

Energy Security and Net Zero Committee

Oral evidence: [Heating our homes](#), HC 115

Wednesday 13 March 2024

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[Watch the meeting](#)

Members present: Angus Brendan MacNeil (Chair); Barry Gardiner; Mark Garnier; Sir Mark Hendrick; Mark Pawsey; Lloyd Russell-Moyle; Alexander Stafford; Mick Whitley.

Questions 606 - 749

Witnesses

[I](#): Neil Kenward, Director of Strategy, Economics, Research and Net Zero, Ofgem; Neil Lawrence, Director of Delivery, Ofgem; and Laura Nell, Deputy Director for Policy and Scheme Development, Ofgem.

[II](#): Lord Callanan, Minister for Energy Efficiency and Green Finance, Department for Energy Security and Net Zero; and David Capper, Director, Clean Heat, Department for Energy Security and Net Zero.

Written evidence from witnesses:

- [Ofgem](#)
- [Department for Energy Security and Net Zero](#)

Examination of witnesses

Witnesses: Neil Kenward, Neil Lawrence and Laura Nell.

Q606 **Chair:** Welcome to the Energy Security and Net Zero Committee and our session on heating our homes. This first panel is with Ofgem and the next panel is with the Minister, Lord Callanan. We have a panel of three from Ofgem. It is good to see you here, lady and gentlemen. I will ask you to introduce yourselves, job titles and what have you—name, rank and serial number, basically—starting from my left.

Neil Kenward: My name is Neil Kenward. I am the director for strategy, economics, research and the net zero transition in Ofgem.

Chair: Indeed. I recently saw you in Glasgow at the Ofgem meeting in Albion Street.

Neil Kenward: Indeed.

Neil Lawrence: Hello. I am Neil Lawrence. I am the director of delivery and schemes at Ofgem.

Laura Nell: Hi. I am Laura Nell. I am the deputy director for policy and schemes development in Ofgem.

Q607 **Chair:** Excellent. Thank you all for coming this afternoon. To kick off, can you update us on when Ofgem's heat networks regulation will come into effect and how it is protecting consumers in the meantime?

Laura Nell: We are working really closely with Government at the moment on developing the regulatory framework for heat networks. We put out a joint consultation last year and we are working through the results of that. There is a lot to do. I think people will recognise the minimum level of protection that currently exists for heat network customers, and we completely recognise the urgency of needing to get these protections in place as soon as possible.

My understanding is that the Government is planning to transition in protections from April 2025, and this will include things like access to an ombudsman for complaint handling, some minimum standards of compensation related to the reliability of the service, and, in time, more protections related to proportional pricing. We are expecting that that will take longer to bring in.

Q608 **Chair:** There has been some evidence to say that consumers saw their energy bills almost double in January due to the sudden rises in Economy 7 night rates. What is Ofgem's take on that?

Neil Kenward: The Economy 7 tariffs, as you will appreciate, incentivise people to use their energy off peak and reward customers with lower bills as a result. Those tariffs do have to operate within the price cap formula. We require suppliers to make sure that the weighted average of the two components of the Economy 7 or other tariffs like that are within the



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price cap level, so we ensure that value is delivered to consumers, but I would say that that balance can be achieved in different ways and different suppliers choose different balances.

Q609 **Chair:** You say they have to work within the formula. Who sets the formula?

Neil Kenward: We set the price cap level overall. We give a weighting between the two time periods, which reflects normal consumption rates. We then require them essentially to be within that average in setting their Economy 7 tariffs.

Q610 **Chair:** So it's Ofgem's fault because of the weighting you give.

Neil Kenward: Consumers should be able to benefit in any scenario if they have time patterns of consumption that are benefiting from those time-of-use tariffs. What I would say is that different suppliers have different balances of prices between them, and we would strongly encourage consumers to shop around to get the best possible deal.

Q611 **Chair:** Your written evidence says that "evidence of poor installer behaviour and consumer experience remains across...technologies," including when issues arise after installation. What would you want to see happening to address this and to change that experience?

Laura Nell: We recognise the importance of customers having confidence in products for green heating and insulation. It is really important that customers are treated fairly and that there are protections against harmful practices. Currently Ofgem, on the schemes that it administers for fuel poverty and energy efficiency, works really closely with the standards bodies, MCS and TrustMark, who I know you have heard from previously. Those codes offer some protection in terms of the quality of the installation, and they offer some protection around complaint handling as well, but this is an area that the CMA has looked at closely and has concluded that there is room for improvement among the standards offered by the standards bodies.

Our view is that it is really important that the standards bodies are able to use their sanction powers impartially and rigorously, and it is important that the businesses joining the schemes are vetted thoroughly when they join. I think it is difficult at the moment for customers to understand how much weight they can place on the value of any given certification scheme, given the proliferation of them in the sector.

Chair: Do you want to come in, Mark Garnier?

Mark Garnier: No, it is just that I have a pet hate of dodgy builders. I have tried on a couple of occasions to get the Government to introduce a compulsory licensing scheme. You can look at things like TrustMark, which are fantastic, but they are voluntary. We continue to see problems across the whole of the small residential sector where you have dodgy builders, and it has not been resolved. I thought I would just get my



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whinge in at that point.

Chair: I presume you are not alone in despising dodgy builders; I do not think there would be many who love them.

Mark Garnier: Well, there are a lot of very good builders, so we mustn't malign the whole of the sector. Amazingly, you will be surprised to hear, there are one or two dodgy MPs, but—

Chair: Certainly not on this panel. I will turn to Lloyd Russell-Moyle to show that there is not.

Q612 **Lloyd Russell-Moyle:** I will come back to how we stop fraud in a second, but you have 11 schemes that you administer: the boiler upgrade scheme, the domestic renewable heat incentive, the energy company obligation, the feed-in tariffs, the Great British insulation scheme, the green gas support scheme, the green gas levy, the renewables obligation, the warm home discount. I have already forgotten what I started with on that list.

Many of those schemes have got huge underspends. The boiler upgrade scheme failed to spend two thirds of its annual budget in the first year. ECO fell by 59% in 2022. Is it not clear that the consumers have not a clue of all these different schemes, that you have totally bamboozled them, that you are not really helping at all with any of them, and that they should be scrapped and replaced with one clear scheme that people actually understand, rather than the myriad of mess that you have presided over?

Neil Lawrence: Our role is administrator of the schemes. Our role is to work with Government. They have decided the policy and, as administrator, we make sure that we develop operations that are easy for customers with regard to those schemes, so they have access to them as scheme participants. We have to do a lot of work around fraud and compliance.

Q613 **Lloyd Russell-Moyle:** You administer the scheme. How easy is it for a customer to come along and say, "I have a house. I have no idea what scheme is available to me. I just want a reputable builder to come along and to be able to do the work and for me to have peace of mind"? Is that possible in any of the schemes that you have designed?

Neil Lawrence: With regard to the individual schemes, there is help available from Ofgem. I think we all recognise that it could be confusing. We administer the schemes you mentioned but in addition to that there are other scheme administrators for other areas of Government as well. It is not just about Ofgem.

Q614 **Lloyd Russell-Moyle:** Okay, but of the schemes you administer, could someone come along and say, "I have this house. Can you just provide me a reputable person that I know will not defraud me and will just do the work rather than me being an expert"? Do you offer that?

Neil Lawrence: No.



Q615 **Lloyd Russell-Moyle:** Why not?

Laura Nell: On the boiler upgrade scheme, for example, it is an installer-led scheme—it is largely demand-led—and MCS, as the standards body, does keep a list of registered installers.

Q616 **Lloyd Russell-Moyle:** It is demand-led but the demand is from the customers, and they haven't got a dicky-bird clue about any of this stuff and you are not helping them.

Laura Nell: Well, we publish guidance on the administration of our schemes and—

Q617 **Lloyd Russell-Moyle:** Publish guidance to who?

Laura Nell: For property owners and for installers on the boiler upgrade scheme.

Q618 **Lloyd Russell-Moyle:** If I am a property owner, where can I type in my details and get given a person that I can speak to that will guide me through that process? Is that possible?

Laura Nell: The Government have been doing work on putting a number of the schemes behind the digital front door and those schemes go beyond the schemes Ofgem administers.

Q619 **Lloyd Russell-Moyle:** What have you been doing? You administer your schemes. You acknowledge that your schemes are impenetrable for the consumer, apart from guidance that you provide. How can they speak to someone and be connected directly with someone that will actually help them?

Neil Lawrence: Sorry, I just want to be clear. We don't just publish guidance. We have an operations centre. We speak to customers. We help them and guide them through—

Q620 **Lloyd Russell-Moyle:** So there is an ability for a customer to speak directly to someone.

Neil Lawrence: There is.

Lloyd Russell-Moyle: What happens in that process?

Neil Lawrence: You can speak directly to somebody at Ofgem, and you can ask about eligibility for the scheme. You can get help and advice with regard to the individual scheme. On the matters that we are talking about, though, I think there is more work to be done if you are a consumer looking at the plethora of things that you could do to get on the energy efficiency journey, to improve your home, and that is something that we are working with Government on around this front door.

Q621 **Lloyd Russell-Moyle:** Why did ECO fall by 59% in 2022 and why did the boiler upgrade scheme only have a third of its budget spent?



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Neil Lawrence: Let's start with the boiler upgrade scheme and talk generally around it. When a new scheme is introduced, it is very common to see what we call an S curve. That is a slow start to the scheme and then, as people become more knowledgeable about the scheme and understand that it is there, you see an increased uptake through the scheme lifetime, and then at the end of the scheme its working at a faster rate.

We appreciate where we are with the boiler upgrade scheme at present in terms of the numbers. We are working with the Government, suppliers and consumer groups to understand how we can offer and speed up any of those processes in our role as administrator, but the policy is for the Government.

Q622 **Lloyd Russell-Moyle:** I want to upgrade my boiler. I have my usual plumber that does my work. I ring him up and I say, "I want you to install the boiler." Is that possible?

Laura Nell: Under the boiler upgrade scheme, the grants are for air source and ground source heat pumps and biomass boilers.

Q623 **Lloyd Russell-Moyle:** Yes, sorry: "I want you to upgrade my heating." Is that possible? Can I say that to my usual plumber, who lives down the road from me and who I trust—because I don't know about these other people?

Laura Nell: If they are registered with MCS and certified—

Q624 **Lloyd Russell-Moyle:** What percentage are registered?

Laura Nell: We have over 1,000 installers that are registered on the BUS.

Q625 **Lloyd Russell-Moyle:** What is that as a percentage of plumbers across the country?

Laura Nell: I couldn't tell you.

Q626 **Lloyd Russell-Moyle:** It is a tiny fraction of plumbers across the country, isn't it? The likelihood is that I would not be able to use my trusted plumber and you are forcing me to use someone that I don't have a dicky-bird clue who they are. I don't know who they are from Adam, apart from that they might have advertised on the internet, and have I no trust.

The second part of my question is: what measures are you doing to stop fraud happening, because you are asking consumers to engage with people that they don't know?

Neil Lawrence: Let me start off with the fraud piece. Fraud is something we take really seriously. If you take those schemes that we manage, we are managing circa £9.6 billion-worth of Government money every year, so it is something we take really, really seriously. For each of the schemes that we perform we have defined a fraud risk assessment to



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understand where the risks are with each of those schemes—where they could be penetrated.

It is absolutely right that we spend time thinking about fraud. It is a big risk for Government. We are on that journey. We speak to the Public Sector Fraud Authority regularly. In fact, we have Mark Cheeseman attending one of our all-staff calls on delivering schemes in the next month or so to discuss the topic. It is one of my strategic priorities this year. We invest a lot of money in both the detection and the prevention of fraud, and we will continue to do so.

With fraud there is always a risk—there absolutely is. You cannot insure against all of it. We would create schemes that were impenetrable and we would spend a disproportionate amount of money. So there will always be a risk with regard to it, but we are doing everything we can, recognising that it is a growing problem and something that we are really focused on.

Q627 Lloyd Russell-Moyle: That is useful. Thank you very much for recognising that. Do you think there is a problem that a relationship with people that a consumer might not know increases the risk of fraud?

Neil Lawrence: There are a number of different fraud risks in each of the schemes. The fraudsters are very clever. They are working on this when Government money is available. We have seen it through other Government initiatives. We have to be on top of it. For obvious reasons, I do not want to get into specific examples in a public forum, but there is a significant risk around fraud.

Q628 Mark Garnier: Laura, I want to ask some questions about innovation in pricing models and how that can bump into regulations or find itself being unregulated. We have heard from a number of people who are coming up with slightly more complicated things, such as heat as a service-type models. We heard from Fuel Poverty Action that part of the problem with this is that what you are seeing is innovation coming into this area that is specifically being targeted at the richer—you would imagine that would be the case because you have a bigger market to go to—and that fuel poverty is not being addressed through innovation.

I am interested to hear how you aim to encourage innovation in energy tariffs and business models while making sure that the right people are being targeted and, also, that the regulations are adapting quickly enough for these new business models.

Neil Kenward: I will start and Laura may add to my answer. First off, it is important to say we are really delighted to see the level of innovation coming into the market at the moment. There is a surge of innovation. You are right to observe that a lot of that is focused at, for example, owners of electric vehicles, where there are huge opportunities to benefit the system and, indeed, the EV owner with new types of tariff.

We support innovation in a number of ways. We run a regulatory sandbox that enables companies to test ideas before they are put out to the whole



market. We have our Innovation Link service, which is a sort of advisory service that new innovators can contact to find out exactly how rules apply to different things. We oversee a major pot of innovation money, which we can target on to some of the most important challenges the sector faces. But your point is a valid one that a lot of that tariff innovation at the moment is at the higher end—the better-off end—of the market.

We do encourage the industry to promote and develop more innovative solutions that are going to be beneficial to the whole consumer base and, indeed, in particular the vulnerable. We are seeing benefits of technology there. For example, smart prepayment metres are dramatically better and more user-friendly for consumers than the traditional ones. We see there is opportunity to do a lot more in that space, which we are encouraging the sector to do.

Q629 Mark Garnier: On that tech point, a lot of this innovation is coming through with technology—smartphones and all the rest of it. Not everybody is tech savvy. Looking around this table, I am just wondering—anyway, without being too rude about my colleagues. I certainly struggle a little bit with tech as it gets more things. How do you make sure that innovation is not entirely reliant on everybody having a smartphone and a fairly good working knowledge of technology?

Neil Kenward: That is a fair challenge, but the coming generation of technologies are smart enough that they can sort of work for people. They do the hard work. They do the complicated bit and you might, for example, just put a particular setting on a device when you get it and then it operates smartly and does the work for you. Technology offers opportunities across the whole spectrum.

Laura Nell: I would add that there is a lot of work that we do with suppliers under the warm home discount that enables them to test more innovative approaches to getting support to fuel-poor customers. One of those innovations has been making sure customers in park homes get the rebate. It enables different approaches to support to be trialled.

Q630 Mark Garnier: For these innovators coming up with these ideas, do you set down minimum standards that you require from them in terms of what they are providing, or is it a bit of a free-for-all?

Neil Lawrence: The sector is an unregulated sector in a sense, but obviously we have a broad role to try to protect consumers. We are bringing the industry together. I see the benefits of technology and the benefits for all in technology. Clearly, there has to be a journey and some of the prosumer stuff that goes on first of all gets that kick-started before others can catch up. With our role in the industry, bringing people together—the innovation funds that Neil has mentioned—we are trying to kick-start that and accelerate it so that the benefits can be reached by all.



Q631 Mark Garnier: But specifically on the standards, people can come up with a solution that can tie people in terrible knots or get them committed—we have seen this, on the most basic level—to long-term contracts, which doesn't necessarily benefit them over a two or three-year cycle or whatever. When you are looking at these new things, can you set a standard or certain levels of delivery, or is that just too complicated to do or even not in your remit?

Neil Lawrence: If you look broadly at that market area, there are improvements in consumer standards that are needed. That is not solely our job. The CMA recently reported on a broad range of further standards that are needed to protect consumers that are in this journey. We are able to help, and we are able to contribute towards that conversation, but it is not solely our role.

Neil Kenward: If you are talking about the specific oversight of tariffs, there are obviously obligations on all suppliers to be fair and treat consumers well. We constantly monitor that market and if we were getting signs of abuse we would intervene at speed. We recognise the market is getting more complicated and we are going to have to move and upgrade our own capabilities as that happens.

Q632 Mark Garnier: One of the problems with any financial instrument—which ultimately these models are—is that they are always pushing the boundaries. They are always pushing the edge of the envelope. It is not always that easy to know what is going on. We witnessed the 2008 financial crash, where very clever people were coming up with very clever systems that were fundamentally deeply flawed but nobody picked up where it was going wrong, and nobody really predicted it was going to be a problem. Yet in retrospect you think it was blindingly obvious it was going to go wrong.

Neil Kenward: You are right to flag the issue. It is something we already look at, but I agree that over time we may need to do more.

Q633 Chair: We have heard some evidence about the role of regional energy strategic planners in relation to heat transition. Neil Kenward, what are your expectations of that? I will come back to what some of the evidence says, but I would like to hear from you first.

Neil Kenward: In pioneering the development of the RESPs, we think that they will be a really important component in helping to plan and ensure that the net zero transition—partly in heat but actually across other vectors of the energy transition—is done in a co-ordinated and hopefully, therefore, smoother, lower-cost fashion. It recognises that there will be some national policies, but it will matter how those are delivered locally and there will be some differentiation in different areas.

Q634 Chair: I am detecting a bit of a departure of philosophy in the energy space, at least in the UK. In the session this morning we had people looking for some idea of a system brain, not just leaving things to market forces. What you are saying here is that just signals and certain stimuli is



not what we are looking for; we are looking for people to take charge, take ownership, plan and work on a project to make sure it is delivered, almost.

Neil Kenward: I think that is right. You are right to notice that there has been a shift, and we welcome and have indeed been pushing for that shift. We do not think it is turning backs on the role of the market, which is still hugely important to deliver competition and best value, but the scale, pace and complexity of the net zero challenge, of that transition, does require more co-ordination and more planning. That is both at the national level, which is one reason that the National Energy System Operator has been set up and will have a strategic planning function, but we believe that there needs to be a counterpart to the national planning at the regional and local levels.

Q635 **Chair:** So what you are saying is the market will work okay when the structure is set up, but when you are moving from one model to the other you have to have a compass and you have to have somebody steering that.

Neil Kenward: I think that is right. That is why there has been this move back towards more central planning to deliver that change.

Q636 **Chair:** In the third session of the inquiry, the metro Mayor for the West of England, Dan Norris—who used to be an MP—told us that mayors and regional authorities could play a greater role in joining the links between the local area energy plans to share best practice and encourage economies of scale. He highlighted that the local expertise of regional authorities and their ability to disseminate knowledge in the region would be useful, and that it would be helpful to see how these regional energy strategic planners could work alongside existing stakeholders and functions. Do you envisage that as Mr Norris did?

Neil Kenward: That is absolutely the intent. In fact, our chief executive, Jonathan Brearley, has convened a meeting of metro mayors to discuss exactly these sorts of issues. The regional energy system plans—

Chair: He must have been paying attention to Dan Norris's plea.

Neil Kenward: Indeed. These plans will only work if they have local buy-in. They will be an important vehicle for bringing those local stakeholders together and starting to shape the sorts of solutions that work best in each locality and region.

Q637 **Barry Gardiner:** I want to get an understanding from you of how these regional energy strategic planners are going to relate to NESO, because NESO is going to be up and running by the summer. It is going to take some time for it to produce its strategic plan. These guys are presumably going to be working on their local strategic plan and then somebody has to begin seamlessly stitching the two together, which is going to add considerable time to this process. As Ofgem, what is your estimate of what that timescale is and how it produces a bottleneck in the system to



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getting the delivery that we need?

Neil Kenward: You are absolutely right: knitting this together is going to be a vital part of it. What we envisage is that these regional system planners will actually sit as part of the National Energy System Operator. That ensures they are plugged into the national plan. They will obviously have to work very closely with the regional authorities and local authorities to develop the local components of the plan. That hopefully helps ensure a degree of join-up between these plans.

Q638 **Barry Gardiner:** This gets me so worried because—

Chair: You might be the Energy Minister in the future Labour Government doing this.

Barry Gardiner: In my dreams and yours, Chair. Yesterday we heard from Ofgem at the Environmental Audit Committee, and I expressed concerns about governance and buy-in. I don't know whether you have seen that.

Neil Kenward: Apologies—no.

Barry Gardiner: Ofgem and the NESO were told they are going to be working hand in glove, very closely together in agreeing everything as it goes along so there is full transparency and there are no surprises at the end of the day. You are now telling me that the RESPs—the regional people—are going to be stitched into that as they go and working very closely. Everybody is bought into the process: you are bought into it as Ofgem; the regional people are bought into it. Where is the independent governance here? How does anybody hold anybody else to account if and when things go wrong? Because you have all agreed the thing every step of the way.

Neil Kenward: What we are trying to do is ensure there is consensus behind the proposals. The actual specific plans will be done in a very consultative, open and transparent way that will enable stakeholders across the board to contribute their views working hand in glove, I would suggest, with local and regional authorities.

Q639 **Barry Gardiner:** So your answer to my question—if I can translate it—is that things can't go wrong. I am afraid that's not history.

Neil Kenward: The reality will be that there will be learning experiences. In fact, a number of local areas have already done local area energy plans—

Q640 **Barry Gardiner:** My question is: who holds whom to account if and when things do go wrong? As Ofgem, at the moment you have a governance function. That is your job: to hold people to account and tell them, "No, I'm sorry, you're not doing that right." In this new system, there ain't none.



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Neil Kenward: We are the regulator, including in its new state, for the National Energy System Operator. We will continue to play that regulatory function. Obviously, we are working with them to create—

Q641 **Barry Gardiner:** But you can't criticise them, because if things go wrong, they will turn around to you and say, "Don't blame us! You had sight of this every step of the way, and you agreed each step, so you can't come back on us now." That is what they are going to say to you, and you know it.

Neil Kenward: I think we can certainly hold them to account for delivering on those plans and for making sure that those plans are developed in a sensible and effective way, in line with the approach that we have been developing and discussing with a wide range of stakeholders. I should say that this is at a relatively early stage, so the details are still to be nailed down.

Barry Gardiner: But we have very limited time.

Chair: Your questions may indeed change these details, Mr Gardiner.

Neil Kenward: This is something that I think we should return to you on as this issue develops, to give you that assurance, because I agree that there are risks in developing new structures. We would be very happy to return as the process develops.

Barry Gardiner: That would be very helpful, and maybe with some suggestions about how that governance can be constructed into the system. At the moment it is a real concern.

Q642 **Chair:** That was a constructive engagement indeed for looking to the future.

On the work that has to happen, the Committee has heard at times that there is no way to net zero without going through the homes of the poor. The Committee has heard evidence that supply chains are reluctant to engage with many retrofit support schemes due to rising costs and unrealistic cost assumptions. Increased supply costs mean that cost assumptions for many support schemes no longer reflect market conditions. How do you intend to make the schemes more economic for delivery partners?

Laura Nell: We are certainly aware of the challenges around costs. This has become a particular issue on the Great British insulation scheme. Suppliers do have—

Q643 **Chair:** When you are aware of the challenges around cost, what can you do?

Laura Nell: Suppliers have targets under that scheme. We have requested to see their delivery plans. We are examining those plans in quite a bit of detail at the moment to understand if they are feasible and achievable.



Q644 **Chair:** How long is that time period? If things have changed and it is unrealistic, and you are doing something to change that, in the meantime I am waiting with my installers for you to come and tell me.

Laura Nell: This is an ongoing piece of compliance work that we will be doing over the duration of the scheme. We requested the plans last November; suppliers have an interim deliverable at the end of March, and we expect to be working really closely with them to understand the weaknesses in the plans and the areas for improvement.

We certainly haven't taken anything off the table around compliance and enforcement tools but, ultimately, the costs of the scheme and the impact assessment costs of the ECO scheme are a matter for the Government to decide on.

Q645 **Chair:** Neil Kenward, in 2021, you told a predecessor Committee that Ofgem needed greater clarity around key technologies to support the roll-out of low carbon heat, such as hydrogen and heat pumps and what have you. Do you have that clarity now?

Neil Kenward: We do not yet have that clarity.

Chair: It was three years ago.

Neil Kenward: As you are probably aware, Chair, the Government have said they will decide on the role of hydrogen in home heating in 2026. If there is the possibility for the Government to make an earlier decision that would be helpful for us because we have to plan the networks—both the electricity network and the gas network—and how they are going to develop over time. The decision on the preferred technologies for decarbonising heating in homes is quite an important input into how we help develop and regulate those networks.

Q646 **Chair:** The UK knows it has to make a decision. In 2021 you did not have the clarity and by 2026 a decision might be made—maybe by Mr Gardiner if he is Energy Minister, who knows? It does not really look like somewhere that is taking this seriously and going to move at pace on net zero targets and whatever.

Neil Kenward: It is important when making such a huge decision to ensure it is informed by evidence. I know the Government have been running trials. In fact, our innovation funding has paid for a lot of those trials of hydrogen and other sorts of technologies. It is important that evidence is gathered and considered before what could be a very large and one-way decision is made. It is wise to be taking that approach but, as I say, it might be now the trials have closed that the Government can come to a view sooner than 2026.

Q647 **Chair:** You can see there is a difficulty here. Obviously you guys are the regulators and I often see the Government blame things in your direction. In the past I have dealt with interconnector issues to the Hebrides. Ofgem will say, "It's the Government that dictate our structure," and the



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two can play off against each other. You have 2021 and 2026. In the meantime, what are those in the supply chain meant to do? It will be 2026 before they can meaningfully start to do anything seriously as they wait for this decision, which will mean it may be 2028. It will then be seven years since the former Committee asked.

Neil Kenward: It is worth noting that the heat pump transition is being rolled out, the BUS is up and running and progress is being made on that. In terms of our decisions as regulator, there are some decisions that we can proceed with on a sort of low-regrets basis. For example, in December last year we put out a consultation on the methodology for future gas network regulation. We talked about what might happen in a world of a decline in gas use and how we might need to accelerate depreciation in that world. We have put out some ideas that we are getting views on and able to make progress on, but as I have said, and will continue to say, the greater clarity we have earlier from the Government, the easier it is for us to provide the regulatory—

Q648 **Chair:** What do you think the bottleneck is in Government to reach something before 2026?

Neil Kenward: I couldn't speculate. I can imagine they have—as I say, they are in that process of gathering evidence.

Mick Whitley: Could I just come in on hydrogen?

Chair: Yes, indeed.

Q649 **Mick Whitley:** It is a rather confusing when we are talking about the conversion. When you are talking about heat pumps, how many have been rolled out?

Laura Nell: Under the boiler upgrade scheme we have issued £76 million-worth of vouchers up until the end of February, which accounted for 35,000-odd applications.

Mick Whitley: For heat pumps.

Laura Nell: Yes.

Q650 **Mick Whitley:** So 35,000 heat pumps will be installed up to now.

Laura Nell: That is how many vouchers we have received this year.

Neil Kenward: We are in the low tens of thousands as a country in terms of heat pump installations.

Q651 **Mick Whitley:** We seem to be behind the curve then, don't we?

Neil Lawrence: As I said earlier on, when the scheme is set up you will see an S curve in terms of the outrun. You have the early adopters in slow numbers; we expect those numbers to accelerate as the supply chains come in. That is the point of the policy.



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Our role as the scheme administrator is to set up the processes so that people can apply for those vouchers. We make that as easy as possible. We liaise with various trade bodies to ensure that process is as easy as possible for everybody to go through. We have digitised the process to make it easy and helpful for people to go through. Ultimately, the decision on the amount of money does rest with the Government. That is a Government decision; it is not for us. Our role is the administration of the scheme.

Q652 **Mick Whitley:** Let me let me ask another question, then. There are 35,000 that have applied. How much discount is it? Is it a sliding scale of what they get off the Government, or is it one fixed price?

Laura Nell: It is fixed currently. It is £7,500 for a ground source or air source heat pump and £5,000 for a biomass boiler.

Q653 **Mick Whitley:** And a heat pump costs, say, £12,000, so the user has to find £5,000. There are going to be a lot of people who cannot afford that.

Laura Nell: We are starting to see the supply chain respond. The production is going up and costs are coming down.

Chair: And finance schemes.

Laura Nell: We are seeing installations for as little as £500 at the moment.

Q654 **Chair:** I am imagining somebody who was an early adopter of a heat pump. Say that person got their heat pump 14 or 15 years ago. Are they eligible for that scheme or are they out in the cold?

Mark Pawsey: Declare your interest!

Chair: Yes, I should declare my interest! I thought I made it obvious enough.

Laura Nell: No, you wouldn't be eligible under the—

Chair: I need to give myself a gas boiler in the intervening period and then come back and get the scheme.

Q655 **Mark Garnier:** Very quickly on this heat pump thing, four of us were in Copenhagen looking at this heat distribution network and, on an incredibly basic back-of-the-envelope calculation, I reckoned that if the Government redeployed the £7,500 per heat pump for every house into a heat distribution network you could save huge amounts of money or get more houses covered. Why on earth are we mucking around with this? If we are prepared to spend £7,500 per house, wouldn't it be better to do heat distribution networks where it works out cheaper per house to do it and have centrally produced heat on a much more efficient basis, salvaging heat from cement works or from power stations?

Neil Kenward: I believe there is a central Government fund to support heat network development and roll-out. As I am sure you will appreciate,



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the reality is that some districts will be very suitable for heat networks, but some really will not.

Mark Garnier: Sure. If you are an isolated house then clearly a heat pump is a much better idea, but you have thousands of Victorian terraces all around south London and east London, absolutely perfect for this.

Q656 **Chair:** Will heat networks be the solution for them or will heat pumps be the solution for them? If you have some going off on heat pumps presumably you are losing the network possibilities.

Neil Kenward: That is the importance of the local area plans to actually start to define the areas for the optimal different sources of heat.

Q657 **Chair:** Will they do that? Because some consumers might say, "I want a heat pump," or, "I want this." If you give too much autonomy we will have nothing at all.

Neil Kenward: That is where the whole public participation and consumer engagement is going to be so vital to this transition, because we have a collective action challenge. A lot of people care enormously about how their homes are heated and it is going to be a challenge that this Committee and indeed ourselves will keep coming back to over the coming years.

Chair: We might come back to some of these themes. I promised to bring in Mark Pawsey quite a while ago, so I want to make good on my promise.

Q658 **Mark Pawsey:** I want to come back to the issue of hydrogen and Ofgem's role in dealing with the future of the gas network. Consumers in the UK have paid for all of these pipes—the big pipes running up and down the country and the pipes to everybody's house. They have paid for that through their gas bills. It would seem to me sensible to consider whether we can use that infrastructure, which we have already paid for, for hydrogen. I accept we need a decision on that promptly.

In the event that we were not to pursue hydrogen as a method of home heating, what role would Ofgem play in ensuring the safe decommissioning of the system? Once people have detached from that grid and are no longer paying for gas, you do not have a customer to pick up the costs of decommissioning. What thought have you given to that and what will be your role?

Neil Kenward: That is an extremely important and timely question, because if the Government decide that hydrogen is not going to play a major role in home heating and so the gas network—at least at the local distribution level—is going to become unnecessary, there will need to be a national conversation about decommissioning.

Q659 **Mark Pawsey:** Who should pay for it?

Neil Kenward: That is going to have to be part of the conversation. There will be costs. One of Ofgem's objectives is to have that



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conversation, begin that conversation, prepare for it and indeed look at ways in which we can minimise the costs of decommissioning, if that is the route the Government chooses to take.

Q660 **Mark Pawsey:** Are the Government aware of the costs of decommissioning, do you think?

Neil Kenward: I suspect the relevant officials will have at least clocked the issue and started to consider those points, yes.

Q661 **Mark Pawsey:** Will there be a role for Ofgem in that?

Neil Kenward: We are likely to have a role working with the Government and the sector on thinking about what is the best way to manage declining use of the gas grid, if that is the scenario we end up in.

Q662 **Chair:** On Mark Pawsey's point about hydrogen, if the gas network did not exist on mainland UK and parts of rural UK, would there be any consideration given to using hydrogen in pipes to homes or not?

Neil Kenward: As in laying down a new pipe?

Chair: Is it possible that we will say, "We're going to have this pipe—we've got these assets here. Let's put something in it," and the thought is hydrogen? The alternative is a costly decommissioning and a stranded asset.

Neil Kenward: Part of the calculation that the Government will have to make—this is one of the reasons that it is complicated—is that there is this opportunity to repurpose the gas grid. It is not as simple as simply putting hydrogen down the existing pipes. It is a different molecule. The pipes, and indeed the devices, would need to be checked and possibly upgraded for compliance with the hydrogen grid.

Q663 **Chair:** Many in the hydrogen area and the gas area will say that is not insurmountable. That is what they have told us and will tell us.

Neil Kenward: That is the choice the Government need to make. There is an existing gas grid that could be repurposed, and there is a case for heat pumps.

Q664 **Chair:** There is a tension between the camps, because one of the camps will tell you the best thing you can do with hydrogen is take it to a power station, burn it, make electricity with it and send it down the wires to provide heat out of heat pumps and make it a three to one gain rather than about 90%.

Neil Kenward: Absolutely. You have put your finger on one of the key balances to identify.

Chair: We are well aware of the highwire that we ourselves have with this.

Q665 **Barry Gardiner:** I want to take us back to a very simple question on



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heat pumps. You said 35,000 vouchers have been given out. How many heat pumps have actually been installed?

Laura Nell: It is 20,000-odd heat pumps that have been installed but there are 35,000 current applications in train.

Neil Kenward: Is that 20,000 last year or in the scheme?

Laura Nell: Since the beginning of the scheme in May 2022.

Chair: That is really very few. What has France had—600,000?

Barry Gardiner: It may be very few, Chair, but I think it is probably still an overestimate, but there we are.

Laura Nell: There are also heat pumps being installed under other schemes. The boiler upgrade scheme is one of several sources of support. For example, through the energy company obligation heat pumps are feasible.

Q666 **Chair:** There is no one-stop shop like France has. This goes back to Lloyd Russell-Moyle's question at the beginning, when he read out a list of schemes and he got to the end and pointed out that he had forgotten what he had read out at the beginning, a few seconds before. That seems to be an issue with the UK: there is a plethora of stuff, whereas in France there is a purpose—

Laura Nell: The boiler upgrade scheme is a retrofit scheme, as is the energy company obligation. Through the future homes standard, the Government is trying to drive up the uptake of heat pumps in new builds as well.

Barry Gardiner: For the future homes standard we have got EPC C. That is not the future. That is what we should have been doing in the past.

Q667 **Chair:** This is not to put you on the spot as Ofgem, but could things be done better in the UK than they are currently being done as regards the heat pump roll-out? I know from speaking to some people in your organisation that you guys do come up across walls of frustration. You are given certain parameters by the Government. Government will use you as a sort of shield at times, and at other times will leave you hanging out to dry. You must come across areas where you think this could be done an awful lot better, because you work on this day to day. The heat pump roll-out is not impressive in the UK. It is in bits. The word "mess" was used by one of my colleagues just a second ago, fairly or unfairly. What are your thoughts?

Laura Nell: It is absolutely for Government Ministers to decide where they put the sources of support. One of the really positive things about the boiler upgrade scheme is its simplicity of offering, and that is easily understandable by consumers. It is perhaps easier for the supply chain to engage in that respect as well.



Barry Gardiner: Look, the only way that you got traction on that scheme was by hugely increasing the grant, but not increasing the overall amount of money. It is not your problem. You are administering the scheme. If you have doubled the amount of money available to the individual but you have not doubled the amount of money available from the Government, you are halving the number of boilers that you project are going to be delivered—and even then, I would say, not delivering on those.

Chair: That is a nice statement from Mr Gardiner. Lloyd Russell-Moyle.

Q668 **Lloyd Russell-Moyle:** Did you say there were 1,000 installers?

Laura Nell: A thousand installers registered on the boiler upgrade—

Lloyd Russell-Moyle: There are 150,000 plumbers in the UK, so 1,000 is a tiny fraction. You have said you have made the scheme easy to access, but you can only access it by getting through the eye of the needle and getting one of these suppliers. Have you made representations to Government that these schemes are confusing and difficult for people? Have you asked Government for the ability to merge these schemes into one pot? If not, why have you not asked for that?

Neil Lawrence: No, we have not asked the Government to merge these schemes into one pot.

Q669 **Lloyd Russell-Moyle:** So I assume that you support these multiple pots of schemes. Do you think that is a good idea?

Neil Lawrence: There is a difficult journey to net zero. As I have said before, our objective is to try to make that as easy as possible with the schemes that we operate on. There is work going on with the Government to try to ensure that a consumer wishing to get on that journey gets to a front door, and we are happy to work with them, but it is not our role simply to do that.

Q670 **Lloyd Russell-Moyle:** But the taxpayer pays for all of these things: ECO4, paid for by the taxpayer through their bills; all the other things, paid for by an addition on their bill. They are all paid for by the same person, in the end. Why do you think there is an advantage to having confusing and separate schemes, rather than having one scheme? You are not advocating for one scheme.

Laura Nell: The schemes themselves are targeted at very different groups of customers.

Lloyd Russell-Moyle: They are all failing.

Laura Nell: ECO4 is well within target, and we have seen a significant increase in uptake on the boiler upgrade scheme since the grant was increased and the Government have committed to a further three years of funding, taking it up to 2028.



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Q671 **Lloyd Russell-Moyle:** ECO met 3% of its overall delivery target in the first eight months of its latest iteration. That is not a success. Just 3% in its latest iteration.

Laura Nell: There are two versions of the scheme, one of which is ECO4—

Lloyd Russell-Moyle: One that is a failure and one that is a success.

Laura Nell: The ECO schemes have generally had a really good track record of meeting their overall targets. We have only seen suppliers narrowly miss the obligation on a very limited number of occasions and we have stepped in to ensure that is corrected. Over the 10 years that we have administered those schemes they have had a really good track record of achieving the policy goals.

Lloyd Russell-Moyle: So it is just the latest iteration that is the problem.

Q672 **Mark Garnier:** I want to get into something slightly different, but before we do that—I feel terribly sorry for you, because you have an entire Select Committee barrelling in with difficult questions—are you loyally defending mistakes by the Government, or things made too complicated by the Government, or are you responsible yourselves for these 11 or 15 or whatever different things that come up? Are they your ideas or are they somebody else's ideas that you are delivering?

Neil Lawrence: Let's be clear: our role in this is as the scheme administrator. The policy decision and the funding for each of these things is for Government. At the point that they make that choice—

Q673 **Mark Garnier:** So if the administration is rubbish we can give you a hard time, but if the schemes that you are trying to administer are rubbish then you are doing your best and you are being loyal civil servants.

Neil Lawrence: At the point when the policy is being decided, we will respond to consultations and we will use our knowledge and experience of administering these schemes. We talk to consumers, to users of schemes, to administrators and to trade bodies, so we have a lot of inherent knowledge. We will try to help, and we will try to influence, but ultimately it is a Government decision.

When they decide the administration, the administration may come to us, or it may come to other bodies in the administration world. It is our job to try to do as good a job as possible to make it as easy as possible for people to access the funding and the support that is available to them. We have to take on the responsibility of managing that Government money.

Q674 **Mark Garnier:** That is very useful. We have the Minister coming in next—in about half an hour, I think. My friends over there will give him a really hard time; we will just give him a slightly hard time from this side.



Can I turn to some of these renewables and social programmes you are delivering on behalf of the Government? I think there are 11. The Electrical Contractors' Association told us that of the seven Ofgem-administered schemes that directly charge electricity and gas suppliers, four of them exclusively burden electricity suppliers, while just one of them, the green gas levy, singularly affects gas suppliers. I appreciate that you are the administrators rather than the people who decide, but is there not a possibility that you will get a distortion of the market where one side is being overly supported or regulated or whatever, while the other is not? Do you worry that you can disadvantage or advantage electricity over gas with this?

Neil Kenward: This is partly a question about the relative prices between the two and where the burden of policy costs lies. As you would imagine, those are decisions made by the Government. I suspect in each case there will be a logical reason why they are given it, and most of them are probably to do with electricity, and that is why the costs sit on the electricity bill more than the gas bill. I know the Government have been looking at whether they can rebalance the burden of—

Q675 **Chair:** It is a legacy issue as much as anything, isn't it?

Neil Kenward: I think it has accumulated over many years. That rebalancing question is one I know that the Government are very live to. They want heat pumps, for example, to be cost competitive, or more cost competitive—cheaper to run—than gas boilers. I think in some cases they already are. I think it is quite level at the moment.

Mark Garnier: But they are not cheaper to deliver than—

Neil Kenward: There is the capital cost as well, of course.

Q676 **Mark Garnier:** That's right. In your written evidence you noted that reforming EPCs could help consumers make more informed decisions and better determine eligibility for support schemes. Could you enlarge on that?

Laura Nell: We recognise the challenges with EPCs, and you have heard a lot about that in these hearings. They are not a perfect metric but at the moment they probably are the best proxy that we have for the energy efficiency of a home. We do use them on our schemes as a—

Q677 **Mark Garnier:** But you say they could be improved. How would you improve them?

Laura Nell: Better alignment with the net zero goals, which I think Government have recognised and are acting on through their consultation of the home energy model, which is refreshing the physics model that supports decisions around EPCs. I would say that, although we do use them under the schemes as one determinant of eligibility, it is never the sole criterion. For example, on the ECO scheme the PAS 2035 assessment that an installer is required to do ahead of an installation and



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afterwards offers assurance to customers that those heat reduction targets are being met and the solutions are the right solutions for the home.

Q678 **Mark Garnier:** So they are an okay fudge at the moment, but something better is coming along in due course and in the meantime you can get around it.

Laura Nell: Yes.

Q679 **Mark Garnier:** That is useful. Do you guys have a view on how best to rebalance the relative cost of gas and electricity? What steps do you think can be taken to do this?

Neil Kenward: We do not have an Ofgem view in the sense that it is not our policy area.

Q680 **Chair:** Would you advise Government?

Neil Kenward: The key thing I would say is that we think there is scope for innovation to bring down the costs of the low-carbon alternatives to gas heating, and we are already seeing that in heat pump—

Q681 **Chair:** What about domestic standing charges, then?

Neil Kenward: There is a question around standing charges. I am very happy to talk about that as well. That is something we have opened up a consultation on because we recognise the strength of feeling around it, and there are important considerations in terms of both distributional implications and climate change implications. You are right that that is an important issue.

Q682 **Mark Garnier:** You said a bit earlier that you advise Government and report back and talk to them about it. What are the Government doing that is making you tear your hair out? What would you like them to listen to you about that they are not listening to you about?

Neil Kenward: As I mentioned before, the decision on the role of hydrogen in heating is something we would like them to bring forward from 2026. That is a key one for us. I don't know if there is anything particularly on—

Mark Garnier: Does each of you have a pet “why didn't they listen to me” point?

Laura Nell: We talk to the Government a lot about the issues that we see on the schemes around consumer protection and particularly the limitations of relying just on the standards bodies. I know the Government are thinking very carefully about the recommendations of the CMA in this space, so hearing their thoughts on that would be valuable.

Neil Lawrence: I would say exactly the same thing as Laura. That is the one for us that is really important from a delivering schemes perspective.



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Neil Kenward: I can add a second if that is helpful. As we are seeing more and more heat pumps, and if that is the route the country goes down, the importance of heat storage and smart controls on heat pumps is going to be vital. If everybody switches on the heat pump at the same time—five to six in the morning or whatever—to warm up the house and have hot water for a shower that will have huge pressure on the national system.

Q683 **Mark Garnier:** Have you been to Copenhagen to have a look at—

Neil Kenward: Unfortunately not.

Mark Garnier: Get yourself over there. In the first instance google “State of Green” and have a look at what they are doing, but this is where they are talking about all this. As soon as you have a distribution network of heat, heat becomes a very viable energy storage mechanism.

Chair: Yes, we talked about bodies of water holding heat for a year and releasing 5% of the energy, which was quite surprising.

Q684 **Lloyd Russell-Moyle:** With the smart controls on heat pumps, what does that look like when someone does want to turn their shower on at the time that they want to turn it on, and not the time that you want to turn it on?

Neil Kenward: I can imagine it would be like the smart controls on charging electric vehicles, where the customer—

Lloyd Russell-Moyle: The shower example is a good one because the customer wants the shower only when they want the shower. There is not much flexibility when people want a shower.

Neil Kenward: The key thing would be pairing it with heat storage, so you would build up your hot water reservoir—

Lloyd Russell-Moyle: So back to hot water tanks.

Neil Kenward: I think that could be an important part of it, but there are new ways of heat storage that could also help.

Lloyd Russell-Moyle: Which is less about smart controls and more about—

Neil Kenward: It is the two together: heat storage and smart—

Q685 **Lloyd Russell-Moyle:** Does the boiler upgrade scheme allow spending on hot water tanks within that?

Neil Kenward: That’s a very good question.

Laura Nell: I would—

Lloyd Russell-Moyle: I don’t know. It is a genuine question.



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Chair: Some heat pumps come as a big unit with a tank inside.

Lloyd Russell-Moyle: If that is future-proofed, that would be important to know. I see nods from behind, so I am hoping it is.

Q686 **Chair:** Heat pumps from 14 years ago had big water tanks inside them. Just before we end, I did not do proper justice to the Economy 7 night rates, so let me return to that. In its last evidence session, the Committee heard from Fuel Poverty Action—you might remember that, in our report “Preparing for the winter”, because of fuel poverty and energy poverty, we unanimously said that we should not have standing charges in electricity—that EDF customers on Economy 7 night rates saw their energy bills almost double in January. This has been reported more widely in the media. Jonathan Bean told the Committee that Ofgem did nothing in response, even though it had powers to intervene. He said that “vulnerable groups are not being protected and that Ofgem is really just not tracking these things in the way it should be.” It would be helpful to hear from Ofgem if they have taken any action in this instance and if they are empowered to do so. This is particularly EDF customers on the Economy 7 nights.

Neil Kenward: All suppliers have an obligation to treat their customers fairly, so that gives us quite a broad remit—

Chair: He says they haven’t.

Neil Kenward: —to hold suppliers to account. What I suspect EDF would say, and I believe they are right in this case, is that they are within the price cap regulations in terms of the balance of charges. It might be that certain customers with certain consumption patterns have now seen a big increase in their bills due to the way they use their electricity.

Q687 **Chair:** Should you not maybe have had another line in to say that you can only increase this from a certain point by 10% maximum, rather than an overnight 100% doubling?

Neil Kenward: I would have to look into the details of the 100% doubling. It may be, as I say, due to specific consumption patterns of certain individual consumers.

Chair: So that we can future-proof this so that people do not get these shocks, because that is a shock.

Neil Kenward: It surely is, yes. Look, it is really helpful when cases like this are raised to our attention. We can then investigate with the supplier concerned and just check that they are fulfilling their duties and obligations in line with the supplier—

Q688 **Chair:** Even if they have been within the current rules it might be advisable to change the rules for the future so that this cannot happen to people.



Neil Kenward: This is an area, as I mentioned before, where, as a proliferation of more complicated tariffs come on to the market, we will need to ensure that we are taking a close look at market developments to make sure that consumers are not suffering.

Q689 **Chair:** From the Committee's point of view, and from the point of view of Fuel Poverty Action, we want an Ofgem that is responsive and iterative so that, when things are happening, you can see the issue and you are prepared to react. Obviously, what has happened has happened, but we are looking for steps for the future so that it cannot happen again. They may well have been within the parameters. They may well have been a victim of their own success for keeping the energy price down for so long. I don't have the details myself either. We can do "on one hand and on the other hand" and play devil's advocate or whatever, but we are looking for a responsive Ofgem and an awake Ofgem: an Ofgem that sees something happen and is prepared to take some steps. For that we would be grateful.

Neil Kenward: We should absolutely be looking into cases like this just to check that they are within the rules. If you would like, we can come back to you on this specific case.

Chair: Yes, I think it would be worth going back to them on that specific point, because they raised it very specifically.

Ofgem, can we thank you for the last hour? It was useful and hopefully we have given you food for thought about things that should be happening in the energy space. Please feel free to have a dialogue with us if you think there are things we are not aware of or covering. You can always make us aware of them. Likewise, I am sure Members here will not shy away from making you aware of things as well. We are going to suspend the sitting for half an hour, because the Minister is busy in the Lords.

Examination of witnesses

Witnesses: Lord Callanan and David Capper.

Q690 **Chair:** Welcome to the second panel: Lord Callanan and David Capper. Would you introduce yourselves, please? What level are you in the Department, and what you do in the Department?

Lord Callanan: Certainly, Chairman. I am the Minister for Energy Efficiency and Green Finance with responsibility for clean heat, domestic decarbonisation and so on, which I think is what you want to talk about. Accompanying me is David Capper, who is our director in charge of clean heat in the Department.

Chair: Excellent. Thank you for coming along. I believe you have had a busy afternoon in the House of Lords.



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Lord Callanan: I apologise. I realise I was supposed to be here at 2 o'clock, but I had to answer an oral question. I hope the Committee will forgive me for being late.

Q691 **Chair:** That's fine. I have a couple of points to raise with you quickly from concerned bodies. Currently the Government's flagship programme ECO4 is set to expire in 2025 and there has been no commitment from the Government to extend it. This only further imperils efforts to upgrade the most inefficient UK homes and is causing uncertainty in the retrofitting industry about what guarantees of work they will have in the future. It is a pipeline question, really. It would be very useful to understand whether the scheme will be extended and what you can say about ECO4 and its progress.

Lord Callanan: ECO4 is one of our most successful schemes. As you know—and the clue is in the name—it is the energy company obligation, so it is an obligation placed on the energy suppliers to deliver energy efficiency improvements across the piece. It is currently worth about £1 billion per year. It has been going in different incarnations since the early part of the previous decade and has delivered millions of measures across the country.

Q692 **Chair:** Will it continue after 2026?

Lord Callanan: We have made no final decisions yet. We have to have discussions with our Treasury colleagues and so on, but it is a very good scheme; it has been delivering. It has been around for over a decade now.

Chair: There is a supply chain out there that needs certainty.

Lord Callanan: It is one of many different schemes that we have—I am sure we will explore this during the question session—and we will endeavour to provide certainty as quickly as possible.

Q693 **Chair:** All morning we heard from people such as Siemens and British Ports and Rolls-Royce about certainty from Government. This is a comparatively small area.

Lord Callanan: It is not a comparatively small area, Chairman. It is one of our biggest schemes. As I said, it is £1 billion a year.

Q694 **Chair:** Well, it is a comparatively small and non-complex decision, because you have had this in the past. It is not new.

Lord Callanan: But it has to be taken in the context that it is an obligation on a supplier, so it is effectively bill-funded, and we need to look at it across the piece in terms of other obligations that we might want to place on billpayers.

I agree with your point about the importance of providing long-term signals. It is one of the things that I have been trying to concentrate on. Getting agreement with the Treasury for £6 billion-worth of taxpayer



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funding from 2025 to 2028—we have set out the details of how that will be applied across all the different schemes—I think goes some way to providing the certainty that suppliers want. I agree with you on that.

Q695 **Chair:** Yes, because 2026 is not far away as far as they are concerned.

National Energy Action's report found that to meet the UK's poverty targets a further £18 billion was needed, yet on the current trajectory the Government will fall short of this legally binding target by a staggering 3 million households in 2030. By introducing increased minimum energy efficiency standards in the private rented sector, as much as £7 billion to £8 billion could be raised to close the gap. With the Government rolling back on these standards last year, how do they plan to meet the fuel poverty targets without them?

Lord Callanan: We are currently looking at the full implications across the piece, across all the different schemes, about how we meet the extremely important fuel poverty targets. I am happy to go into more details about the decisions that we made on the private rented sector energy efficiency standards if you would like. It was a decision that we wrestled with for a long time. These things are always a balance. I am sure Members are aware of the difficulties that exist in the private rented sector at the moment.

Q696 **Chair:** The point is money and decision making so that people have certainty. If you do not have the funding there to meet the targets—you have to have the funding, surely.

Lord Callanan: The target is that we have to eliminate fuel poverty by 2030. As I said—it was just announced—we will spend £6 billion over this Parliament. We have £6 billion from 2025 to 2028 already agreed. We need to look at the full implications of rolling out all these schemes for the fuel poverty targets. Do you want me to go into the rationale?

Q697 **Chair:** No, I am happy with that. The thing that we are looking for is for Government to make decisions. That is really the point of the two questions.

Lord Callanan: The Government are making decisions. You might not agree with the decisions, but we have been making decisions.

Q698 **Chair:** Certainly on ECO4—anyway. Why do the Government believe that those living in homes rated EPC band C or above cannot be in fuel poverty?

Lord Callanan: I don't think we have ever said that is the case. C is the target that we are aiming to reach, because there are many homes that are still below target. From the figures, in about 2010, 17% of properties in the UK were below C. Now we have about 50% of properties that are C or above. We need to make a lot more progress on that, but I think it is possible for people to be in fuel poverty but still be in more efficient homes. We have all seen the energy price rises of recent years.



Q699 **Chair:** Can you give us a clear timeline of when the Government will publish its updated fuel poverty strategy?

Lord Callanan: I cannot give you a timescale for that at the moment. We are looking at it. It is something that is at the top of our in-tray. It is very important, but we have to look at the implications across the schemes that I mentioned: the implications of the decisions on the private rented sector and how that will affect the fuel poverty targets.

Q700 **Chair:** Again, it is just back to decisions and timelines and seeing what is happening. I am not really asking for it to be published. I am just looking for when it will be updated. Decisions, decisions—we need them.

Lord Callanan: As I said, we have just announced the funding, towards the end of last year, after a lot of negotiation with the Treasury. We need to look at the full implications of that and the effect that it has on fuel poverty. There are obviously a lot of moving parts. There is money that we are spending on the social housing decarbonisation fund. Clearly, fuel prices coming down helps us towards that objective, but there is a lot more that we need to do. I readily admit that.

Q701 **Chair:** Okay, so we are waiting for a clear timeline as to when the updated fuel poverty strategy will be published. What plans do the Government have to encourage innovative business models to support consumers with costs of home improvements?

Lord Callanan: I think that question is more into the green finance strategy. There are a lot of quite interesting developments. We have a number of green finance accelerators that we are funding with some of the financial institutions. There are some really interesting models coming forward as to how things like clean heat and others can be financed, the concept of heat as a service, particularly prevalent under things like heat networks, which we need to substantially expand if we are to meet our targets.

There are a lot of developments going on in this sector and we are funding a number of interesting innovations. There are regular seminars and others that we have with the private sector and some great schemes coming forward. Barclays, for instance, to pick one at random that I was speaking to last week, have a scheme where they offer grants to their mortgage customers to help them to improve the energy efficiency of their properties.

Q702 **Chair:** This Committee has heard evidence that there is no route to net zero for the UK unless it goes through the homes of the poor, and those homes must be insulated. Would you agree with that assessment?

Lord Callanan: I would agree with that. Not necessarily just the poor, but everybody's homes. The UK has the biggest problem in Europe in that, as a consequence of the industrial revolution, we have the oldest property in Europe. Much of it is poorly insulated. I think the figure is that 6 million homes were built before the first world war, many of them



single skinned, and so we have the biggest problem in Europe. It is something that we need to take action on, and I think we are across the piece. I would always like to be doing more and am always open to new ideas and suggestions, but one of the most effective things that we can do to relieve fuel poverty is to insulate homes.

Q703 Chair: The reason I mentioned the homes of the poor in particular rather than just all homes is because it might be more difficult for the poor themselves to do something about it.

Lord Callanan: That is why the vast majority of our schemes—ECO, HUG and so on—are targeted at those on the lowest incomes.

Q704 Barry Gardiner: Lord Callanan, I think you know that I believe that bipartisanship is important in reaching net zero. I want to talk about some of the shortfalls in delivery, but I want to do it in a way that is not trying to apportion blame and go over old ground. I want to see what genuine learning we can have from the failures that there have been.

We have seen two thirds of the boiler upgrade scheme not spent, we have seen less than half of the home upgrade grant spent, and fewer than 3,000 households saw measures installed under the Great British insulation scheme from its launch to the end of last year. At the moment the Government are projecting that 300,000 households will benefit from that scheme by 2026. What are the learnings we need to take from those failures and why should we have confidence that the 2026 target of 300,000 homes will be met?

Lord Callanan: There were a number of questions there. First, I would not classify those schemes as failures because they are not complete yet. We are part way through them. To take the boiler upgrade scheme, for instance, the initial roll-out was poorer than we would have liked. You will have seen the announcement—

Barry Gardiner: I genuinely did not want to get into whether it is a failure or not. I used the word, but let's just—

Lord Callanan: I absolutely agree with the spirit in which the question was phrased, and you deserve an answer.

On the boiler upgrade scheme, we looked at that and we increased the grant levels by 50%, up to £7,500. We now have one of the most generous capital grant schemes in Europe. As a direct result, delivery has increased by 39% year on year. We need to do other things as well to extend—

Q705 Barry Gardiner: I am genuinely interested and I do not want to interrupt your flow but on that point, while it is right that uptake has increased and that is very welcome, the overall funding package has not increased. The implication would be that your target of the number of new installations has halved because individual grants have doubled.



Lord Callanan: Well, it didn't quite double; it increased by 50%, but yes. If all of the original allocation of £450 million were spent, we would have been able to do less, but it was apparent that we probably would not have spent that money and therefore we were able to increase the grant to increase delivery. Also, of the £6 billion package that I mentioned for 2025 to 2028, £1.5 billion is allocated to further capital grants for heat pumps, so we do have future money allocated in the next scheme as well.

One of the reasons for poor take-up is that there are other factors influencing the take-up of electrification of heat. One is price rebalancing, and we need to proceed with that. There are a number of other mechanisms that we need to expand heat pump production in the future.

Q706 **Barry Gardiner:** In terms of the learning experience and the targets that we have for 2026, what do you think we should be highlighting as things not to do in the future and things to be aware of that we should be doing in the future? What confidence should we have in the 2026 target of 300,000, given that there have only been 3,000 to date?

Lord Callanan: There are of course always lessons that we can learn from the various schemes. In terms of the heat pump roll-out, we moved away from the original version, which was a subsidy based over time, to a subsidy that was a straight-up capital grant. I am a great believer in trying to make these schemes as simple to access as possible. One problem we had, and one learning, is that many of the schemes were overcomplicated and it was difficult for people to access them. Trying to simplify them with a simple, straight-up capital grant allocation I thought was a better way of proceeding. We are now seeing an increase in uptake.

One of the other lessons that we need to learn is the importance of it being part of a package of measures. We also need to do price rebalancing, however difficult that may be, and things like clean heat market mechanism, which will also contribute to uptake. The ultimate answer to your question is that it has to be a package of measures; you cannot look at things in isolation.

Q707 **Barry Gardiner:** You lead me very nicely into my next question. I know that the Government are now proposing what they call a front door to these schemes. Other jurisdictions—France, say—have a one-stop shop model; not just a front door but one shop. Behind your one front door there would still be individual pockets, whereas other jurisdictions have done it with real success by having a one-stop shop where people can go and get advice tailor-made to their own situation, and access funds that will give them a result in any of these areas. Would you welcome that as a way forward? Are the Government considering it or are you stopping at the front door, if I can put it that way?



Lord Callanan: I am trying to think of an analogy between a one-stop shop and a common front door. Maybe the shop with a common front door is divided into different departments.

In essence, I agree with you. We need to try to make things as simple as possible to access. I am sure the team would confirm that that is one of the points that I am always going on about. We need to make it accessible to the man and woman in the street who may not be conversant with all the different schemes and their acronyms. That is the purpose of the common front door. It is a website—"Find energy improvements for your home". It links to the EPC database if there is already an EPC in existence for your property. There is also an eligibility calculator built in. You can go on and put in your property details, and it will give you tailored advice, tell you if you are eligible for the ECO scheme, the Great British insulation scheme, the home upgrade grant and so on, without your even needing to know what these acronyms stand for or how you need to access them. It will pass on your details, in the case of ECO to the energy suppliers, or in the case of HUG to one of the local authorities taking part in the scheme. The idea is to remove complications. There are different pots of money, sometimes funded in different ways, but people do not need to know that; they just need to know what they can access.

Q708 **Barry Gardiner:** In the one minute left that the Chair has allocated, how many people have gone on to the website and how many of them have translated that into new insulation or a heat pump? How many have accessed it and had it delivered? Is it actually working or is it too tech-y? In France, they do this with literal shops where you can go and speak to a person, in person or on the phone.

Lord Callanan: People who are not computer literate can access support on the phone. In terms of numbers—do we have any numbers, David? Several hundred thousand is the answer to your question, but—

Barry Gardiner: Perhaps you could write to us with the numbers and what has actually been delivered.

David Capper: Could I add briefly to what the Minister said? Your question about putting everything in a one-stop shop, as you describe it, is a good one. One of the issues with delivery is that if you did that, you would be changing the schemes that are running to do something different. We have seen historically that when you do that, you end up slowing down delivery.

Take ECO, which was the subject of the first question. We have had 3.8 million measures in 2.5 million homes over the last decade. If you were to change that approach and do it differently, you would see delivery slow down and take some time to come back up. That is a consideration when you are thinking about whether it is best to do something completely different or to put things behind a front door that makes them easier for consumers to access.



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Q709 Lloyd Russell-Moyle: But there is a huge problem with the current system. ECO fell by 59% in 2022. Is that not because we are getting to the stage where the easy fruit has been picked—housing associations, big landlords, the kind of people who can have those negotiations with you—and we are now at the stage of talking about private rented accommodation and private owners? The latest iteration of ECO has met 3% of its overall delivery target in the first eight months. These are low figures. I get that things ramp up, but ECO has gone down.

Is there not a case for saying that people should be able to mix and match these schemes? We have the Great British insulation scheme, the ECO schemes and the boiler upgrade scheme, but fundamentally they are all doing the same thing, and a lot of people are eligible for two or three of them. You cannot have a holistic approach of saying, “Well, I can draw down a bit of this pot and a bit of that pot.” You are in the process and then you are stuck in it.

Lord Callanan: There were a number of different points there. First, it is possible to mix and match the schemes. It is possible to get a grant for a heat pump through the boiler upgrade scheme and also get insulation measures under GBIS or ECO4. Secondly, I think you are confusing a couple of—*[Interruption.]* Can I answer the question and then you can come back, possibly?

Lloyd Russell-Moyle: Yes, go on.

Lord Callanan: It is possible to mix and match measures under the different schemes.

Lloyd Russell-Moyle: How?

Lord Callanan: You can do that through the websites. You can apply for a boiler upgrade scheme grant, which is a simple one-off grant, and you can also access other things if you are eligible—obviously, you would need to be on a low income for the likes of ECO. You are also confusing—

Q710 Lloyd Russell-Moyle: The consumer doesn’t apply for the grant; the consumer finds a supplier to supply. It is not the case that the consumer can apply for grants and mix and match. We heard from the last panel that there are only 1,000 installers registered on the boiler scheme in the whole country. From that 1,000, consumers have to find one that is registered in all the different schemes to be able to mix and match, and one that is available. That does not sound very accessible.

Lord Callanan: Again, we are looking at different schemes. I think about 1,300 installers are registered under the MCS. I am sure officials will correct me if I am wrong.

In your initial question, you mentioned social housing and housing association providers. They are separate schemes. You are thinking of the social housing decarbonisation fund. We have just launched the latest iteration of that, working with local authorities and housing associations.



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It is an extremely successful scheme. The latest iteration is about £1.1 billion-worth of Government funding, matched by local authorities and housing associations.

You asked about ECO4. I did not recognise the 59% that you mentioned. My information is that ECO is on track and delivering exactly what we said it would. It had a slow start, but the build-up is pretty good now, and with the co-operation of the energy suppliers it is delivering the measures that we thought.

There is an issue with GBIS, and this goes back to Mr Gardiner's question and the points that David made. We have learned that all the schemes start relatively slowly and then, as people get used to them, access increases, the suppliers get used to delivering, delivery ramps up, and the figures are now higher for GBIS as well.

Q711 Lloyd Russell-Moyle: So you are comfortable with the current situation, with the schemes being successful and clear.

Lord Callanan: There are always lessons that we can learn and things that we can improve, and I think I answered that question for Mr Gardiner. There are always improvements. For instance, we are looking at the moment—I think we have consulted on it—at improvements to GBIS and ECO in the light of some of the feedback we have been getting from suppliers. We will be launching some minor tweaks to those schemes shortly to help with delivery.

Q712 Lloyd Russell-Moyle: I have rung around all the people recommended on the website when you fill in the details for ECO in Brighton. They all said that there was no one available to deliver. All the energy suppliers looked at the house, which meets the criteria—it has someone on universal credit and so on—and then you get to the end of the process and they say, "We've not got any installers in your area that are able to do it in the timeframe." Is that not a real problem?

Lord Callanan: Potentially. I don't know the particular circumstances. If you would like to write to me, I will certainly have officials look at that.

Q713 Lloyd Russell-Moyle: But is that not something you are aware of across the country, that there is not—

Lord Callanan: Obviously, it is an obligation placed on suppliers. It is up to the suppliers to put in place the supply chains to deliver against it. You do not have to use your own supplier; you can use an alternative supplier that may be able to do the measures. But it is a private decision for them to take, to complete their obligation. The Government do not become involved in that. It is up to suppliers to decide whether the particular constituent of yours is eligible, has measures could be delivered cost-effectively and so on, depending on the availability in their own supply chains.

Q714 Lloyd Russell-Moyle: All of those parts—it is about the supply chain.



This is the final thing I want to ask you about in this section. Say you have a relationship with a trusted plumber—someone you know who has worked on your house on and off for many years. There are about 150,000 heating engineers, plumbers and allied people in this country. On my figures from Ofgem, 1,000 are available for this work. On your figures, it is 1,300, but we are still talking an extremely low figure. Is it not a problem when consumers cannot go to their trusted plumber to access these grants but have to go to someone who is totally unknown to them, totally inaccessible, and might be a swindler? They might not be—they just don't know.

Lord Callanan: If you are talking about the boiler upgrade scheme, which were the numbers we were quoting, then, provided their local plumber was registered with the Microgeneration Certification Scheme, then absolutely they could use their local plumber.

It is worth reflecting on why we specify that installers have to be part of those schemes. It is precisely because it is important that we get basic quality with a good installation that is subject to a long-term consumer guarantee. Part of the problem we had with earlier iterations—this goes back to Mr Gardiner's question again—was poor standards of installation. I am still getting letters from Members, perhaps such as yourself, about people who have had poor-quality work done maybe a decade ago—cavity wall insulation springs to mind. Of course, the installers have gone bust and are long gone by now, and there is no long-term follow-up or guarantee in place.

The reason why we specify MCS certification and TrustMark installers is precisely to provide that quality of workmanship and long-term guarantee so there is proper consumer redress. Obviously, that limits the number of installers, but the alternative would be—not a wild west, but that anybody could access it and we would have no consumer guarantees in place and no guarantee of quality workmanship. It is always difficult to balance these things but those are the reasons why we have gone down the TrustMark MCS route.

Q715 **Lloyd Russell-Moyle:** Do you think you have got the balance right? At the moment, you do not have many registered installers.

David Capper: Can I come in on some of the numbers? It is true that there are about 1,300 installation companies under the boiler upgrade—

Chair: Companies or plumbers?

David Capper: That is companies

Chair: Oh, they've increased again!

Lloyd Russell-Moyle: It would be useful if you could write to us with the breakdown, because the figures have changed three times already today.



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David Capper: You will have seen the Heat Pump Association came out earlier this week and said there are about 8,000 qualified installers within the companies that we are talking about. That is up from 3,000 in 2022, so we are on quite a rising trajectory. Part of the reason for that is that we have put forward a training grant that provides an incentive for people to retrain. You are right: there are about 110,000 gas heating engineers, who can be trained within a week to fit a heat pump.

Chair: At this rate of increase, there will be about 50,000 of them by supper time.

Lord Callanan: We are talking about different things, Chairman. The number of registered companies is about 1,300. Within those companies, there are a number of employees, and about 8,000 employees are qualified.

Lloyd Russell-Moyle: It would be useful to have it written down.

Chair: Yes, can we have it in writing?

Witnesses indicated assent.

Q716 **Chair:** Thank you. We will also have to go back and check Ofgem's figures as well. Our understanding from Ofgem was that we had 1,000 plumbers.

Moving on, Minister, why do the Government continue to place environmental and social levies on electricity bills despite the negative impact this has on encouraging the switch to low-carbon heating and also the inequity, I might say, for people in rural and island areas who are not on mains gas? I am thinking particularly of island areas more than rural areas.

Barry Gardiner: Do you want to declare an interest?

Chair: I do want to declare an interest, yes, as MP for Na h-Eileanan an Iar.

Lord Callanan: This is an extremely good question, Chairman, and one that I wonder about myself. It is, of course, a practice that was started by Governments many years ago, and fundamentally it comes down to—

Chair: Are my constituents due a rebate, then?

Lord Callanan: Let me explain the background and why we want to try to do something about it. This is a historical thing. This Government and previous Governments have tended to fund many of these measures, particularly under ECO, as well as many of the obligations to roll out renewables, the warm home discount and so on, from levies on electricity bills rather than funding them from general taxation.

Chair: Which is not fair.



Lord Callanan: I absolutely accept that. In addition, of course, the ETS is also levied on electricity production, if it is not low carbon, but not on gas. Putting all those things together contributes to the situation in the UK that the price of electricity is maybe three to four times the price of equivalent units of gas. Gas is cheap compared with electricity.

If we are to further electrify heat, we need to move forward with price rebalancing, but I hope you will all accept the political difficulties for Government in deciding to effectively transfer levies from electricity to gas, even if ultimately that is probably required on the decarbonisation journey.

Q717 **Chair:** That bitter pill would be better swallowed if there was some sugar with it. The worst fuel poverty stats in the UK are in the island areas of Scotland, where people do not have the alternative of gas and are paying for these unfair legacy structures. Do you think the Government have reparation to do there?

Lord Callanan: I think it is an absolutely fair point. Under the Skidmore review, we committed to making progress on price rebalancing this year. We need to do a consultation and seek views. I am sure you all accept—I am from the non-elected House; you are the elected Members—that this is not an easy political decision for any Government to make.

Chair: And it is not easy for hardy Hebrideans subsidising the mainland.

Lord Callanan: I absolutely accept the point from your constituents who are not on mains gas that this is potentially unfair. Of course, if we are to electrify heat further and move forward with our heat pump target, it is something that we will need to make progress on, politically difficult though I think you will accept that it is.

Q718 **Chair:** Do the Government remain committed to implementing the clean heat market mechanism in full?

Lord Callanan: Yes.

Chair: Does that include the Secretary of State?

Lord Callanan: Let me answer the first question. The clean heat market mechanism is, in my view, essential to a number of our targets, first to help to change the business model of the boiler manufacturers to selling more heat pumps. All the advice I have received tells me that it is essential if we are to meet our target of 600,000 heat pumps a year and to meet our carbon budget. It is absolutely something that the Government are committed to, and we need to move forward on it.

Q719 **Chair:** You yourself, of course, have made the headlines with boilers and gas. What is the situation? Are you moving to heat pumps yourself, or are you still with gas?

Lord Callanan: Nobody is being forced to move either way, Chairman.



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Chair: Sure. I use a heat pump.

Lord Callanan: This is about providing incentives and moving the market for the people who have a voluntary choice to make. It is certainly something I will want to do myself in the future.

Q720 **Chair:** So you use gas at the moment.

Lord Callanan: I think my personal circumstances are irrelevant.

Chair: Surely, it is an example for the Minister to set. No?

Lord Callanan: I am here to talk about policy in general rather than individual circumstances.

Q721 **Chair:** When do the Government plan to set out their plans on the feasibility of separating gas and electricity prices?

Lord Callanan: What do you mean by separating prices?

Chair: I think we are talking about the levies—

Lord Callanan: Oh, are you talking about the rebalancing issue that I have just been talking about?

Chair: Yes. Surely there is some plan to separate that at some point. You have accepted that it is unfair.

Lord Callanan: As I said, we want to issue a consultation later this year. We are committed to making progress on rebalancing this year.

Q722 **Chair:** We do expect a general election. Will the consultation happen regardless of the politics? It is something that maybe should be happening and maybe should be happening earlier, to set it in train. If the polls are correct, there will be a change of personnel. Will this be dropped?

Lord Callanan: You can therefore get my successor along and ask the same question. We are in a fraught political environment. As I said, you are from the elected House; I am not. This is a politically controversial issue. Frankly, whoever is in power, it would be politically controversial for any Government to take a deliberate decision to effectively rebalance prices through a policy to increase the price of gas in whatever circumstances. It will obviously become even more controversial in the run-up to a general election.

Q723 **Chair:** Our big takeaway here is that your Department will not drop the clean heat market mechanism.

Lord Callanan: The clean heat market mechanism is essential to meeting our 600,000 target and to meet our carbon budgets.

Chair: I hear you saying that it is essential and that because it is essential, it will not be dropped.



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Lord Callanan: We will set out the details of exactly how it will be implemented in the near future, but I am absolutely clear that it is essential for all of these electrification targets going forward.

Chair: Thank you for that. I hear you loud and clear.

Q724 **Lloyd Russell-Moyle:** When will the Government share their proposals for EPCs and improving their methodology?

Lord Callanan: The policy sits within the Department for Levelling Up, Housing and Communities, and they are committed to moving forward with a consultation as soon as possible. We are certainly putting pressure on them to get the consultation issued as quickly as possible, because there is a problem with the EPC metrics, which you will probably come on to.

Q725 **Lloyd Russell-Moyle:** Do you agree that carbon impact metrics should be introduced alongside the EPC so that we can be clear on the cost versus the carbon?

Lord Callanan: EPCs were introduced in the first place as a kind of easy rating for consumers—purchasers—to see what a particular property would cost to run. Since then, they have morphed into a more general measure of energy efficiency, and as we move towards a situation where the electricity system is increasingly decarbonised, you could potentially end up, depending on your particular circumstances, with the fairly perverse outcome that you could install electrification—a heat pump—in your property and your EPC rating could actually go down. This goes back to the issue of the difference between gas and electricity prices.

Q726 **Lloyd Russell-Moyle:** On the decent homes standard, in the private rented sector it seems. Are we committed to that being introduced?

Lord Callanan: No, we are not.

Q727 **Lloyd Russell-Moyle:** So that is now scrapped. There is not a belief that we need decent homes and energy standards in the private rented sector.

Lord Callanan: This is the difficult issue that I was referring to earlier. At the moment, all private rented sector accommodation must be at a minimum EPC E. We consulted on increasing that to EPC C, with a potential cost cap for landlords. I got lots of correspondence from housing officers and from other Members of this House about the potential implications for landlords of doing that. At a time when there is already a shortage of private rented accommodation, imposing extra costs on landlords, which of course the tenants would get the rights for in terms of lower energy bills, would be likely to drive more landlords out of the market and reduce the amount of private rented accommodation.

I am not pretending it was easy. It was a difficult balancing act. It would be relatively easy to just pass a regulation and say, "Improve the standard of your property by a certain date," but that could have resulted



in fewer properties being available. I had many letters from Members of your House, particularly those from rural areas, saying, “Many landlords are saying they will just leave the market because of the difficulty of operating particular buildings,” and so on. I am not pretending it was an easy decision, but that was the balance we had to strike and the decision that we made.

Q728 Lloyd Russell-Moyle: I think I disagree with your analysis of the housing market. I think the problem is that the private rented sector has grown too much—it is now double what it was 15 years ago—and the ownership sector has decreased, and that people are stuck in the private rented sector and can never get into the ownership sector. I think people moving out of the private rented sector and freeing up more houses for young people to buy and live in permanently would be a positive thing. We have a very different analysis of the basis for why you would not want to regulate. It is a fair enough difference.

Lord Callanan: It is a fair point. I don’t know the market in Brighton. I know the market in my part of the north-east, the opposite end of the country. Of course, it varies a lot. Particularly in London, of course, we know there is a shortage of accommodation

Lloyd Russell-Moyle: These are political differences.

Lord Callanan: That is an absolutely fair point.

Q729 Lloyd Russell-Moyle: The Government aim to install 600,000 heat pumps per year by 2028 but current rates are around one-ninth of that. Why are we so off track?

Lord Callanan: It goes back to the point we were making earlier and why we need to do a package of policy measures to increase that. Last winter’s energy crisis, which was primarily a gas price crisis due to the rise in prices internationally, brought home the point that we need to electrify heat. Heat pumps are by far the most efficient way to do that. We need to get the target up to 600,000 a year, and to do that, we need all the policy measures I talked about earlier. We need price rebalancing. We need the boiler upgrade scheme. We need the clean heat market mechanism. We also support the installation of heat pumps under the social housing decarbonisation fund and the ECO and HUG schemes. A package of policy measures is required, because we absolutely do need to get more electrification of heat in this country.

Q730 Lloyd Russell-Moyle: Research shows that one quarter of households would install a heat pump if it was free. Effectively, we are offering them almost free with some of the schemes. Would it not be better to change the schemes so that it was clear that if households wanted to switch, they would get a heat pump for free?

Lord Callanan: As you say, under some of the schemes—the likes of the social housing decarbonisation fund—they do. It is a balance, of course, in terms of the funding that is available. With the generous grants we



now have available, there are some quite exciting offers coming on the market, with some suppliers offering to install a heat pump for very little money, possibly even less than the cost of a gas boiler. We want that market to continue. We want the price of heat pumps to come down. But equally important as the price of buying it in the first place is the cost of running it, which comes back to the Chairman's point about rebalancing and adjusting the relative prices of gas and electricity.

- Q731 Mark Garnier:** Following on from heat as a resource, a group of four of us recently visited Copenhagen to look at its local heat distribution networks. I calculated—on the back of a fag packet, to be entirely honest with you—that it is much cheaper to have heat distribution as a resource than it is to subsidise heat pumps. My question is about what thought the Government have given to redeploying the money. I appreciate that you have a problem in that for a rural house in the middle of nowhere it is completely ridiculous, and a heat pump would be very suitable, but south London is full of Victorian terraces that would be perfect for this. Have you had any thoughts or plans about this?

Lord Callanan: Very much so. I have also visited Denmark and seen their roll-out of heat networks, as they are known, or district heating systems to use the older analysis. Two thirds of Denmark is now on heat networks. They are mainly powered by biomass, I might add. We have a very different history in the UK in terms of—

- Q732 Mark Garnier:** Sorry, but they are not. The thing that is particularly interesting about this is that if your approach is that heat is a resource, suddenly you find heat everywhere. They are taking heat out of power stations. We would have cooling towers; they would have heat extractors. They take heat out of drinking water.

Another important point about this—and why it becomes that much more significant—is that heat is also an energy storage mechanism. If you have your North sea wind farms producing a huge amount of excess energy that you would otherwise pay not to deliver, you redeploy it into heating what they refer to as “kettles”, which actually look like kettles, where you can store it and then deliver it at some point in the future. The minute you look at heat distribution through water as a resource, suddenly it solves a whole load of different problems.

Lord Callanan: I absolutely agree. I was going on to say that the advantage of heat networks is that you can access heat from a variety of sources, and we are doing exactly that in the UK as well. In fact, I think there is a heat network in Mr Gardiner's constituency. I could be wrong. I will check the details.

In the UK at the moment we only have about 3% of heat networks. There have been a couple of problems with them. First, people have historically liked to have their own heating source in their property. However, it is absolutely the case that if we were to roll out heat decarbonisation in many inner-city areas, with flats and so on, individual heat pumps in



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individual properties will not be the solution, so we have to have more heat networks.

We took powers in the Energy Bill for heat network zoning, which will allow local authorities to allocate certain areas as heat network zones and compel connections from the likes of new buildings, public sector buildings and so on, to provide the initial investment in the network to get it up and running. Obviously, we need a huge amount of investment to get them going. There are about 20 local authorities across the country that are prepared to go with us on this.

We have also funded from the green heat network fund a number of really innovative projects doing exactly what you mentioned. In my own area in the north-east there are some really good mine water extraction heat networks, taking water that is quite warm from old mine workings. A new village being developed in County Durham is entirely heated from old mine workings. In Cornwall, we have just funded a geothermal scheme, which is similar. Other experiments are going on too.

The Climate Change Committee estimates that we need to get the country from 3% up to about 20% on heat networks if we are to decarbonise heating. We have a long way to go to match Denmark, where two thirds of the country is on a heat network, but I absolutely take your point and we have allocated substantial amounts of money—I think it is £1.25 billion over the 2025 to 2028 period—to further support the development of heat networks.

Q733 Mark Garnier: As a hybrid of heat pumps and heat networks, is it not possible to mandate that new build estates, for example, where you may have 10, 15 or 100 houses, have a heat pump for the estate? It is incredibly easy to do that.

Lord Callanan: Absolutely. That is what the future homes standard will do when it is introduced, hopefully in 2025. It will effectively prohibit the installation of fossil-fuel heating in new properties. One potential solution for developers, instead of putting an air source heat pump in every property, is to put an array in the road and use ground source heat pumps in every home to provide their heating.

Q734 Mark Pawsey: Minister, we last met at a cement factory in my constituency. We looked at the role of hydrogen in decarbonising a heavy industry. We know that is happening and we know that there is a role for hydrogen in heavy goods vehicles and construction equipment where battery electricity will not work because the batteries are so expensive.

We know we are moving to a wider hydrogen economy. We have just heard that people do not want heat pumps because we are well off track in getting heat pumps. People are very familiar with gas. We know that we can blend hydrogen into the gas network. It is currently 0.1%, it can very easily go to 2%, and the system could go to 20% by 2027. Where are we with switching domestic consumers to hydrogen?



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This Committee visited Fife where we saw a wind turbine and an electrolyser providing green hydrogen. We know that much of the time we turn off wind turbines in the North sea because there is not the demand for them. Where are we with using that constrained wind to create hydrogen to put in our gas network to heat our homes?

Lord Callanan: That is a complicated question. You are right: it is absolutely possible. Hydrogen homes have been constructed. I have visited them in Gateshead, and they are operating. They have hydrogen boilers, hydrogen fires, hydrogen hobs and so on, and they work.

You have to look at it in terms of the overall system balance. You talked about hydrogen blending, which is a separate issue: whether to blend hydrogen into the existing gas network and whether appliances will still work on hydrogen. The evidence is that up to about 20% they will. The question is: why would you want to?

Let me phrase it another way. Hydrogen does not exist as a gas; you have to make it. The greenest way of making it is through electrolyzers. You take electricity, put it through an electrolyser, produce hydrogen, pipe it into homes and potentially burn it in a boiler. I would put it back to you that it is much more efficient to take the electricity in the first place, put it through a heat pump and heat your home that way. The simple calculation is that you would need six times as much electricity to produce the hydrogen to burn in a boiler as you would to just power a heat pump directly.

Q735 **Mark Pawsey:** But isn't the electricity free if you use constrained wind?

Lord Callanan: Yes, but they are in different places. There is probably a lot of available constrained electricity in the Chairman's constituency, but most of the demand is in the south of England. It is much cheaper to transport electricity from the north of Scotland to southern England than it is to transport hydrogen. That is not to say there is not a massive use for hydrogen. I am extremely enthusiastic about it, and we are putting large amounts of money into supporting electrolytic hydrogen production, but we have to be careful about what the most efficient use of it is.

In your constituency, we visited some of the more difficult to decarbonise industrial processes—cement, ceramics and so on—and there is absolutely a use for hydrogen there. Long-term energy storage, which partly answers your question, is absolutely a use too. We have large salt caverns that could be used to store hydrogen in the longer term. We can do exactly what you said, which is to use an electrolyser when we have constrained power, produce hydrogen, store it and keep it for use when the sun isn't shining and the wind isn't blowing, which I am told happens occasionally in the UK.

Q736 **Mark Pawsey:** The Government had a consultation on boiler standards, which closed in March 2023. It is now March 2024. There has been no response. Is it not fair to boiler manufacturers to let them know what the



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future direction of Government policy is?

Lord Callanan: The response to the consultation on boiler standards will be out very shortly.

Q737 **Mark Pawsey:** Okay. I think you have covered this point, but isn't blending hydrogen an easy way to reduce our emissions?

Lord Callanan: No, is the short answer. Your point about blending—let me answer it in the same way. Again, it is possible. The rationale for blending is not so much to decarbonise the gas supply, because hydrogen is much less energy dense than natural gas and of course you use energy to make it in the first place. The rationale for blending is very much to provide what I call an offtaker of last resort for those who are investing in new hydrogen production plants. Until we get a national distribution system for hydrogen, which we also need to invest in, it makes sense to—

Q738 **Mark Pawsey:** In the main, though, Minister, can't we use the existing network? This is a network, of course, that the people of this country have paid for over many years through their gas bills.

Lord Callanan: In terms of the high-pressure distribution system, there are already plans to do exactly that. In terms of the hydrogen strategy, we are putting together a business model for the distribution systems and the first couple of storage systems to be at least consented by the end of this year as part of the general roll-out of hydrogen infrastructure. I am sure National Gas will want to come along and tell you about their plans for repurposing parts of the existing gas network to distribute hydrogen.

Q739 **Mark Pawsey:** Since we have spent the money developing this infrastructure, doesn't it make sense to use it to the best effect?

Lord Callanan: In terms of the high-pressure distribution system, absolutely. The question is whether we should constrain ourselves to using hydrogen for domestic heating just because we already have the pipes in the ground, when in my view it makes no sense from an overall decarbonisation point of view. Electricity is much cleaner, much cheaper and much more efficient in terms of an overall distribution system. I absolutely accept that the gas networks will come along here and tell you that this is a great idea, because otherwise their pipes will be worse than useless by the end of the decade. But we have to look at the overall system benefits. That would be my submission to you.

Q740 **Mark Pawsey:** Given the way you are speaking, Minister, has a decision already been taken?

Lord Callanan: On what?

Mark Pawsey: On the future of using hydrogen in the gas network.



Lord Callanan: We have taken the decision in principle that we will support blending, but not because of its decarbonisation benefits, because actually they are not very great.

Q741 **Mark Pawsey:** You would reduce your CO₂ emissions by 20% if you put in 20% of hydrogen.

Lord Callanan: You do not reduce the CO₂ emissions by 20%, because hydrogen is much less energy dense than natural gas. Even if you blended up to 20%, you would only get, I think, 6% to 7%—I need to check that figure—in decarbonisation benefits.

Q742 **Mark Pawsey:** Is that not worth having?

Lord Callanan: Potentially, but you would use an awful lot of energy to produce the hydrogen in the first place. The question is, if you have limited supplies of hydrogen, is it not better used for long-term energy storage or for decarbonising the difficult-to-decarbonise plants in your constituency?

Q743 **Chair:** You will be aware of the exploration of white hydrogen in the world as well. It is a small thing, but I am sure you are aware of it.

Lord Callanan: I saw the reports of that. It would be fascinating if that proved to be the case—

Chair: There is a global screening going on that has been announced.

Lord Callanan: —because of course the big disadvantage of hydrogen is that you have to use energy to make it and every time you convert it to a different form you lose some of the benefits. If it exists in natural form and we can extract it, fantastic.

There are also some quite serious safety implications that we need to look at. Hydrogen is much more explosive across a wide range of concentrations than natural gas.

Chair: Talking of explosive, I will bring in my colleague Barry Gardiner.

Q744 **Barry Gardiner:** I really enjoyed your evidence to us there, Minister, but I would ask you to consider one thing. The Government should clearly set out a hierarchy for the use of hydrogen so that, exactly in the areas that you talked about—cement, glass, ceramics—it should take priority, and then maybe—

Chair: A hierarchy of hydrogen use.

Lord Callanan: I am sure my good friend Michael Liebreich, who has produced the hydrogen ladder, which does exactly that, would be delighted that you were a satisfied reader. I will tell him that.

Chair: We expect a vote in six minutes. It would be nice to finish this session on the vote or before.



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Lord Callanan: I totally agree, Mr Gardiner.

Q745 **Barry Gardiner:** I thought it was in “Alice in Wonderland” that the ceiling got confused with the floor, but I find that the Government have limited the powers of local authorities to set more ambitious energy efficiency standards for new build homes than the national minimum requirements. If they are minimum requirements, why not allow local authorities to raise them above the minimum? I just don’t get it.

Lord Callanan: I don’t know if officials can help me with this. There are obviously building regulations, which sit within DLUHC. The short answer to your question is that I have no idea. Do you have any idea, David?

Barry Gardiner: Mr Capper, this is your moment. The Minister has been ubiquitous, answering all the questions this afternoon.

Lord Callanan: I know it is my job to answer on behalf of the Government as a whole. I would be happy to speak to my DLUHC colleagues and get an answer, Mr Gardiner. I genuinely don’t know. Do you know, David?

David Capper: The Minister is correct: it is a matter for DLUHC. DLUHC is consulting on the future homes standard at present. The consultation is open until 27 March. You may wish to respond to the consultation on this point.

Barry Gardiner: I imagine that you will be having “Alice in Wonderland” conversations with your colleagues with your colleagues in Government, Minister. That is all I will say.

Lord Callanan: Baroness Swinburne has temporary responsibility for the future homes standard while Baroness Penn is on maternity leave. I was talking to her yesterday about precisely that consultation and I will make your point to her.

Q746 **Barry Gardiner:** Good. Do the Government intend to formally support and fund local area energy planning as a means of tailoring the home heating transition to local needs?

Lord Callanan: We are already working with a number of local authorities on how they can put their local energy plans together. We have some experiments in terms of devolving funding directly to the West Midlands regional authority and the Greater Manchester mayoral authority, allowing further devolution of funding and allowing them to have more of a place-based model and produce the best model and plan for their own localities.

Q747 **Barry Gardiner:** So there are pilots but not yet a national programme.

Lord Callanan: There are some local areas at the moment. I have a list here.



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David Capper: Heat network zoning is relevant to this point because it will be for local authorities to designate based on the national zoning model. Deciding how and where to designate a zone means taking a view on what alternative decarbonisation solutions might be available for the properties within the zone.

Lord Callanan: There are a number of local energy advice demonstration projects. I am just looking through here to see what there is. I can see South East London Community Energy. I can't see anything in your area of north London, sorry.

Q748 **Barry Gardiner:** Fine. Finally, have you evaluated the merits of creating and overseeing a single standards and accreditation body?

Lord Callanan: Standards in what area?

Barry Gardiner: Co-ordination and planning for local authorities.

Chair: In the area of energy efficiency?

Barry Gardiner: Yes, obviously.

Lord Callanan: Obviously, we have the TrustMark standards to make sure that installations are all of appropriate quality. Every Government scheme is registered with TrustMark. All the measures are listed and guaranteed, and the installers have to be up to the appropriate standard. I don't know if that answers the question.

Q749 **Barry Gardiner:** We have received some evidence that the current state of protections does not present a barrier, but others said that it did, and that it made customers reluctant to invest. Stonewater said—*[Interruption.]* The Chair wants me to finish. I can see that time is moving on.

Chair: Yes, thank you, Mr Gardiner.

Barry Gardiner: We can pursue that another time.

Lord Callanan: I am happy to chat separately.

Chair: Minister, can we thank you for your evidence today? I must say, and I think it is probably agreed all round, that you are a Minister who is very much on top of your brief and that has been very noticeable today from the rapid fire that you gave us on various areas. We thank you for that.

We would urge you for some of the announcements, such as on ECO4—you know the stuff we have raised and what the pressure is. I found this session very useful. I hope you did, too. It will certainly help with our report. This is our final session in this area. Thank you very much. A Division is due in the House of Commons any second now, which is saving us all by the bell. Before the bell rings, I will say good afternoon.