

Parliamentary Briefing: How does the Energy Security Bill support consumers shift to clean heat, and how could it do more?

The Energy Security Bill sets out a series of significant reforms to the nation's energy system. It is an opportunity for the government to support households to move away from expensive fossil gas and on to clean, efficient electric heat – helping reduce bills and bolster energy security. This briefing outlines where the Energy Security Bill makes progress, and how the government could show greater ambition to offer consumers the full benefits of a cheaper, cleaner, and more flexible energy system.

Supporting affordable, clean electric heat

The Bill's *Independent System Operator and Planner* will reform how the electricity grid is planned and optimised. It will introduce an independent body to manage the system, make it easier to plan and meet future demand and unlock flexibility benefits. **Managed well, and with appropriate incentives for development of network infrastructure, this could help smooth the transition to widespread deployment of heat pumps.** The Bill also includes powers that would allow the government to introduce regulations mandating smart functionality for devices including heat pumps, which could, in time, help to see consumers make further savings through flexible usage.

Pricing electricity more fairly allows consumers to benefit from lower running costs for electric heat pumps. **A step the government could take to lower the cost of clean electric heat would be removing “legacy policy” costs from bills.** These are the costs associated with policies – most significantly the Renewables Obligation and Feed-in Tariff – which supported the initial roll out of renewables but are not open to new applicants and have been replaced by more efficient schemes like Contracts for Difference. These costs fall disproportionately on electricity bills. The Bill could have given the government powers to remove these levies to complement the *'Affordability and Fairness Review'* due this year. This could save households around £99 per year.¹ As they are contractual costs they would still need to be paid, through general taxation.

The Bill includes powers to create new levies on bills to fund projects including hydrogen and CCUS. **Given soaring costs of living, it is inappropriate to add new levies onto household bills.** In particular, it could be counterproductive for heat electrification to recover costs through electricity suppliers and consumers. Parliamentarians could table an amendment striking electricity suppliers from the list of market participants in clause 66, section 8; or seek to prevent new levies being added to household consumers entirely.

¹ Ofgem, [Default tariff cap level: 1 April 2022 to 30 September 2022](#), February 2022.

Growing the UK's heat pump manufacturing base

Clean electric heat pumps will provide the backbone of the UK's future heating mix. Reflecting this, the government has set a target of 600,000 installations per year by 2028. An important policy measures to meet this target is the market-based mechanism for low-carbon heat, announced in the Heat and Buildings Strategy in 2021. **The proposal could drive innovation in the heat pump market and build on the UK's strong position in the heating appliance manufacturing industry.** It builds on a proven track record of obligations and tradeable credits in other sectors, most notably in the electric vehicle market, which has been the subject of several similar interventions in peer countries.

The mechanism, which the Energy Security Bill puts into legislation, will introduce an obligation on fuel heating manufacturers to achieve a growing number of heat pump sales, based on a proportion of their overall sales.² The policy will integrate a credit-trading scheme, whereby all heat pump sales generate a tradeable certificate. Any obligated party will be required to meet their obligation by holding a certain number of these certificates – which they can either generate themselves or purchase from companies with excess certificates. Through this trading scheme, the mechanism will allow the market to meet the overall target as efficiently as possible, rewarding business model and consumer offer innovation. **The proposal is an example of world-leading policy innovation in the heating market.** We welcome its inclusion in the Energy Security Bill, and encourage it to be introduced as soon as possible, following market consultation.

Supporting clean heat through zoning

Heat networks are an important part of the UK's clean heat future.³ These can be powered through large, efficient heat pumps. The government recently set out its plan for 'heat network zoning', an approach to planning and delivering heat networks in the areas where they are most appropriate. **This is vital to provide a stable heat network investment environment for the private sector.** We welcome the steps taken forward in the Bill.

The Bill puts in place a new market framework to introduce carbon standards from the 2030s, alongside technical standards and regulations. It also advances critical consumer protections for heat network. The government plans to extend consumer pricing protections to all consumers required to connect within zones. New consumer protections for heat network customers are welcome, it but will not be in place in time for this winter. Given the soaring costs of energy, the government should separately work to establish equivalent protections for heat network users as currently apply to gas and electricity customers as soon as possible.

As heat networks are a nascent market, it is important that the new standards and approach provide greater certainty and act as an enabler of investment. The secondary legislation putting many of the powers granted in this Bill into practical effect will need

² BEIS, [Market-based mechanism for low carbon heat, May 2022](#).

³ [Climate Change Committee, Sixth Carbon Budget, December 2020](#).

effective scrutiny to ensure new rules for zoned areas do not create market distortions. The zoning methodology under development for heat networks also has potential for other areas of heat and buildings decarbonisation. We encourage the government to consider devolving similar powers for energy efficiency zoning, to empower local authorities to take a joined-up, place-based approach to clean heat.

Long-term certainty for industry and households

Switching to clean heat is essential to decarbonising buildings. **Long-term regulatory signals can be an important part of technology shifts because they encourage long term investment and innovation**, bringing down costs. The government has previously acknowledged the importance of long-term regulatory signals, for example by legislating to phase-out the sale of new fossil-fuel cars. It can do the same for gas boilers, following the recent example set by the Netherlands and other European peers.⁴ The UK has already stated its “ambition” to phase out gas boilers by 2035. It could have gone further by putting this into law through the Energy Security Bill.

Energy efficiency standards for existing homes are a complementary measure to heat decarbonisation. The powers in the Bill do not currently give the government the primary powers to regulate these across different housing tenures. It should give legal force to the long-planned tightening of minimum energy efficiency standards (MEES) for the private rented sector, which were the subject of extensive consultation in 2020 and 2021. Parliamentarians should consider amending the Bill to bring forward these new regulations at the level proposed. New powers should also cover owner-occupied homes, with carefully designed, long-term regulation. We note that new regulations should be introduced alongside necessary financial and non-financial support to mitigate risks of unintended consequences.

There are opportunities to **expand Energy Company Obligation supply chains** – which deliver energy saving measures to fuel poor homes – to allow energy companies to reach a wider number of households, supported by a voluntary draw-down funding pot, subsidized by the Treasury.⁵

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Find more on our website: www.electrifyheat.uk

⁴ Electrify Heat, *Getting off gas: Learnings for the UK to get ahead in the global race to clean heat*, June 2022.

⁵ For more information, see <https://gemserv.com/our-thoughts/proposed-energy-efficiency-scheme-eco-plus/>