



Department for
Business, Energy
& Industrial Strategy

Rural Insight Forum

Phasing out the installation of fossil fuel heating
systems in buildings off the gas grid

3rd December 2021



Purpose of today

- On 19th October we launched the **Heat and Buildings Strategy** and made key policy announcements.
- These set out how we will **ensure the building sector is on track** for net zero through this decade.
- Today we will take you through the overall approach and highlight some of the **key policies** that will be of interest.
- We are **seeking your initial views** – and are happy to take questions on the proposals

Heat and Buildings Strategy at a glance:

- **Boosting funding** to decarbonise buildings – including **£450m** for the **Boiler Upgrade Scheme**, **£950m** for the **Home Upgrade Grant**, £800m for Social Housing, and £1.4bn for Public Sector Decarbonisation
- **Investing £60m in heat pump innovation** through the Heat Pump Ready programme.
- Consulting on **ending the installation of new fossil fuel heating** for homes and non-domestic buildings **off the gas grid** from 2026.
- Consulting on a **market-based mechanism** for low-carbon heat to run from 2024.
- **Aiming to phase out** the installation of new and replacement natural gas boilers by 2035.

Delivering 600k heat pumps per year by 2028

- We will need to **grow heat pump deployment to 600k** per year by 2028 to remain on track for net zero.
- We are putting in place a **comprehensive policy framework** to support this transformation – including regulation, public investment and market-based policy measures as well as action on key enablers. **We are:**
 - Making **clean heat the norm in new buildings** through the Future Homes Standard and Future Buildings Standard.
 - **Supporting households** who want to make the switch through the Boiler Upgrade Scheme from 2022.
 - Providing UK businesses with a **market-wide framework** for investing and innovating in heat pumps from 2024.
 - **Phasing out installation** of fossil fuel boilers off the gas grid from 2026 (2024 in larger non-domestic buildings).

Through this long term policy mix we aim to:

- Create the **confidence to invest** – that will:
 - Drive **sustainable long term growth** in clean heat supply chains.
 - **Reduce the upfront cost** of installing a heat pump by 25-50% by 2025 and to parity with gas boilers by 2030 at the latest.
 - Support up to **90,000 new jobs** and create **~£2bn Gross Value Added** to UK economy.
- Ensure **300,000 heat pumps** are manufactured in the UK each year by 2028.
- **Save nearly 200 MtCO₂e** by 2037 in Carbon Budgets 5 and 6.
- **Lay the groundwork** for further heat pump deployment growth if needed.

The Boiler Upgrade Scheme

- From April 2022 - **the Boiler Upgrade Scheme** will provide targeted support for households switching to clean heat.
- The **£450 million** scheme which will run for **three years (2022-2025)** and will provide upfront capital grants of **£5,000 for ASHPs** and biomass boilers, and **£6,000 for GSHPs**.
- This support is targeted at **owner-occupiers** – private landlords and businesses will also be eligible.
- The scheme aims to help **grow the market for heat pumps** and **reduce costs** ahead of proposed regulatory and market-based policy levers coming into force later this decade.
- The scheme will be delivered through a **two-stage voucher system** - to simplify the consumer journey the process will be **installer-led**.
- Ofgem are due to publish a consultation on **scheme administration** later this year.



An end to new fossil fuel heating installations off the gas grid

- From 2026 – households, and smaller non-domestic buildings, would **no longer be able to install** new oil, coal or LPG heating systems.
- We will bring forward clean heat – **primarily heat pumps** – at the point of **boiler replacement**, driving 50-70k installations annually.
- A 2026 start date gives time for other measures to **underpin investment throughout the supply chain** – reducing costs.
- **No plans to force anyone to rip out a functioning oil boiler.**
- The ~20% **hardest to treat** buildings likely to use high temperature heat pumps or solid biomass (bioliquids may also be an option).
- Ahead of implementation – we will look at what technical changes are needed to deliver this policy, and will **keep HP market conditions under review** (with a firm expectation that costs will reduce).

Targeted regulation where the choices are straightforward:

- **Ending the installation** of new fossil fuel heating systems in properties off the gas grid **from 2026** (2024 for larger non-domestic properties);
- A **‘heat pump first’ approach** to replacement heating systems; and
- Requiring **high performing** replacement heating systems where heat pumps cannot **reasonably practicably** be installed.

We are considering:

- How to **end the use** of any remaining fossil fuel heating in buildings off the gas grid, potentially by the late-2030s.

A market-based mechanism for heat pump deployment

- We are consulting on introducing a market-based mechanism for low-carbon heat **from 2024** to run until **at least 2028**.
- This measure will help **accelerate heat pump deployment**, building on funded measures and complementing regulatory measures.
- Alongside other policies, this will help support the installation of **~400k heat pumps** per year by 2028 in the **retrofit market** for homes and businesses.
- With clear market-wide deployment targets, industry will have the **policy certainty** to invest in supply chains and innovate to **discover what works** to build consumer uptake of heat pumps.
- Similar approaches have been used to decarbonise other sectors, such as **low-emissions vehicles**.
- **Heat pump-only manufacturers will benefit** from the proposed 'pooling' or 'credit-trading' arrangements, creating extra value for firms that bring forward products and offerings consumers value.

What is the market-based mechanism?:

- From 2024, boiler manufacturers will **need to meet a rising market-wide standard for sales of heat pumps** proportional to their share of the fossil fuel boiler market.
- This will be through either a 'proportion of sales' or 'fleet average efficiency' approach.
- Firms will be able to **expand** their own product lines and heat pump sales, **partner** with other firms and / or **trade 'credits'**.
- We are also considering an alternative where the requirement would apply to energy suppliers, instead of appliance manufacturers.

Enabling heat pump deployment

Action needed to:	What we are doing:	Role for industry:
Make heat pumps more affordable to buy	<ul style="list-style-type: none"> • Providing funding support for households switching to low carbon heat • Delivering a market wide framework for investing and innovating. • Stimulating innovation in the UK green home finance market. • Investing in heat pump innovation. 	<ul style="list-style-type: none"> • Investment in new capacity / to reduce the upfront costs of heat pumps by 25-50% by 2025 and to parity with boilers by 2030. • Greater provision of green finance.
Make heat pumps more affordable to run	<ul style="list-style-type: none"> • Committing to address distortions in fuel prices to ensure that clean heat is no more expensive to run than fossil fuel systems . • Investing in improving fabric efficiency of buildings and raising product standards to support more efficient products. • Supporting development of smart tariffs. 	<ul style="list-style-type: none"> • Drive innovation to improve the operating performance of heat pumps. • Develop new financing models and 'time of use' electricity tariffs.
Upskill the installer base	<ul style="list-style-type: none"> • Clearly signposting future demand for skills. • Revising apprenticeship standards and promoting uptake. • Updating Building Regulations and minimum competencies. 	<ul style="list-style-type: none"> • Encourage heating engineers to upskill, • Develop tools to streamline installation. • Continuously improve industry standards.
Ready the electricity network	<ul style="list-style-type: none"> • Providing certainty of heat pump deployment rates. • Developing policies to incentivise smart systems. • Work with Ofgem / DNOs to ensure that any new connections are delivered quickly and at fair cost. 	<ul style="list-style-type: none"> • Drive smarter, integrated operation of heat pumps, and deliver flexibility offers. • Improve heat pump installer notification rates to the network operators.
Engage consumers	<ul style="list-style-type: none"> • The HBS launch, and Buildings Day at COP26, has driven significant and (mostly) positive media attention on heat pumps. • Review of digital tools – including Simple Energy Advice – to broaden access to information on heat pumps. 	<ul style="list-style-type: none"> • Investment in marketing to build consumer awareness and confidence. • Development of trusted 3rd party information, tools and advice.

Discussion

- Any initial reflections on the overall approach to promoting clean heat and / or the proposals to phase out fossil fuel heating off the gas grid?
- How can we work with rural communities to promote take up of support being made available through BUS etc.?
- What are the priority actions for government / industry to support rural households and businesses through the transition to low carbon heat?

Links to key documents:

- [The Heat and Buildings Strategy](#).
- Consultations on phasing out the installation of new fossil fuel heating systems in [homes](#), and [non-domestic buildings](#), off the gas grid.

Our two consultations are due to close on the 12th January 2021