

Key Reasons to Retain the Energy Company Obligation

Briefing for Senior Cabinet Ministers

1. Since ECO started in 2013, Government schemes have led to around 3.4 million energy efficiency measures being installed in 2.4 million homesⁱ; 97% of these came from ECOⁱⁱ. While that demonstrates the success of ECO, there are still 3.2 million homes in fuel poverty in England aloneⁱⁱⁱ. The forthcoming energy price rises will result in many more becoming fuel poor. Given its pivotal role in achieving the statutory fuel poverty target, **reducing or suspending ECO would have a significant negative impact on fuel poverty**
2. **ECO measures result in a permanent protection for those households against further pricing shocks** because they improve the thermal performance of homes. This reduces the energy consumed by those households to stay warm.
3. The contribution of ECO4 to carbon emission reductions is estimated to be 12.1 MtCO₂e over the lifetime of the preferred option^{iv}, benefitting the progress to net zero. The social and environmental programmes whose costs fall on energy bills – sometimes referred to as “green levies” - make up a significant proportion of a household’s energy costs and as such there may be an opportunity to change the way they are funded to alleviate pressure on bills. **However, of these levies, ECO is only a relatively small component, currently equivalent to around £27^v (2%) on a typical annual dual fuel bill of £1184^{vi}**
4. There is an established and well-ordered supply chain for providing home improvements to reduce vulnerable customers’ energy bills. For context, the energy efficient products sector in the UK supported 114,400 jobs in 2018, and a £16.7 billion turnover^{vii}. Many of the companies involved are SMEs whose business model has a high dependency on the functionality of ECO. Little work occurs beyond the Obligation. **Therefore, any suggestion ECO might be in jeopardy would cause shocks in that supply chain and severe cash flow problems for hundreds of SMEs that rely on the forward-booking of work that stems from the scheme.**
5. **Suspending ECO would create the risk of a legal challenge.** Our recent report^{viii} highlighted that, even before the price rises, 1.3 million households would be set to remain in fuel poverty in 2030 given current committed spend, enforcement of PRS regulation and extension of existing policies. It will become increasingly apparent to informed observers that the Government is not on track to meet its target and increasingly possible for them to evidence this. Continuation and expansion of ECO is key to meeting the legally binding target to all but end fuel poverty by 2030.
6. ECO is not an identifiable, ring-fencible “green levy” in the way that, for example, the Renewables Obligation (RO) and Feed-In Tariffs (FITs) could be considered to be. Energy companies largely perform a financial “clearing house” role for schemes such as these whereas this is not the case for ECO, where energy companies are a fundamental part of the delivery process because they are required to ensure measures are installed rather than pay a pre-determined tariff. Instead, **it seems that in the short-term the more easily ring-fenced levies such as the RO and FITs would be better candidates to transfer from bills into general taxation.**

7. ECO could not easily or quickly be transferred to general taxation (for example into a grant-based delivery scheme) because the involvement of the energy suppliers has been key to its success so far. There are already exchequer-funded grants available and various local authority schemes where the involvement of an energy supplier has been an essential element. **Were ECO to stop, these links, upon which much of the current supply chain is built, would be lost.**

ⁱhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1035285/HEE_Stats_Release_25_November_2021.pdf

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ⁱⁱⁱhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966509/Annual_Fuel_Poverty_Statistics_LILEE_Report_2021_2019_data_.pdf

^{iv}https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1003740/eco4-consultation-stage-impact-assessment.pdf

^vhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/696443/ECO_3_Consultation_Stage_IA.pdf

^{vi} <https://www.ofgem.gov.uk/publications/infographic-bills-prices-and-profits>

^{vii} <https://www.ons.gov.uk/economy/environmentalaccounts/bulletins/finalestimates/2018#sectors>

^{viii} <https://agilityeco.co.uk/news/funding-meet-fuel-poverty-target-falls-%C2%A318bn-short>