EXPLANATORY MEMORANDUM TO

THE CLEAN HEAT MARKET MECHANISM (AMENDMENT) REGULATIONS 2025

2025 No. 1208

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Martin McCluskey, Minister for Energy Consumers at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Tara Deshpande, Deputy Director for Electrification, Products, Buildings and Delivery, at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Harry Bradwell at the Department for Energy Security and Net Zero. Telephone: 02072158419 or email: harry.bradwell@energysecurity.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Statutory Instrument amends the Clean Heat Market Mechanism Regulations (2025) in order to set the low-carbon heat target for the Clean Heat Market Mechanism's (CHMM) second scheme year beginning 1 April 2026; this would remain the target for future scheme years in the event that a further amending instrument were not made in future. Additionally, the Instrument names the Microgeneration Certification Scheme as the sole certification scheme for the CHMM. Finally, the Instrument amends the definition of a "hybrid heating system" under the scheme.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 The CHMM, which launched on 1 April 2025 pursuant to scheme regulations made on 27 January 2025, is designed to provide the UK's heating industry with the confidence and incentive to invest in developing the low-carbon heat pump market. It

places an obligation on manufacturers supplying gas and oil boilers in the UK market. Manufacturers must meet targets for the installation of heat pumps in existing properties in proportion to their sales of fossil fuel boilers. Manufacturers can do this by supplying heat pumps themselves or by acquiring credits from other scheme participants.

5.2 This Statutory Instrument amends the scheme regulations in order to set the heat pump installation target at 8% of eligible boiler sales for the Scheme Year 2, beginning 1 April 2026. There has been a long-standing expectation that there would be a modest increase of target from Year 1 to Year 2 of the scheme, and each year thereafter, to continue to support the growth and development of the heat pump market and supply chain.

5.3 Additionally, the Microgeneration Certification Scheme (MCS), which is currently the only approved certification scheme for heat pump installations under the CHMM, is named in this Instrument as the sole certification for the CHMM. This is an interim step that the government is taking across clean heat schemes in order to avoid adding further complexity for consumers while it undertakes a wider in-depth review of the consumer protection landscape. The Instrument also provides a power for the Secretary of State to approve subsequent versions of the MCS.

5.4 Finally, this Statutory Instrument amends the definition of a "hybrid heating system" so that a hybrid heating system (which incorporates both a heat pump and a fossil fuel heating appliance) is not required to provide hot water in addition to space heating, for instance if no hot water is needed for the building. This is a technical change to align the approach in such circumstances for hybrid systems, with the approach already in the Regulations with respect to standalone heat pumps (i.e. those not part of hybrid heating systems). The Instrument does not amend the kind of relevant heating appliance (namely, a 'hybrid heat pump' as defined in the Scheme Regulations) that the CHMM applies to.

What was the previous policy, how is this different?

5.5 The "Clean Heat Market Mechanism Regulations 2025", which established the CHMM, previously set the heat pump installation target at 6% of eligible boiler sales for Scheme Year 1. If this amending Instrument were not brought forward, that target level would repeat for Scheme Year 2. However, there is a longstanding expectation that the scheme target level will rise each year, which the present amending Instrument gives effect to for Scheme Year 2.

5.6 The establishing Scheme Regulations allowed for schemes to apply for approval by the Secretary of State as a certification scheme for the CHMM; this amending Instrument removes this option and instead names the Microgeneration Certification Scheme as the certification scheme for the CHMM, while providing for the Secretary of State to approve subsequent versions of the Microgeneration Certification Scheme operated by MCS Service Company Ltd. Finally, under the establishing Regulations, hybrid heating systems were required to provide both space heating and hot water for a building. This definition is amended by this Instrument so that a hybrid heating system (which incorporates both a heat pump and a fossil fuel appliance) is not required to provide hot water, for instance if hot water is not needed for the building.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 143 of the Energy Act 2023 enables the Secretary of State to make Regulations for the establishment and operation of low-carbon heat schemes. The Clean Heat Market Mechanism Regulations 2025 established the Clean Heat Market Mechanism scheme (CHMM). These Regulations make amendments to the CHMM.

6.2 Section 145(1)(b) enables the setting of targets by reference to the proportion of that activity that must relate to "relevant heating appliances", within the meaning of section 143(3), which for the purposes of the CHMM are electric heat pumps. Targets are met by surrendering certificates which represent installations of heat pumps. The targets are amended for the scheme year commencing 2026 onwards, until the targets are further amended.

6.3 Heat pump installations must meet certain conditions, the Regulations are amended to require that installations are certified by the Microgeneration Certification Scheme (MCS). A power is taken for the Secretary of State to amend subsequent versions of the MCS. Section 145(2) (power to specify conditions about the carrying out of activities to which a scheme relates) and section 145(4) (power to confer discretion on the Secretary of State in connection with the setting of targets) are relied on for these conditions.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 A consultation on the proposed target level and on the proposal to name MCS as the sole certification scheme, was conducted between 9 May and 2 June 2025. The consultation received 57 responses from a range of organisations, mainly those directly involved in the heating industry. The government's response to this consultation was published on 31 October 2025.[1]

7.2 A range of responses were received in response to the consultation. The majority of respondents agreed with the target being set within the 8-10% range which the government consulted on. Responses to the MCS certification were more balanced, although more respondents were in favour of the existing arrangements.

7.3 The Devolved Governments have been engaged and consulted throughout the ongoing development of the CHMM. In line with section 151(4) of the Energy Act 2023, the Secretary of State gave notice to the Devolved Administrations of the intent to introduce this Statutory Instrument and provided them with 28 days to make representations for consideration.

8. Applicable Guidance

8.1 The Environment Agency will continue to act as the scheme administrator, including its responsibilities for carrying out the day-to-day operation and enforcement of the scheme. The Environment Agency will publish updated scheme guidance to gov.uk at

[1] https://www.gov.uk/government/consultations/clean-heat-market-mechanism-revisions-ahead-of-scheme-year-2-20262027

the point that the Statutory Instrument comes into force, taking account of the adjustments made by this Statutory Instrument.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is predominately focused on manufacturers of fossil fuel heating appliances sold in the UK. Additionally, the wider supply chain may also be impacted by the scheme due to their involvement in delivering the installations needed to meet the targets.

9.3 Fossil fuel heating appliance manufacturing is a relatively concentrated market sector, with four companies responsible for close to 90% of annual gas boiler sales (ca. 1.5m in 2024), and five companies responsible for a further ~8% of sales. The four largest companies, and a number of the second-tier companies, are all multi-technology corporations producing and selling a range of appliances, including heat pumps, in several countries. In the oil boiler sector, four companies share around 93% of annual sales (~51,000 per year), and another two companies a further 5%[2].

9.4 In delivering their obligation, businesses will incur familiarisation and administrative costs which will vary by business. The published Impact Assessment provides estimates of costs faced by scheme participants resulting from the changes to the scheme proposed in this statutory instrument. It is estimated there may be a small increase to administrative costs, if the increased credit target should require more time involved in the trade of credits. Our assessment is that any increase in administration and familiarisation costs from increasing the target level from 6% to 8% would be very limited as participants will already have engaged in the scheme. The costs to businesses of meeting the obligation are difficult to assess with confidence, as is the extent to which such costs may be offset by higher revenue associated with such sales. The possibility to trade certificates means that the costs faced by different scheme participants could vary significantly, depending on whether they decide to account for their low-carbon heat target, in part or in whole, through acquiring certificates from other heat pump manufacturers. Some of the costs that scheme participants will face are transfers between businesses; others will be offset by direct benefits to business.

9.5 The legislation does not impact small or micro businesses.

9.6 To minimise the impact of the requirements on small or micro businesses (employing up to 50 people), companies that meet the criteria of the small companies regime under the Companies Act 2006 are excluded from the scope of the obligations in the regulations. In addition, there are de minimis threshold exclusions from the policy scope: manufacturers of fossil fuel appliances with less than 20,000 relevant gas boiler sales or less than 1,000 relevant oil boiler sales, currently equivalent to a little over a 1% market share in each case, are not in scope of the obligation to meet heat pump targets with respect to those appliances. This further limits the costs to smaller firms that may not meet the criteria of the small companies regime and/or those with only limited activities in the UK. Beyond companies in scope of the regulations,

[2] BSRIA UK Domestic Boilers Annual Report 2025

existing, diversifying or new micro and small businesses engaged in the installation of low-carbon heating are likely to benefit indirectly from the policy's increase in business in this area.

9.7 There is no, or no significant, impact on the public sector because they are not obligated under the scheme.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The Department is conducting monitoring and will undertake an evaluation of the CHMM to assess the extent to which the objectives and expected impacts of the scheme are realised, as well as to collect evidence that will support wider learning in relation to low-carbon heat and other relevant policy areas (such as energy efficiency, net zero consumer behaviour changes, etc.). The ongoing monitoring will also support the management of the scheme, including tracking of deployment, credit trading and compliance.

10.2 A statutory review clause was included in the establishing Scheme Regulations. The monitoring and evaluation conducted during the scheme will support this post-implementation review.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").