Written evidence submitted by Good Energy (HEA0134)

Thank you for the invitation to respond to the Energy Security and Net Zero Committee inquiry on Heating our Homes. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. Good Energy is working towards a renewable future, helping to support technologies including wind, solar, biofuel and hydro. Our purpose is to power the choice of a cleaner, greener future together.

How will the public be able to afford the switch to decarbonised heating?

- **Rebalancing of social and environmental levies on bills**

The disproportionate grouping of green levies on electricity bills has been a key barrier in making the electrification of heat more attractive and accessible to consumers. Costs vary on an annual basis, but on average it works out at an £150 addition to an average household's dual fuel bill. It is understood that the government are considering a consultation, or possibly an updated position statement by the end of this year on potential options for reform. The government should bring this forward as early as possible.

The UK has some of the highest electricity prices in Europe. This is currently a key blocker in incentivising the public to make the switch from fossil fuel heating, in addition to electrified transport. With the 2024 election on the horizon, it is possible some of the options considered could have political interactions, such as moving costs onto gas bills.

In our view there is nothing to gain from delaying the work on assessing potential options for making the electrification of heat more attractive. Incentivising heat pumps has obvious benefits, not just from a carbon reduction perspective but also presents an enormous opportunity for the UK to benefit economically, as a global leader in installing heat pumps.

As part of any policy work, we believe the government will have several options to consider. They include but are not limited to rebalancing some of the costs onto gas bills, a levy exemption for heat pump users or moving the policy costs into general taxation (and off customers' bills).

The conversation about the apportionment of costs across electricity and gas bills should not be forgone on account of political sensitivity or an approaching election. It is a debate which is central to the decarbonisation of the UK's energy system and therefore our progress against the net zero target set out in the Climate Change act. The government should take action and assess the potential options for reform via a policy consultation. It is imperative that this work does not get delayed further.

- **Upfront costs**

Whilst upfront investment costs are falling, there is still some way to go to ensure that they achieve true price parity with boilers by 2030. We support the previous decision to extend the Boiler Upgrade Scheme (BUS) but believe an additional change is required to ensure that any unspent funds are rolled over to following scheme years.

The BUS should be kept under review to ensure that lower-to-middle consumers can maximise the full benefits from this scheme. This could involve some form of means tested checks to provide additional levels of support to those who want to make the transition to a heat pump but are currently prohibited because of high up-front costs.

- **Working with the financial sector**

There are opportunities for the government to encourage greater innovation in the financial sector, that can directly support greater levels of incentives for consumers. This sector could be used specifically for driving incentives in the able to pay market – which is driving nearly half of current heat pump installations (those that aren't using the Boiler Upgrade Scheme).

Areas of focus include but not limited to:

I. Fiscal incentives – reduced VAT to support low-carbon technologies and home energy efficiency improvements – adding battery storage as a qualifying technology is a recent welcome proposal from the government.
II. Property Linked Finance – this can include tools such as grants for energy efficiency improvements for example, perhaps even as far as up to 100% in some cases.
III. A government response to the 2020 consultation on requiring mortgage lenders to disclose the average EPC rating of their asset portfolio.

- **Linking up with work on the retail reforms**

It is important that the government considers interactions with other related departmental workstreams. As an example, the Department for Energy Security and Net Zero has recently launched a call for evidence on working towards a more innovative retail market.

The government have restated their beliefs that the retail market has a pivotal role in bringing along consumers on the journey towards Net Zero. The retail market will be key in unlocking energy service propositions, which among other things will include heat pumps, which can also be utilised in flexibility scenarios.

As part of this review, there should be appropriate consideration on the barriers that are currently in place in the retail market, plus opportunities that may currently be missing in allowing retail suppliers to invest more in innovation and product development, with the ultimate goal of driving down costs in the long-term for decarbonised heating solutions.

<u>What policy changes are needed to deliver energy efficient homes across the UK?</u>

- **Access to finance**

A key challenge for many households or businesses that are looking at energy efficiency improvements or installation of low carbon assets are the prohibitively high upfront costs.

The government should be considering all available options to help support households and business who are considering making investments. This includes but is not limited to interest free loans, means tested grants, property linked finance package (low interest loan attached to the property which can be paid back over a longer period).

- **Stability of regulatory regime or schemes**

Policy and regulatory certainty for the industry is essential for incentivising the electrification of heat and upgrade of our building infrastructure. It's the regulatory certainty, and more specifically for this sector, pending decisions that are acting as a barrier for investment into the sector. Some of the key decisions that are pending include -

- *Decisions on hydrogen for heating - the government should send a clear signal that it does not consider hydrogen to be the primary vector for future low-carbon home heating. This would send affirmative signals to manufacturers of heat pumps and heat network developers, as well as encouraging of hydrogen research, development and usage in industries and sectors to which it is better suited.*

- *The Future Homes Standard – regulatory certainty can be provided to industry via the Future Homes Standard – with the government clarifying that no new homes should be connected to the gas grid. This clarity would provide investor confidence for heat pump supply chains and crucially avoiding a potential loophole where 'hydrogen ready' boilers are permitted to be installed – meaning new homes could be connected to the gas grid and burn fossil fuels for many years.*

- *Legislating for the phase out of new and replacement natural gas boilers by 2035.*

- *Government response to the 2021 consultation on phasing out the installation of fossil fuel heating systems in homes off the gas grid.*

Does the current state of consumer protections for low-carbon home technologies represent a barrier to uptake of these products?

A recent CMA report highlighted some of the consumer protection challenges in the green heating and insultation sectors. We welcome the report from CMA as well as the guide they produced separately. Going forward, it is important for government to consider whether the CMA are appropriately resourced to ensure consumers have confidence to make investments in the green heating and insulation sectors.

Government can also play an important and perhaps stronger role publicising information to customers about their rights and protections, as well as the wider benefits for making these investments.

Do the current EPC frameworks help consumers make informed decisions on transition?

The current frameworks need to be improved as they do not support the heat pump rollout. In some cases, the framework suggests buying a new boiler and crucially excludes key educational information for the public on how operating a heat pump differs from boiler operation (i.e., normal to run longer, which boosts the efficiency).

Continuing with heat pumps, EPCs have a limitation in capturing full performance as they use out of date fuel prices and fail to capture among other things the superior efficiency and flexibility potential that a heat pump can provide versus gas boilers. It is these limitations which mean EPCs are currently unable to recognise the full extent of the carbon savings that heat pumps provide.

The way the EPC is structured through methodical steps (i.e., requiring doing things in order) also acts as a barrier. The objective of the certification should focus more on how all of the recommendations can work together to achieve the best performance – whether that be for a heat pump or other renewable technologies.

We would urge the government to accelerate the work on reviewing the assumptions and appropriateness as part of the EPC Action Plan.

What is the role of different levels of government in developing, funding and implementing schemes?

- **Communication**

The government, at all levels, can play a much greater role in advertising and awareness for consumers, which would be further strengthened if combined with the policy and regulatory certainty for key policies.

Taking the Boiler Upgrade scheme as one example. This has proven to be a relatively complex scheme since its introduction in 2022 and would have benefited from simplified communications that are easily understood across the public.

The government should also look to work with industry and respected voices to help instil confidence to the public regarding key support schemes.

I hope you have found our response helpful. If you would like more information, or have any questions about our views, please do not hesitate to let me know.

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