



BRIEFING PAPER

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Energy Company Obligation (ECO)

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Summary

- The Energy Company Obligation (ECO) is a Government energy efficiency scheme for low income and vulnerable energy customers which aims to reduce energy bills and carbon emissions. The scheme is supplier led and paid for by a levy on customer bills.
- ECO has operated since 2013 in a number of iterations. The current scheme (ECO3) is scheduled to run until March 2022; ECO is set to run until at least 2028.
- ECO has met its targets, and almost 2.7m insulation, heating and other measures have been delivered since ECO began in 2013. However, ECO's budget has been reduced relative to previous schemes and the number of installations has fallen.
- Stakeholders have said more energy efficiency policy is needed. The Government included new funding in its 2019 manifesto, and has also announced further support.

Introduction

ECO is a policy designed to retrofit energy efficiency measures in existing homes. Energy efficiency can help lower energy consumption which can in turn help to lower bills, alleviate fuel poverty, reduce greenhouse gas emissions, and improve energy security.

In the initial [ECO impact assessment in 2012](#), the Government said intervention to encourage energy efficiency measures was justified to "address market failures and barriers slowing uptake."

The Department for Business, Energy and Industrial Strategy (BEIS) is responsible for ECO. Ofgem regulates the energy suppliers who are obligated under ECO.

History of supplier obligation policies

From 1994 onwards, successive Governments have introduced various policies aimed at increasing energy efficiency, especially in vulnerable households. The schemes to help poor and vulnerable households and reduce emissions have previously included Government grants from central funding (such as the [Warm Front scheme](#)), loans to consumers (such as the [Green Deal](#)), and obligations on energy companies to [help their customers save energy](#). These are summarised in Box 1.

Box 1: Timeline of energy schemes

Supplier commitments:

- 1994 to 2002: the **Energy Efficiency Standards of Performance (EESoP)** scheme set energy saving targets for electricity suppliers and later electricity and gas suppliers.
- 2002 to 2008: the **Energy Efficiency Commitment (EEC)** set carbon saving targets as part of the Labour Government's [Climate Change Programme](#). At least half of the energy savings were to be targeted at households in receipt of certain income-related benefits or tax credits.
- 2008-12: the **Carbon Emission Reduction Target (CERT)** scheme required larger gas and electricity suppliers to achieve targets for reducing carbon emissions from domestic premises.
- 2009-12: the **Community Energy Saving Programme (CESP)** required larger gas and electricity suppliers and electricity generators to deliver energy saving measures as part of a "whole house" approach to domestic consumers in specific low income areas of Britain.
- January 2013 to September 2018: **ECO1**- Mar 2015; **ECO2**- Mar 2017; **ECO2t**- Sept 2018.

Additional schemes:

- 2000-2013: the **Warm Front Scheme** provided central Government funding to private homeowners or renters on certain income-related benefits. From April 2011 it was exclusively available to customers on means-tested benefits.
- 2013-2015: the **Green Deal** provided Government loans for measures to be repaid through savings on a customer's energy bill. The scheme resumed under private funding in 2017.
- July 2020: as part of the [Government's "green recovery"](#) from the coronavirus pandemic, a £2 billion **Green Homes Grant** was announced.

Further information can be found in Ofgem's (the energy regulator) [Overview of previous schemes](#).

Previous ECO schemes

ECO began in 2013 and has evolved through two main iterations. Under **ECO1** (January 2013 to March 2015) and **ECO2** (April 2015 to March 2017) energy companies were required to meet:

- the Carbon Emissions Reduction Obligation (CERO), generally available regardless of a customer's income;
- the Carbon Saving Community Obligation (CSCO), targeted at areas with low incomes. CSCO also had a sub-obligation focused on rural areas (the CSCO rural sub-obligation);
- and the Home Heating Cost Reduction Obligation (HHCRO), targeted at low income or vulnerable customers.

ECO2 was extended until September 2018 in a scheme called **ECO2t** (also referred to as [ECO Help To Heat](#) - **HTH**) which no longer included CSCO.

Current policy

As of Autumn 2018 there is one main obligation for suppliers to achieve under ECO3, the HHCRO, also known as the Affordable Warmth Obligation. Under ECO3, obligated energy suppliers install energy efficiency measures in eligible households. The measures include replacing or upgrading broken or inefficient heating systems and installing insulation.

Former Energy Minister, Claire Perry, explained in 2019 that the concentration of the scheme on low-income customers was to address the value for money of the scheme:

Questions were asked about the value for money of installations that were being delivered, and those were appropriate questions to ask. Arguably, some measures were being done for homes that could easily afford to pay, and measures were being done that were the kind of low-hanging fruit, if you like. Since then, we have seen an adjustment of what we are going to spend this money on. In particular, you will know I have taken ECO and focused it on fuel poverty, rather than, as somebody said, buying LED lightbulbs for middle-class homes.¹

Further information on the help available is provided in the box at the end of this paper.

Current ECO (ECO3) targets

The overall target for obligated energy suppliers (see below) to meet under the current ECO3 scheme is £8.253 billion in cost savings (i.e. the expected reduction in bills for the households that receive installations over the lifetime of the installation). This target must be met over the duration of the ECO3 scheme (September 2018 – March 2022).² Each supplier has an overall target based on its share of the domestic energy market.

A rural sub-obligation requires suppliers to achieve at least 15% of their total HHCRO through installations for households in rural areas.

Who installs?

Under ECO, [energy suppliers are legally obligated](#) to participate if they supply more than a threshold number of domestic customers and a threshold amount of supply. The threshold is gradually being reduced. Suppliers under the threshold can also opt to take part in the scheme. A list of obligated suppliers is available from [Ofgem](#). Customers can contact any obligated energy supplier, not just their own supplier, to ask about ECO.

It is important to note that ECO is supplier led, meaning a household's eligibility for ECO does not necessarily mean that the supplier will choose to install energy efficiency measures in that home.

Who pays for it?

The costs of the ECO scheme are passed from the suppliers on to all bill payers through their electricity bills.

It is important to note the scheme may not cover the full cost of the installation so the eligible household may need to contribute (further details are available on [Ofgem's FAQs for domestic consumers and landlords](#)).

Who is eligible?

[Ofgem](#) sets out that customers may be eligible for ECO if they:

- are a core group customer under the [Warm Home Discount Scheme](#) **or**
- receive certain benefits or satisfy the relevant income requirements **and**
- own their home or have the permission of the landlord to use the scheme.

Customers living in social housing with a low energy efficiency rating might also be eligible for the scheme. Local authorities are also able to refer residents in their areas to obligated energy suppliers so that they can be offered support under the scheme.

¹ BEIS Committee, [Oral evidence: Energy Efficiency](#), April 2019, HC1730, Q387

² Ofgem guidance, [Energy Company Obligation ECO3](#), November 2019

Regulation of ECO installations

ECO installations are required by [legislation](#) to meet certain quality standards. Ofgem's [Guidance for ECO delivery](#) states that installations should be carried out by certified installers and in accordance with the Publicly Available Specification 2030 (PAS 2030), building regulations, and any other applicable regulations. PAS 2030 sets out requirements that all installers will follow to ensure that the installation of the energy efficiency measures under ECO is completed properly.

If there are problems with the standard of installations, [Ofgem guidance](#) sets out the list of steps to follow, including options for contacting the installer, guarantee agency, oversight body and energy company. There is no compensation from the Government or Ofgem for issues experienced through the ECO scheme.

To help consumer protection, the Government launched a new [TrustMark scheme](#) for ECO in 2019. This requires all installers to demonstrate their compliance with the relevant standards, as well as ensuring that sufficient consumer protection processes and guarantees are in place. Trustmark was one of the recommendations of the 2016 [Each Home Counts review](#), produced in response to concerns about consumer protection in relation to energy efficiency. The scheme was [welcomed by stakeholders](#).

Assessment of ECO

ECO has been the subject of several reviews³ and has received mixed responses. The scheme has met its targets for carbon and cost savings, and stakeholder reviews support its continuation with reforms. However, stakeholders have said ECO alone is insufficient for addressing the challenges of energy efficiency, and the Government has been criticised for reducing the ECO budget. The [BEIS Committee's 2019 report](#) said the general view of inquiry respondents was that "ECO has value but is not sufficient".

Installations

[Government data shows](#) almost 2.7 million measures have been delivered in over 2 million households since ECO began in 2013 as of the end of March 2020.

Of these measures, 65% were insulation, including cavity wall (34%), loft (22%), solid wall (7%) and 'other insulation' (2%). The remainder are mostly heating measures, with 23% boiler measures and a further 12% for 'other heating' measures.

By comparison CERT and CESP (2008/9-2012) delivered some 8.5 million insulation and heating measures.⁴ The Committee on Climate Change (CCC – the Government's independent advisors) commented in a February 2019 report on [UK Housing: fit for the future](#), that insulation installations had decreased significantly:

Current policy is failing to drive uptake of energy efficiency in existing homes – installation of loft and wall insulation is at just 5% of peak market delivery in 2012 despite significant remaining cost-effective potential.

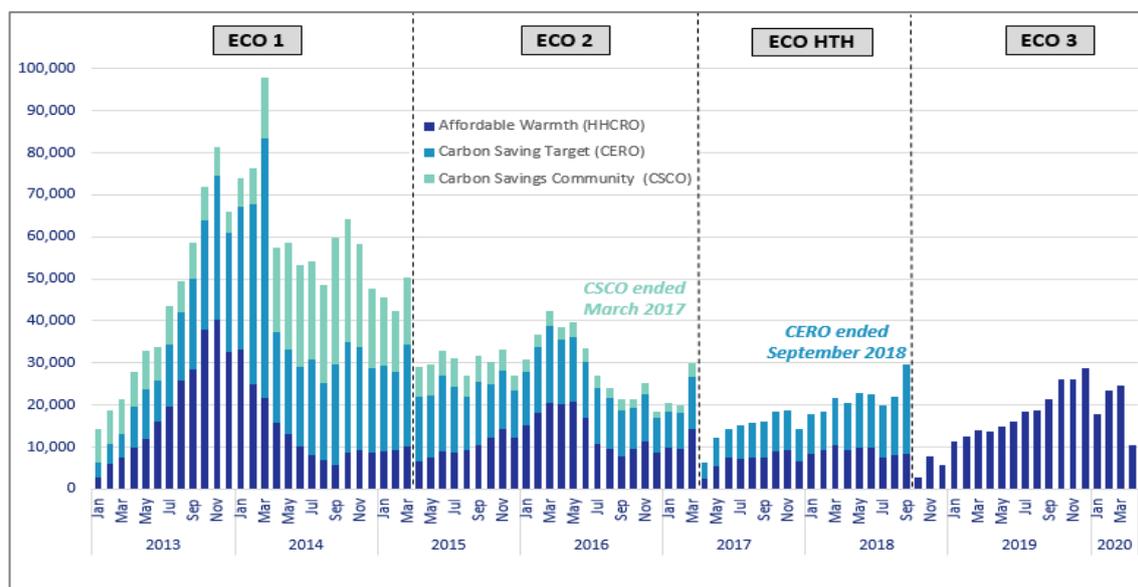
[Energy suppliers have reportedly said](#) that installations are more difficult, as the "low-hanging fruit" of easier installations had already been completed, leaving more difficult and costly installations remaining.

³ For example see reviews by the [NAO](#), [NIC](#), [CCC](#), [BEIS](#), and [Citizens Advice](#).

⁴ Energy and Climate Change Committee, [Home energy efficiency and demand reduction](#), 8 March 2016, HC552, 2015-16, Ofgem [HEE0036](#)

The chart below, from the Government's published monthly energy efficiency statistics shows a general decrease in installations under all ECO obligations since winter 2013/14.

ECO measures installed, by obligation, by month, up to end April 2020



Source: BEIS, [Household Energy Efficiency Statistics, headline release June 2020](#)

Carbon and cost savings targets

Both ECO1 and ECO2 exceeded their targets for lifetime carbon and cost savings. Under ECO1, estimated lifetime carbon savings under the two carbon savings elements (CERO and CSCO) were 28 million tonnes of CO₂; both were higher than the target. Lifetime costs savings under the cost reduction element were £5.2 billion or 23% above target.⁵

Under ECO2, estimated lifetime carbon savings under the two carbon savings elements were 27 million tonnes of CO₂; again both were higher than the target. Lifetime costs savings under the cost reduction element were £6.9 billion or 7% above target.⁶

Fuel poverty

The latest [Government figures](#) (2018 data) show that around 10% of English households are fuel poor (2.4 million households). The figures suggest that fuel poverty has seen marginal reductions in both the scale and severity since a 2009 peak.⁷

Energy efficiency is measured by Energy Performance Certificates (EPC - graded on a scale of A - most efficient- to G - least efficient). The Government has a [statutory target](#) of moving all fuel poor homes to EPC band C or above by 2030 as well as interim targets of EPC Band E 2020 and Band D by 2025.

ECO is the Government's policy for reducing fuel poverty through energy efficiency.⁸ The Committee on Fuel Poverty (CFP – a non-departmental body advising BEIS on fuel poverty) stated in its [2020 annual report](#) that without new funding and programmes, the Government's fuel poverty target and milestones will be missed. The Committee states that only 29% of ECO measures are projected to be installed in fuel poor homes, and argues the scheme should be refocused on the most fuel poor and least efficient homes.

⁵ [Energy Companies Obligation \(ECO1\) Final Report](#), Ofgem (September 2015)

⁶ [Energy Company Obligation \(ECO2\) Final Determination Report](#), Ofgem (April 2019)

⁷ More information is available in the Library briefing paper on [Fuel Poverty](#).

⁸ The Government also has fuel poverty schemes that give payments to those eligible but these are not linked to energy efficiency, as well as regulations on minimum efficiency standards in rented properties.

Budget

The ECO budget is what suppliers are expected to spend on installations to meet their targets. Suppliers can pass the costs on to consumer bills. For the duration of ECO3 (2018-2022), the projected annual supplier spend is £640 million. This spend is half the projected annual spend of £1.3 billion per year set out in the [original ECO 2011 impact assessment](#). The House of Commons [BEIS Committee reported evidence](#) that said this is also below the combined total of ECO's predecessor schemes (CERT, CESP and Warm front) which totalled £1.57 billion per year in 2010.

The [Government has said](#) that this reduction reflects "Government desire to minimise the costs of policies on consumers' energy bills and the regulatory burden on business". However, [stakeholders expressed concern](#) that ECO in its present form is not sufficient to alleviate fuel poverty and decarbonise buildings (though recent announcements in response on energy efficiency in relation to a "green recovery" from the coronavirus pandemic - see below - [were welcomed by stakeholders](#)).

Future of the scheme

The May Government's 2017 [Clean Growth Strategy](#) committed "to extend support for home energy efficiency out to 2028 at least at the current level of ECO funding".

In July 2019, the House of Commons [BEIS Committee published their report](#) on energy efficiency. On ECO, the report concluded that additional schemes were needed. The report also built on a report by the National Infrastructure Commission, and views of stakeholders such as the CCC, to conclude that the Government should "treat the energy efficiency of all buildings across the UK as a national infrastructure priority".

A new Fuel Poverty Strategy is expected in 2020, and the Government released a [consultation](#) on proposals in July 2019. The [Government has said](#) it is considering the policy mix required to meet the fuel poverty target, including "the appropriate mix of financial support, regulations and incentives and considering the design of the successor scheme to ECO"(to start in 2022 when ECO3 is scheduled to end).

The [Conservative Party's 2019 Manifesto](#) also pledged to invest £9.2bn on improving energy efficiency in domestic and public buildings; including £3.8bn on a Social Housing Decarbonisation Fund and £2.5bn on a new Home Upgrade Grant Scheme in fuel poor homes. While the policy was not mentioned in the Budget 2020, the Government is investing in energy efficiency through funding for [innovation in new technologies](#).

In addition, in July 2020, as part of the [Government's "green recovery"](#) from the coronavirus pandemic, a £2 billion Green Homes Grant was announced. Available from September 2020, the grant covers two thirds of the cost of energy efficient works up to a value of £5000 in all households or £10,000 in low income households. Further support for energy efficiency in public sector buildings and social housing was also announced.

Further help: where can constituents find further information

The Library help hub article on [Help with heating and energy efficiency](#) and the Library briefing paper on [Help with Energy Bills](#) summarises the Government's support for energy efficiency and other energy bill support.

The Government's general on-line information portal has a summary of [heating and housing benefits](#). GOV.UK also has an [energy grants calculator](#) page which collates eligibility for all schemes.

The Energy Savings Trust [website](#) has many informative pages on energy bills and efficiency schemes. [Citizens Advice, a charity offering free and impartial advice](#), also deals with advice on energy.

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