

Jeremy Hunt MP
Chancellor of the Exchequer
House of Commons
London
SW1A 0AA



Dear Chancellor of the Exchequer

We are writing as a group of energy companies, heat pump manufacturers, trade organisations and think tanks working across the heat pump supply chain to encourage you to consider measures to make clean and flexible heat attractive to all, while reducing fuel poverty.

The government has correctly recognised the critical role of heat pumps for strengthening energy security and reducing emissions. However, due to the way electricity is priced in the UK, households using clean electric heat are unfairly penalised for making the switch. Longer-term reforms to address this are underway, including the Review of Electricity Market Arrangements. We support rapid action to implement reforms to achieve this goal but believe that further near-term action is required. **We propose a targeted 'clean heat discount'** for consumers using electric heating, with revenue foregone paid for by HMT. This will make heat pumps more desirable and affordable, while supporting the significant number of fuel-poor homes currently using expensive direct electric heating. Using general taxation to pay for the policy is the most progressive option to cover the costs.

Electricity prices are higher than gas, due in part to the imbalance of social and environmental levies which are loaded disproportionately onto electricity bills. Per unit of energy consumed, levy costs are almost eight times more expensive for electricity than gas. Providing a 'clean heat discount' for electric heating users could help ensure households switching to a heat pump are able to feel the economic benefit of lower bills. Denmark already uses a similar dual tax rate for electric heating and has experienced a surge in heat pump installations.

Exempting electrically heated homes from paying an amount equivalent to 3.5 MWh (equivalent to the Renewables Obligation, Feed in Tariff, Energy Company Obligation and Great British Insulation Scheme levies) would save consumers on average £130 a year if implemented in 2024/25. Direct electric heating systems are used by a disproportionately high number of fuel poor homes. Therefore, making the exemption applicable to electric heating will deliver significant co-benefits for fuel poverty. The savings equate to 15% of heat pump and 5% of direct electric running costs. Maximum uptake of the scheme would amount to £390 million a year for all electric heating, or £90 million a year for heat pumps and £300 million for direct electric.

The government committed to consult on levy rebalancing in the 2021 Heat and Buildings Strategy. We encourage HMT to support DESNZ in a consultation process which includes the 'clean heat discount', and to allocate funding to the discount in the Spring Budget. We request, at your earliest convenience, a meeting with you and your team to further discuss the benefits of this option. Please contact james.dyson@e3g.org to arrange an appropriate time.

- E3G
- E.On
- EDF
- Good Energy
- Nationwide Building Society
- Kensa Group
- Vaillant
- Heat Pump Association
- Heat Pump Federation
- Thermal Storage UK
- GlenDimplex
- Ground Source Heat Pump Association
- Green Alliance
- Centre for Sustainable Energy
- National Energy Foundation
- Happy Energy