Relevant Boiler Sales

The DESNZ proposes to consider (a) any sale of fossil fuel boilers as a relevant boiler sale but (b) only an actual heat pump installation will qualify. This is neither fair nor practical. We firmly believe the same criteria should apply to both boilers and heat pumps.

Qualifying Heat Pump Installations

The approach the DESNZ is taking shows a lack of understanding of how the heating market works. Manufacturers have little or no influence/control over who buys their goods. Sales are a result of market demand and BMF members respond by stocking & selling what customers want.

If the DESNZ wants to grow the overall market, all heat pumps made by UK-based manufacturers should qualify under the CHMM - not just those made by boilermakers. If not, it favours imports from businesses that only make heat pumps, as cheaply as possible, to the detriment of British manufacturers. These imports are likely to be sold without adequate arrangements for customer care, technical support, servicing and supply of spare parts which undermines the logic of the CHMM.

The DESNZ over-reliance on the Microgeneration Certification Scheme is a BMF concern. Less than 50% of heat pump installations are registered with the MCS. In 2022, 30,700+ heat pumps were registered with the MCS - out of a total of around 75,000. In 2023 so far, 10,800+ have been registered - meaning a similar number is likely this year - even though the market is supposed to grow.

Manufacturers will miss out on a significant number of qualifying installations as they are not MCS registered. Each un-registered installation will cost them a £5,000 penalty. Thus, a manufacturer could meet its obligation but - due to CHMM complexity and low take-up of MCS registrations - the manufacturer is fined a huge sum of money. That cannot be right and we recommend that DESNZ allows any heat pump sold by a UK-based manufacturer to count as a qualifying installation.

Installations in New-Build Properties

Architects & specifiers decide which heating option is best. Large house-builders will go to competitive tender - either on a project basis or a multi-year framework agreement with manufacturers. SMEs and self- & custom-builders are unlikely to have such contracts. They buy from their local merchant.

Manufacturers have little or no influence/control over who buys their goods. Sales are a result of market demand and BMF members respond by stocking & selling what builders want. It is non-sensical to exclude heat pump installations in new-builds. If carbon reduction from the built environment is the overall aim, all sales of low- or zero-carbon heating should be encouraged.

Heat pumps going into new builds are 'lost' under the CHMM. Manufacturers will doubtless be reluctant to sell heat pumps that do not qualify, thereby restricting supply with cost implications for all concerned. House-builders will (inevitably) look to buy heat pumps as cheaply as possible from overseas manufacturers who are excluded from the CHMM. This cannot be right, for several reasons, notably international trade and the UK Balance of Payments.

New build heating is governed by the Building Regulations and are subject to Local Authority Building Control after planning permission is granted. These installations are not registered with the Microgeneration Certification Scheme. This means a huge number of installations are 'lost' - that is to say, the number of MCS registrations differs significantly from manufacturers' sales out figures. That is why we believe that heat pump installations in new-builds should count as qualifying installations.

The majority of the workforce is employed by large contractors who carry out new house-building and/or social housing maintenance programmes. It ought to be easier to monitor and ensure the quality of new build heating installations - so that any improvements to workmanship or the CHMM itself can be made.

In addition, younger, newly-qualified heating engineers working for contractors will focus almost exclusively on heat pump installation. This is much more cost-effective in terms of training expenditure. These engineers will gain experience much faster than those working in property RMI. From this cohort

of experienced engineers, employers can recruit the next batch of trainers to train the many more installers that are needed in future years.

Installations in Existing Properties

In these properties, the heating engineer or installer assesses the customer's needs, makes recommendations, and carries out the work. Time, upheaval, cost and competitiveness are all factors meaning a "like for like" swap is the normal choice. In addition to the appliance, the installer obtains all necessary components and ancillary products (like heating controls). Invariably, they will be bought from a local merchant - never directly from a manufacturer.

Unlike the new builds, most property RMI work is carried out by SMEs and local self-employed trades. When they train as heating engineers, it is rarely because they intend to concentrate on installing heat pumps. It will be as insurance against future trends. After training, most will continue to do traditional property RMI work for their existing, loyal customers - and they will install relatively few heat pumps in the early years of the CHMM.

Why ? In addition to the technical demands of installing heat pumps, engineers must be capable of designing the system; identifying & rectifying issues in existing buildings; and integrating the heat pump with existing pipe work, heat emitters, water storage, controls, etc - some of which will need replacing - and all of which was originally designed to work at higher flow temperatures.

Question 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 for the reasons given above.

Question 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 ?

Yes and for the reasons given above, we see negative impacts for the property retrofit market.

Scheme Participants

The DESNZ proposes to apply the CHMM to all manufacturers of fossil fuel appliances sold for installation in the UK. Companies other than manufacturers responsible for first placing appliances on the UK market will not be subject to it. This is unfair and importers ought to be included.

If the CHMM does not include importers, they will buy goods from overseas and sell them here, without sanction, and undercut British manufacturers. The UK Government does not have powers or financial resources to pursue companies based overseas to enforce the CHMM. It is fanciful to think ministers will be able to force companies in China and India to pay multi-million £££ fines.

The DESNZ should accept that imposing the CHMM on UK-based boilermakers will curtail & stifle their ability to innovate. Ministers are expecting these manufacturers to develop hydrogen-ready boilers, improve smart heating controls and upgrade existing boilers. Yet at the same time, the CHMM punishes them for producing & selling those improved appliances. It is perverse that new zero-carbon hydrogen boilers will be funding the heat pump retrofit market. The thinking behind this is muddled & incoherent.

Funding for technological advances comes from the everyday sales of boilers. Boilermakers will not have sufficient money to invest in heat pump production - and the required technical support & aftercare - if the proposed unachievable targets and punitive fines are imposed.

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

No for the reasons given above. Moves to obligate boilermakers to make heat pumps - and encourage them to sell direct to installers - are wholly unacceptable.

Question 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.

Yes. Channelling sales through different brand labels is an established practice by large manufacturers. Separating those brands that are part of a single corporate entity for the purposes of the CHMM adds unnecessary complexity & difficulty. It may result in the absurdity of a single company trading credits between its own business units.

Question 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.

Question not answered. At first glance, the proposed threshold seems reasonable and proportionate - and will capture the overwhelming majority of installations without imposing unnecessary burdens on SMEs. But on second thought, it gives a competitive advantage to overseas manufacturers with relatively little penetration into the UK market. As stated earlier, it cannot be right to burden UK-based manufacturers yet overseas manufacturers escape this.

Question 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. All major manufacturers of gas boilers are owned by corporations or holding companies that are head-quartered overseas. The oil boiler market is slightly different - but sales of gas boilers dwarf the sales of oil boilers. As stated earlier, it is fanciful to think ministers will be able to force companies in China and India to pay multi-million £££ fines. This reinforces our view that the CHMM favours overseas manufacturers who only make heat pumps and have a distinct competitive advantage.

Heat Pump Supply Chain Plan

The DESNZ is considering whether to ask manufacturers annually to publish a Heat Pump Supply Chain Plan which describes (for instance) the anticipated source of heat pumps under the CHMM - and the percentage of anticipated UK content for each pump sold.

For manufacturers, it is not at all clear what benefit (if any) there is. To be of any use, they would need to cover high-level route-to-market strategy - but commercial confidentiality (inc. terms & conditions) and a desire to protect trading relationships will prevent any plans from being meaningful.

Ministers want to force the cost of heat pumps down to be the same or similar to fossil fuel heating. We are unconvinced that cost reductions sought by the DESNZ are realistic and likely to be achieved within its preferred timescale. Heat pump manufacturing is a mature global industry - and the core technology has already been tested & refined over decades. There are no real grounds to anticipate any significant reduction in manufacturing costs due to technological advances already made.

The BMF does not see any need for these plans that simply add further cost and administrative burden on manufacturers. Components come from wherever is economically efficient to make them - the majority being from the EU or the Far East. This will not change just because the DESNZ has a target.

Question 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 ?

Yes and the BMF's views are given above.

Targets

Option 1

The BMF notes that under this preferred option, the CHMM will begin with relatively low targets - while the market adjusts to the obligation - before accelerating in later years as the market scales.

Option 2

The BMF notes that under this option, the yearly targets would be set for a roughly constant growth rate in retrofit heat pumps is applied towards the aim of around 400,000 installations in 2028.

As stated throughout, the BMF neither agrees with, nor supports, these proposals given our unique position in the heating & hot water market. Setting production quotas like this is wholly misguided and entirely the wrong way to go about it - especially compelling boilermakers to sell direct. The proposed quotas are unachievable - the sooner that ministers & officials accept this, the better for all concerned.

The CHMM is aimed at home retrofitting as it excludes new builds. The size of the retrofit market is capped at 30,000 heat pump sales a year due to the terms of the Boiler Upgrade Scheme. No household is likely to buy a heat pump without a BUS grant. It also debunks the idea being promoted by one well-known company that a heat pump will cost households only £2,500. This price is only possible with the £5,000 BUS grant that is limited to 30,000 buyers. We reckon there is little or no prospect of manufacturers being able to sell more than this in any given year - unless ministers provide more funding for grants to encourage upwards of 100,000 installations a year.

Question 8: Do you agree with the preferred Option 1 in relation to the setting of targets ? Yes/No. Please provide reasoning to support your response.

No for the reasons given above. This is a policy with too many "unknown unknowns" and to proceed with so many variables is foolish. Option 2 gives greater flexibility in timing. The baseline of 1.8 million may be too high. There was a higher-than-normal spike in boiler replacements in 2021 - due to catching up on work delayed during Covid-19.

Weightings

The DESNZ proposes that qualifying installations of hybrid systems involving a heat pump and fossil fuel boiler will receive a 0.5 credit - and that only installations of products listed on the MCS Product Directory and notified via an appropriate certification scheme will qualify for this half-credit.

The BMF sees unintended consequences:

- if a manufacturer sells a heat pump that an installer then puts into a hybrid system, this penalises the manufacturer who has no knowledge of this.
- where an installer has (a) chosen to retrofit a heat pump to an existing in-situ boiler or (b) created a hybrid system - and the heat pump and boiler are from different manufacturers - this also penalises the manufacturer(s).

Manufacturers will sell heat pumps expecting them to be stand-alone installations - but for reasons beyond their control or knowledge - they are penalised with a 0.5 credit, not a whole credit of 1.

Workforce: there is a strong case to award credits to manufacturers who devote time, effort & money to help boost the overall number of heating engineers or qualified installers needed to decarbonise buildings and electrify heating. As stated earlier, it is BMF manufacturers & merchants who provide the necessary product knowledge, hands-on practical training, demonstration models and technical guides & datasheets to educate and inform the workforce. We ask the DESNZ to seriously consider it because rewarding manufacturers who help to train tomorrow's workforce is sensible and desirable.

Question 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.

No for the reasons given above. We also recommend the award of credits to help grow the workforce.

Scheme Administration

The DESNZ nominates the Environment Agency (not OFGEM) to be the administrator - yet has not obtained formal EA Agreement. Whoever is appointed, the administrator must be fully funded by

taxpayers and not by any additional levy on manufacturers. The administrator must be independent and how the data it collects must be done in a fair and transparent manner.

Boiler Sales Data

The DESNZ intends to use fossil fuel boiler sales data provided by obligated parties as the basis for calculating their CHMM obligations - and that those obligated will have to submit boiler sales figures to the scheme administrator on a quarterly basis.

The DESNZ does not say whether it intends is to use unit volume or £££ sales value. If it uses unit volume, this favours manufacturers with a disproportionate weighting to premium brands - with a preponderance of expensive models generating higher margins - at the expense of manufacturers who make budget models.

These proposals incentivise manufacturers to withdraw lower-cost models from their ranges - as selling more of them adds to their CHMM liability while generating little profit. This will negatively affect poorer homeowners as well as the private rented sector.

It ought to be possible to use some combination based on average sale price or output - with products aimed at smaller homes contributing less to the CHMM obligation than appliances with larger outputs. This will also be consistent with the policy objective - replacing a 35kw appliance with a heat pump is better for carbon emissions than replacing a 9kw appliance.

Question 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.

No for the reasons given above - namely the omission of using unit volume or £££ sales value.

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

Yes - it may be possible to use data already being gathered by commercial organisations like GfK. We reiterate that this requirement should also apply to overseas companies that supply appliances in the UK, even if through a third party or affiliate.

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

The BMF is not qualified to answer.

Heat Pump Installation Data

The DESNZ proposes that MCS and equivalent certification schemes will conduct audit & assurance checks to verify installations are genuine to avoid fraud, error or non-compliance.

The BMF does not support the lazy assumption that the Microgeneration Certification Scheme be the model. Consideration should be given to alternatives that focus on mandatory and periodically-renewed training for technical capability, backed by inspection, with light day-to-day administration. For example: an extension of Gas Safe Register. There are currently over 145,000 Gas Safe registered installers and over 70,000 registered companies - as compared to a few thousand MCS registrants.

The MCS is based primarily on processes and audit. Previous experience suggests that if the day-to-day administrative burden is too high, 50% of installers who are self-employed - or work for SMEs that do the lion's share of residential RMI work - lack the capability or inclination to join the MCS that is regarded as overly burdensome. These installers either (a) avoid this type of work entirely or (b) function as sub-contractors to organisations which have been set up for the sole purpose of seeking commercial advantage through managing the compliance process.

For obligated manufacturers, the major risk is that only around 50% of heat pump installations are recorded by the MCS. This means they will miss out on a significant number of qualifying installations that come with a £5,000 penalty. Therefore, a manufacturer could meet its target - but because of the

complexity and low take-up of the MCS - they are fined huge sums of money. That is why we recommend allowing any heat pump sold by a UK manufacturer to count as a qualifying installation.

The Heating & Hotwater Council remind us of the existing Benchmark scheme which is a more obvious candidate. Benchmark members have API links from their loyalty schemes to the Benchmark database - which in turn has links to competent persons schemes such as Gas Safe Register. This results in the issue of a Building Regulations Compliance Certificate that is given to the householder.

Therefore, with just one set of data input from the installer, the appliance is registered with (a) Local Authority Building Control and (b) the manufacturer for warranty purposes. Benchmark could provide invaluable data on when, where and what appliance was installed - with the ability to send reminders to the householder about annual servicing.

Question 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.

On balance, yes, but the DESNZ should actively consider schemes like Gas Safe & Benchmark.

Requirements of an Appropriate Certification Scheme

The consultation says that a suitable certification scheme must demonstrate (among other criteria) that the product installed, and the installation itself, comply with industry best practice, product standards and the Building Regulations.

We see obvious drawbacks including:

- many skilled installers with established, successful businesses find it unprofitable to take on low-value sub-contract work. The majority of installations are undertaken by newly-qualified engineers, or installers whose technical standards are insufficient or not up-to-date.
- there is a risk of sub-contractors cutting corners - perhaps due to money, time or quality of materials & products - to the detriment of the completed work.
- those who do sub-contract are not working under their own name - any diminution of quality has less impact on their own reputation and standing in the trade.

Many working in the trade with prior experience of government schemes take the view that poor quality installations tend not to happen despite compliance systems: they happen because of them.

A notable exception was the Boiler Scrappage Scheme introduced by the DECC in January 2010. It was characterised by the simplicity of its compliance rules and the extent to which it depended on existing, well-established systems. The £50 million allocated helped to replace 118,618 boilers - over half of which were more than 25 years old. The BMF was involved in the design and implementation of that scheme that was so successful by reason of its simplicity.

Question 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.

No strong preference.

Digital System

The consultation talks about commissioning a Digital Discovery yet does not explain this term.

It is not clear what IT will be required for registration, data loading and other purposes before the CHMM is due to start next year. The DESNZ should allow plenty of time to design, build and test the software before rolling it out in full. Insufficient information in the document gives rise to other questions - namely (a) how will credits be traded and (b) who will handle the finances ?

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

Question not answered.

Credits: Ownership, Trading and Transfer

Eligibility to Own and Purchase Heat Pump Credits

The DESNZ proposes that only obligated parties will be allowed to own credits on the digital system - rather than permitting third-party traders to open accounts and buy & sell credits. This is logical to prevent outsiders hoarding credits in an under-supplied market.

The DESNZ is also considering (in later years) allowing credit-trading exchange or auction platforms to match buyers & sellers of credits, if there is sufficient demand in the market. We disagree - a secondary market, or any form of derivative trading, must not be allowed as it will add unnecessary complexity.

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

Yes for the reasons given above.

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

Yes for the reasons given above.

Question 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 ?

Yes. Information should be limited to a minimum. If a credit holding is visible, it raises competition issues. Other parties could see how many goods their competitors buy & sell. This cannot be right.

Credit Carryover

The DESNZ is considering allowing the obligated parties with a surplus of credits to carry forward a portion of these from one period to the next. There is a balance to be struck because allowing it:

- removes the temptation to “stop trying” if an annual target is reached early in the year.
- further reduces the supply of available credits, thereby increasing their cost.

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

On balance, yes, for the reasons given above.

Question 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.

On balance, yes, for the reasons given above.

Target Carry-Forward

The DESNZ proposes to allow companies to carry forward a limited proportion of their target to the next obligation period - to increase flexibility in meeting the obligation and help ensure compliance.

This is logical for several reasons including:

- variable weather affects the number & timing of fossil fuel installations - there is no reason to suppose this will not occur with heat pump installations.
- during Covid-19, we suffered delays & disruption in the supply of materials & products - some flexibility in the CHMM is sensible.
- if there are delays in accreditation - between a completed installation and it being officially recognised - some flexibility should be made.

Some of these proposals are nonsensical. For example: some obligated manufacturers will be given a target of around 20,000 heat pumps to sell in 2024 This is approx. 50% of the entire retrofit market in 2023. This will be impossible to reach and we recommend the DESNZ reconsiders.

Question 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.

The DESNZ is also considering whether target carry-over should come with a small disincentive to encourage companies to fully meet their targets within each obligation period. A multiplier applied to the credits is mentioned. Variable weather and/or delays at the scheme administrator are beyond the control of obligated parties. The CHMM is burdensome and complicated enough already without adding this provision. It will also further reduce the supply of available credits, thereby increasing their cost.

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

No for the reasons given above.

Payments-in-lieu of Missed Targets

The DESNZ proposes that when obligated parties fail to meet their targets, they will be required to make a payment in lieu of that remaining shortfall. The CHMM is burdensome and complicated enough already without adding this provision. It also favours larger companies that (for whatever reason) may chose just to pay up, rather than make the effort to reach its quota.

Question 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.

No for the reasons given above.

Compliance and Enforcement

The DESNZ proposes that the CHMM will be enforced primarily via civil sanctions, including financial penalties. But criminal offences are proposed in some circumstances - notably fraud. As stated earlier, the BMF does not believe UK Government has the legal powers to enforce the CHMM on companies based overseas. This must be clarified to ensure that UK manufacturers are not at a competitive disadvantage to overseas competitors with no UK base or UK affiliate.

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

Question not answered.

Territorial Extent

The DESNZ intention that the CHMM will apply throughout the United Kingdom looks logical at first glance but does not take account of:

- the Devolved Administrations wanting to safeguard their own powers & responsibilities on heating & energy efficiency policies.
- there are no boilermakers in (for example) Scotland so these sales are imports from England.

There is neither reference to the UK Internal Market Act 2020 in the consultation - nor what (if any) analysis or assessment has been made to show how these proposals comply with the Act. It is also not clear if Whitehall has the powers to legislate for the CHMM to apply UK-wide. The presumption is that

the DESNZ has reserved powers. The BMF questions this and does not believe it has been properly demonstrated that such powers currently exist.

If this proves correct, the issue of displacement arises which (again) is beyond the control of obligated parties. Once goods leave their factory, manufacturers do not know their final destination. It could be anywhere in any of the 4 home nations. If one or more Devolved Administrations choose not to introduce the CHMM - or they modify it - sales (other than MCS-registered installations) will differ significantly from the manufacturers' sales out figures - and therefore be 'lost'. The result is inaccurate and unachievable quota targets on manufacturers.

Equality Act 2010

The DESNZ says it does not expect this policy will have disproportionately negative impacts on population groups with protected characteristics. This is wholly misguided and reinforces the BMF view that the Department does not comprehend the heating market and its supply chain.

Choices

The CHMM will drive up the cost of fossil fuel appliances - because it incentivises manufacturers to withdraw lower-cost budget models from their ranges - as selling more of them adds to their CHMM liability while generating little profit. But the burden will fall disproportionately on low income households - notably those who maybe asset rich, but cash poor, like pensioners - and the private rented sector.

Affordability

Most households do not change their boiler voluntarily - replacements are overwhelmingly 'distress' sales. Installers influence householders most of the time on what brand & products to have installed when boilers breakdown. The default sale is a new boiler - a heat pump is generally only installed if householders ask for one. With a few exceptions, householders are keen to restore the heating & hot water system at the most competitive price and quickly. To expect households to pay around £10,000-15,000 for a heat pump will certainly disproportionately affect most of them who simply cannot afford it - even with the offer of a £5,000 BUS grant.

On financing, many households do not have the necessary credit rating to take out a loan to finance a heat pump installation. In such cases, it cannot be right to leave households worrying about whether (or not) they have a reliable heating & hot water system.

Cost Reduction

Most of the cost of having a heat pump is during its installation - and for the greater number of components needed - like hot water tanks & ancillary products. It is a mature market with no significant scope for price reductions. Installation costs may fall, over time, as installers become more familiar with heat pumps and numerically more competent installers become available.

The DBEIS ought to be careful not to rely on unproven claims & estimates made by energy suppliers on cost reductions. We and many others are sceptical about such claims from those with little or no direct experience of manufacturing heating industry solutions.

Home Ownership

Installing a heat pump in a property lowers the EPC rating rather than improving it. The BMF notes there are moves elsewhere in Whitehall to review or replace Energy Performance Certificates - but this will take several years - and the CHMM is scheduled to start next year. It cannot be right to pressurise households to have a heat pump that will disproportionately affect the value of their property - and could affect their mortgages. Many are struggling with higher mortgages, Council Tax and other payments (as it is) with the Bank of England forecast to raise the interest rate again soon.

Fraud

With heat pumps being a comparatively new option for most households, we are concerned that unscrupulous companies will push for installations where they are wholly unsuitable - or to replace appliances that do not need replacing. This would be a repeat of bad practice that is prevalent in the Energy Company Obligation where bad workmanship & unsuitable installations occur.

The CHMM will create a market of 'selling' completed installations back to manufacturers. This will (inevitably) lead to mis-selling to vulnerable people. Incorrectly or inappropriately-installed heat pumps can lead to higher energy bills, thereby exacerbating fuel poverty.

From previous research, it is known that groups with protected characteristics are most at risk from falling into fuel poverty. Unfortunately, they are often the target of fraudsters. This is another reason why we urge the DESNZ to rethink these proposals and to work with manufacturers and merchants on practical, sensible methods to boost the sale of heat pumps.

Question 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 ?

Yes and we set out views above that we do not believe the DESNZ has properly considered.

CONCLUSION

The BMF neither agrees with, nor supports, these proposals given our unique position in the supply chain in that manufactures and distributes heating & hot water systems & solutions.

Manufacturers cannot force products on households: residents can & will refuse them. Consideration must be given to manufacturers who invest in consumer marketing, dedicated installer training and such like. It is wholly unreasonable to penalise manufacturers that attempt various initiatives to sell heat pumps - but ultimately fail due to customer resistance or indifference. As stated earlier, manufacturers have little or no experience in dealing with end-customers - that is the established role of merchants.

We are exasperated the Department did not consult the BMF prior to the start of this consultation. The proposals to obligate boilermakers to make heat pumps - and to encourage them to sell direct - are wholly unacceptable. This is a clumsy, impractical way to upset a long-standing, well-functioning trade and will disrupt the market. It reinforces our view the DESNZ does not comprehend the supply chain.

We urge ministers & officials not to implement the CHMM (as seen) without reconsidering the proposals in the light of our contribution and other responses. They will seriously harm BMF businesses, many of which are local, independent, family-run SMEs that serve local markets. We (again) request a meeting with officials to voice our concerns at these proposals.

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