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APRIL 2024

# EXECUTIVE SUMMARY: CREATING A HEAT PUMP MASS MARKET IN THE UK<sup>1</sup>

## UNLOCKING ACCESS TO AFFORDABLE CLEAN HEAT

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Decarbonising home heating is a national infrastructure priority. Success will enable the UK to meet its climate targets, bolster the nation's energy sovereignty, protect jobs in key industries, cut consumer bills and reduce air pollution.

Heat pumps will be the primary technology for decarbonising the way we heat our homes. However, the current cost to consumers of adopting clean heat is a significant and unyielding barrier to uptake – especially at the scale and pace required. High electricity prices relative to gas, limited consumer options and low scope for business model innovation, as well as a lack of attractive public or private financing options all contribute to stifling the UK market for heat pumps.

As pressure grows on the public purse, this report considers which options offer the best value for money to the consumer and which would be low cost (or no cost) for Government, while still achieving high ambition outcomes. Presented here are a range of policy levers which can tackle the hurdles to heat decarbonisation, bring down the cost of heat pumps, and unlock access to affordable clean heat for all.

### Reducing the running cost of electricity

Electricity in the UK is too expensive, with levy costs almost eight times more expensive for electricity than gas. This means that electrically heated homes pay far higher taxes than homes heated by gas boilers, a huge disincentive to move from polluting fossil fuel heating to a heat pump. Policy makers should look to:

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<sup>1</sup> This is a summary of a report of the same name, available from E3G, April 2024, **Creating a heat pump mass market in the UK**

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- Consider near-term options to lower heat pump running costs, including a potential reduced rate for electricity used by heat pumps.
  - Progress reforms of electricity market arrangements (REMA) to facilitate the decarbonisation of the electricity system.
  - Support long-term measures to permanently and structurally lower electricity prices.

## Business models and consumer options

Today, most homeowners purchase a new heating system (including heat pumps) when their old system breaks down, paying upfront and owning their new system outright. However, we have identified that alternative models may play an important market-building role. These models could offer different forms of ownership for heat pumps, could combine payment and service of the system, or even offer consumers different tariffs based on the flexibility individual heat pumps and households can offer the grid. Policy makers should look to:

- Maintain universal grants (tapered over time) to ensure all households can purchase heat pumps upfront.
- Support attractive consumer offers for leasing heat pumps, heat-as-a-service and smart/flexible models.
- Support lenders and service providers to scale up new business models.
- Fund a substantial innovation programme to develop flexible heat pumps and assess how much they can reduce bills for consumers.

## Mobilising public and private finance

Whether a household purchases a heat pump outright or chooses a business model which spreads the costs over time, both private and public finance are key to unlocking the investment needed in the UK's heating systems.

Attractive private finance offers can help enable domestic heat pump purchases. Concessional finance can make offers more attractive, with public lending facilities providing a route to market for more consumers through the UK Infrastructure Bank, or potentially a new GB Energy fund. Policy makers should look to:

- Support business models which can spread the upfront costs of heat pumps, including demand aggregation schemes and property-linked finance.



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- Revisit the Consumer Credit Act to address barriers to green lending and reduce risk for lenders in supporting the uptake of heat pumps.
  - Mandate the UK Infrastructure Bank to develop an attractive concessional finance offer for home retrofits.

## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at [www.e3g.org](http://www.e3g.org)

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