

# The Clean Heat Market Mechanism

## What is the Clean Heat Market Mechanism?

The Clean Heat Market Mechanism (CHMM) is designed to drive investment in high-quality production and installation of clean, efficient heat pumps; future-proofing the UK's heating appliance supply chain and creating new green jobs in our industrial heartlands.

The CHMM provides a clear framework and incentive structure to encourage investment in heat pumps. From 2024, the mechanism will put an obligation on heating appliance manufacturers to meet annual heat pump installation targets, set as a proportion of their total fossil fuel heating appliance sales. Each qualifying heat pump installation will generate a tradeable credit. A similar scheme has been successfully deployed in the UK's energy sector through the Renewables Obligation.

Measures have been taken to ensure that compliance with the scheme is cost-effective for manufacturers: setting achievable annual targets for heat pump installations, and reducing penalties occurred for non-compliance. Major manufacturers including [Vaillant](#) and [Ideal Heating](#) have already announced investments in British heat pump facilities.

## Benefits for households and industry

The [2021 Net Zero Strategy](#) set out the importance of growing the UK heat pump market towards 600,000 installations per year by 2028. The Clean Heat Market Mechanism will unlock a range of benefits for households and industry including:

- Provide incentive and strategic confidence to market actors to develop and promote products, offerings, and services that expand the consumer appeal and therefore uptake of heat pumps.
- Additional research and development, and economies of scale, are expected to follow the implementation of the CHMM. This could help support innovations that lower prices for consumers.
- Create a level playing field for heating system manufacturers to futureproof their assets (including manufacturing capacity) and transition their workforce (including heating system installers) ready for a future when clean heat is the norm.
- Incentivising a shift to more efficient heating technologies will decrease total national energy demand, lowering bills for households and boosting energy independence as we move away from reliance on volatile global gas markets.

## How does the scheme work?

The proportion of heat pumps that appliance manufacturers must sell (or purchase tradeable certificates for) will rise annually: starting at 4% of fossil fuel boiler sales for 2024/25, rising to 6% in 2025/26. Where parties fail to meet their credit obligation, and this shortfall exceeds the allowable credit deficit that can be carried forward, they will make a payment of £3,000 per missing credit. This is down from the £5,000 originally proposed. The scheme is designed to provide obligated parties with an appropriate degree of flexibility. They will have an allowance of 35% (up from 25% initially proposed) to carry forward an unmet target from one scheme year to the next or can carry forward a 10% surplus of heat pump credits from one scheme year to the next.

## Why the CHMM will not increase boiler prices.

In the near-term, heat pump sales in the UK are forecast to continue to grow at around 20% per year. Heat pump sales should therefore be around 79,000 in 2024, and 95,000 in 2025. Therefore, there will be sufficient demand in the market for heating system manufacturers to sell heat pumps without paying for credits in the first two years of the scheme.

The CHMM is highly unlikely to increase the cost of gas boilers, as the scheme is implemented gradually. The first-year target, 4% of overall annual boiler sales is easily achievable, meaning manufacturers will not face a deficit of credits, and associated charges. The second-year target, 6% of overall sales, is also achievable. For context, in 2022, 55,000 heat pumps were sold in the UK. Therefore, the CHMM's first year target for 2024/25 requires the industry to increase sales by only 5,000 heat pumps, or by 8% over the 2 years between 2022 and 2024.

The ambition of the CHMM will be reviewed for its third year, allowing it to balance cost to manufacturers against the need to ramp up heat pump sales before the long-established target of installing 600,000 heat pumps a year by 2028.

International examples show gradually increasing sales of heat pumps is achievable. Between 2011 and 2022, France increased heat pump sales from around 150,000 in 2011 to 620,000 in 2022. That's an increase of 310%, or an average increase of 30% a year.

**Please contact [Leo.Vincent@E3G.org](mailto:Leo.Vincent@E3G.org) if you would like to discuss the clean heat market mechanism further.**