

15 April 2024

Dame Meg Hillier MP
Chair of the Public Accounts Committee
Public Accounts Committee
House of Commons
Westminster
SW1A 0AA

Centrica plc
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By email: pubaccom@parliament.uk

Dear Dame Meg,

Re: Public Accounts Committee Inquiry on 'Decarbonising Home Heating'

As the UK's largest integrated energy company, and one of the largest installers of low carbon heating measures, Centrica welcomes your committee's inquiry, and invitation to submit evidence on Decarbonising Home Heating, following the National Audit Office's (NAO) report on the same topic.

The NAO's report set out its concerns over hydrogen for heating, the progress of the roll out of heat pumps and the need for more consumer engagement on decarbonising homes. Our evidence below sets out our views on these topics.

About Centrica

Centrica, through our British Gas and Hive brands, is helping thousands of customers decarbonise through the installation of over 3 million net zero measures such as Hive smart thermostats, heat pumps and EV chargers. The Hive thermostat alone has saved our customers £325 million on energy bills since 2013.

Centrica has committed to make our own business net zero by 2045 and help our customers reach net zero by 2050. As part of this we are focused on how we can make it easier and more affordable for our customers to decarbonise their homes, offering a modular approach to net zero solutions from smart meters through to heat pumps. Our aim is to offer the Hive digital platform as an in-house smart energy management system, supplementing its current capabilities in smart heating management. We are also well placed to apply our reach, expertise, and customer insights to the energy transition with the aim of accelerating the mass rollout of low carbon technologies.

Green skills

British Gas employs over 7,000 engineers and technicians who we are continuously upskilling with the training needed for green jobs now and in the future, including installing EV chargers and air source heat pumps (ASHP). Since 2021 we have hired over 1,000 apprentices, with an ongoing commitment to hiring an apprentice every day this decade. Our Future Energy Skills Report¹, produced alongside Trade Union and industry partners, noted that 20% of the current engineer workforce are due to retire by 2030, so it's vital that we focus on retaining and retraining as many engineers as possible. This will ensure that we have enough engineers to

support UK homes through the transition installing heat pumps and other low carbon technologies and maintaining existing boilers.

To help us do this, we would welcome further reform of the apprenticeship levy to allow for more of the UK's existing 130,000 gas safe engineers to reskill as heat pump installers to meet the UK's current and future needs for heat pump installations. Such reforms would enable businesses to access a proportion of current unspent levy funds for the upskilling of existing employees on short term courses where there are current skills shortages or in areas integral to meeting the UK's net zero targets.

Consumer engagement

We have 10 million customers, and we want net zero to be something we do with our customers, not to them. Customers are telling us that net zero needs to be simple and it needs to be affordable. Our partners in the supply chain are telling us they need certainty to invest and set themselves up for the long term.

As home heating is responsible for about 18% of the UK's carbon emissions, we need to help our customers decarbonise. However, there is no overnight fix, nor will there be a single technological solution to transitioning to low carbon heat. It is imperative that we provide our customers with the simplest journeys to decarbonise their homes. We believe a whole range of solutions will be needed to reach net zero and consumer choice should sit at the heart of the transition. We are investing heavily in ASHPs, and we are one of UK's biggest ASHP installers, but we also believe hydrogen has the potential to play a role. The roll out of low carbon technologies, will need to be supported by investment in renewable energy generation, hydrogen storage and flexibility technologies such as demand response, as the decarbonisation of the provenance of energy used for home heating is as important as the end-user system.

Smart meters are the gateway to net zero and the entry point for many customers to gain a better understanding and increased engagement with their energy usage and decarbonisation solutions. We welcome the Public Accounts Committee findings on this topic and believe that now is the time for Government, industry and the Regulator to work together to look at whether more fundamental changes to the smart meter roll out are required to ensure as many people as possible can benefit from this technology.

To help deliver best customer experience, we would also support reforms to Energy Performance Certificates, which are the main tool to measure how green our homes are. We offer Home Health Checks which provide a full home assessment on consumption and efficiency and bespoke advice to help customers manage their energy better. These are far more detailed than EPCs, which only take account of energy costs and not carbon savings. This is acting as a barrier for some consumers, who find their EPC gets worse with some lower carbon technologies, such as heat pumps, despite the fact they deliver increased efficiency and significant carbon savings compared with existing heating systems.

Heat Pump roll-out

Heat Pumps are the best low carbon heating option at present. Through industry financing and the Government's Boiler Upgrade Scheme, we have brought our own heat pump installation costs down significantly. We have installed over 3,500 heat pumps and have identified a number of barriers which we believe are currently preventing the mass take up of heat pumps. Our recent heat pump research showed that there is still a problem around awareness with less than 2/3 of households aware of heat pumps. Other issues include concerns over the disruption and cost of

replacing the existing heating system, including replacing radiators and pipework, as well as finding space for a water tank.

Complexity

Government schemes have helped to drive uptake of low carbon technologies amongst certain groups. The Energy Company Obligation has worked well at targeting customers in fuel poverty and the Boiler Upgrade Scheme has helped to reduce the upfront costs of heat pumps for the able to pay market. But when these schemes end, we think they need to be simpler. Instead of different schemes to drive different low carbon technologies, one streamlined scheme would be easier for consumers to navigate.

It can cost £12,000 on top of the cost of a heat pump to upgrade homes with larger radiators and pipework, so alongside private finance, this scheme should be broader to help fund the fabric upgrades homes need for net zero. In the meantime, we support the Government's decision to ringfence £400 million for energy efficiency measures from 2025, but we would like to better understand what the eligibility criteria will be for this funding, as we believe it could help make more properties heat pump ready and will lower upfront costs such as upgrades to pipework and radiators.

We need to make sure that we do not exclude households from adopting low carbon technologies because of complex rules or restrictive schemes. We are pleased that Government is consulting on changes to permitted development rights rules in England, however we would encourage the devolved nations to similarly consult on their own regulations to reduce existing barriers to uptake. Current rules vary – for example in Wales if you want to install a heat pump, you can only do it 3m away from the property boundary, which excludes a vast number of homeowners, particularly in urban areas. We believe that there does not need to be any distance restriction – not even 1m - if noise levels are acceptable.

Costs

Alongside upfront costs, heat pump running costs are comparatively expensive, as they run on electricity, which is roughly four times the cost of gas. Suppliers are creating tariffs and cutting installation costs to encourage take up and we are making low carbon technology more affordable, by being smarter about when we use it. At British Gas, over half a million customers benefit from our PeakSave tariff which encourages households to move their electricity use away from peak times, and we automatically charge our customers' EVs when electricity is cheapest. However, if we are to really drive the uptake of heat pumps, we believe consumers still need some support on rebalancing costs. Centrica has long advocated for reform of the current policy costs – which make up almost £150 of the typical electricity bill. However, we need to tackle this issue without penalising the millions of households with gas boilers, many of whom are unable to move to low carbon technologies and ensuring we are cognisant of the Government spending challenge.

We would support industry and policy makers working together to look at solutions which balance costs on both bill payers and tax-payers and the roll-out of low carbon heat solutions. By way of example, one potential solution could be targeted electricity bill support for customers who take up electric heating or heat pumps, in a similar way as Government is proposing to do for customers who live near new transmission network infrastructure, or alternatively, Government may want to consider moving a subset of electricity policy costs into general taxation – giving all residential consumers a benefit and then funding policies designed to decarbonise heat through fossil heating fuels. This would be cheaper for the Exchequer than moving all policy costs into general taxation and would benefit all residential consumers rather than just a subset. However, it would also

increase the cost of fossil heating fuels, such as gas. We believe this would be fairer than simply moving all existing electricity policy costs to gas, which would penalise those households who are unable to transition to low carbon technologies (either due to physical or affordability barriers) and a cheaper alternative to funding policy costs through general taxation.

Hydrogen for heat

The UK's Net Zero targets are ambitious and decarbonising heat is one of the hardest areas to get right, which is why we believe it's so important that we explore all the potential solutions.

We continue to be supportive of exploring hydrogen for heating, but for this to be a solution for consumers, we need to take a whole-system approach to the hydrogen economy and large-scale, affordable generation and distribution. We are pleased with the progress on the hydrogen business models, but believe we need to move faster to secure the investment required to deliver Government's ambitions.

We support the NAO's view that a decision should be made on hydrogen for heating as soon as possible instead of delaying until 2026. Customers will be unwilling to make their own decisions on whether to install particular low carbon heating measures whilst there is uncertainty over which options they could take in the future, and this could prevent growth in the heat pump market.

We believe consumer choice is key to consumer acceptance and we stand ready to deliver a decarbonised future for our customers whichever technology is decided, but the market needs certainty and a final position on hydrogen for heating would enable that. We believe policy development and investment should be accelerated across hydrogen and other low carbon heat technologies, such as ASHPs, so we can provide consumers with choice and help decarbonise homes where those technologies are most suitable. The right policy frameworks will encourage investment and help to drive uptake of low carbon solutions.

Please do not hesitate to contact us if you would like any further information to help with your inquiry or would like to visit one of our Training Academies to hear more about our work on decarbonise heating on homes. We look forward to seeing the outcome of the inquiry.

Yours sincerely,



Alan McLaughlin,
Corporate Affairs Director