

**EXPLANATORY MEMORANDUM TO**  
**THE ELECTRICITY AND GAS (ENERGY COMPANY OBLIGATION) ORDER**  
**2022**

**2022 No. 875**

**1. Introduction**

- 1.1 This explanatory memorandum has been prepared by the Department for Business, Energy and Industrial Strategy and is laid before Parliament by Command of Her Majesty.
- 1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

**2. Purpose of the instrument**

- 2.1 The instrument will place a home-heating cost reduction obligation on licensed gas and electricity suppliers that exceed domestic customer and gas or electricity supply thresholds. The instrument will require obligated energy suppliers to promote the installation of energy efficiency and heating measures in Great Britain for reducing the cost to low income and vulnerable households of heating their homes. A supplier must achieve its obligation by 31st March 2026.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Joint Committee on Statutory Instruments*

- 3.1 The instrument will come into force on the day after the day it is made. The previous home-heating cost reduction obligation (established by the Electricity and Gas (Energy Company Obligation) Order 2018) ended on 31 March 2022 leaving a gap until this instrument comes into force. Some energy suppliers are entering into contracts for delivery of measures to meet their expected obligations under the instrument, however, many will not do so at scale without the certainty that is provided by the instrument coming into force. The Department considers it necessary to bring the instrument into force on the day after it is made to facilitate the delivery of measures to low income and vulnerable households as soon as possible.
- 3.2 The instrument does impose a substantial new obligation on energy suppliers to promote sufficient measures to meet their home-heating cost reduction obligation. However, energy suppliers will have until 31 March 2026 in which to meet this obligation. Nothing in the instrument requires energy suppliers to do anything in less than 21 days of it coming into force. The first compliance deadline is the notification obligation under article 5, which requires suppliers to notify the Gas and Electricity Markets Authority (the “Administrator”) of their customer numbers and amount of electricity or gas supplied, and for this notification to be made on or before the 21st day after the commencement date. The benefit of the instrument coming into force as soon as possible, is that suppliers can start delivering and notifying measures under the scheme earlier than would otherwise be the case, if they wish to do so, and will be informed of the size of their obligations earlier.

#### **4. Extent and Territorial Application**

4.1 The territorial extent of this instrument is England and Wales and Scotland.

4.2 The territorial application of this instrument is Great Britain.

#### **5. European Convention on Human Rights**

5.1 The Minister for Business, Energy and Corporate Responsibility, Lord Callanan, has made the following statement regarding Human Rights:

“In my view the provisions of the Electricity and Gas (Energy Company Obligation) Order 2022 are compatible with the Convention rights”.

#### **6. Legislative Context**

6.1 The instrument is made primarily in exercise of the powers conferred by sections 33BD of the Gas Act 1986, section 41B of the Electricity Act 1989 and section 103A of the Utilities Act 2000.

6.2 The Electricity and Gas (Energy Company Obligation) Order 2018 set an overall home-heating cost reduction target for the period to 31 March 2022 (the “ECO3” scheme). This instrument sets an overall home-heating cost reduction target for the period to 31 March 2026 (the “ECO4” scheme).

6.3 Many of the powers to make the scheme in relation to Scotland have been transferred to the Scottish Ministers by sections 59 and 60 of the Scotland Act 2016. These powers are exercisable by the Secretary of State with the agreement of the Scottish Ministers.

#### **7. Policy background**

##### *What is being done and why?*

7.1 The principle objectives of the instrument are to: (i) help alleviate fuel poverty and accelerate progress to meet fuel poverty targets; (ii) contribute to carbon reduction targets in the domestic sector, (iii) reduce the costs of meeting the UK’s renewable energy target through promoting more efficient energy use, and (iv) encourage innovation in the industry.

7.2 Market failures and barriers are known to reduce the take up of cost-effective energy efficiency measures. As a result, without Government intervention, residential fuel poverty will not fall to the extent that is possible, with a corresponding reduction of impact on the objectives described above. The instrument continues a policy which has been in place since January 2013. The scheme is designed to address the market failures and barriers which are preventing a greater demand for and delivery of cost-effective energy efficiency measures. The instrument will help alleviate fuel poverty by improving the least energy efficient housing stock occupied by low income and vulnerable households.

7.3 Between January 2013, when the first ECO scheme began, and March 2022, the most recent date for which data is available, around 3.5 million energy efficiency and heating measures have been installed in approximately 2.4 million homes through the ECO schemes. This has helped reduce people’s energy bills, make homes more energy efficient, reduce carbon emissions and make our energy system more resilient.

- 7.4 The 2021 Sustainable Warmth Strategy<sup>1</sup> announced plans for the expansion of ECO to run from 2022 to 2026 with an increase in value from £640m to £1bn per year, in 2021 prices. The ECO3 scheme came to an end on 31 March 2022. The principal effect of the instrument is to introduce a new home-heating cost reduction obligation for the period up to 31 March 2026 (the “ECO4” scheme). This obligation is expressed in terms of outcomes not expenditure. The obligation is a notional annual bill savings target of £224.3m to be achieved by 31 March 2026. This is a change from the ECO3 target which was based on lifetime bill savings. The change is necessary as it will mean that a supplier’s final score for each property would be based on the final package of measures installed rather than on a per-measure basis and is therefore better aligned with a whole-house retrofit approach, under ECO4. It will facilitate the upgrade of more homes. Longer lifetime measures will still be strongly incentivised through the scheme through the introduction of various minimum requirements, including a minimum insulation requirement (see paragraph 7.12). In addition, the instrument introduces a number of other policy changes compared with the ECO3 scheme.
- 7.5 The focus of the scheme remains a home-heating cost reduction obligation aimed at low income and vulnerable households, which is intended to continue to target households in or at risk of fuel poverty and least able to afford energy efficiency measures without financial support. Disability benefits have been removed from the benefits eligibility criteria because these are not means tested, to ensure the scheme is focussed on the lowest income households. Households in receipt of both disability benefits and means tested benefits will continue to be eligible.
- 7.6 The instrument has two sub-obligations. The instrument introduces an EFG Minimum Requirement, which is expected to equate to a requirement across suppliers to upgrade a minimum of 150,000 band E, F and G private tenure homes. This is intended to ensure that greater progress is made in meeting fuel poverty targets and the least energy efficient homes are not left behind. The instrument also retains a Solid Wall Minimum Requirement (SWMR). The SWMR is a requirement across all obligated suppliers to install a minimum number of homes with solid wall insulation. This will help to provide certainty for that sector of the industry. The SWMR is set at an equivalent of 90,000 homes. The option to deliver other measures as an alternative to solid wall insulation to meet the SWMR has been removed.
- 7.7 Supplier obligation thresholds remain at current levels, 150,000 customer accounts and supply volume levels of 700 gigawatt hours of gas and 300 gigawatt hours of electricity. However, the instrument reduces the supplier allowance by 50% so that the obligation will be calculated per unit of supply in excess of 350 gigawatt hours of gas and 150 gigawatt hours of electricity. This will enable the obligation to be distributed further amongst existing suppliers, whilst continuing to protect smaller suppliers from having to participate in ECO and incurring disproportionate costs.
- 7.8 The instrument enables measures delivered to ECO3 rules in the period from 1 April 2022 to the end of June 2022 to count towards the ECO4 obligations, with some exceptions. This is referred to as ECO3 interim delivery actions and is intended to support the supply chain during the gap between ECO3 and ECO4 schemes. The instrument also enables measures delivered to ECO4 rules from 1st April 2022 and

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<sup>1</sup> <https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england>

before the instrument has come into force, to count towards the ECO4 obligations. But measures cannot be notified to the Administrator until the instrument has come into force. To align with ECO4 policy objectives, certain measures are excluded from these arrangements for early delivery.

- 7.9 The proportion of the scheme that suppliers can deliver under the Flexible Eligibility element (articles 17 to 21 of the instrument) will increase to 50% of a supplier's obligation. Multiple household targeting routes have been introduced to capture low-income households, who may not be in receipt of benefits. Local authorities, the Scottish and Welsh Governments and energy suppliers will be able to refer households, subject to the rules in articles 17 to 21 of the instrument. Energy suppliers will be able to utilise their own data to identify households in fuel debt and local authorities will be able to draw on their own unique data to identify low-income households living in the least energy efficient homes. The routes are as follows:
- Route one (article 17 of the instrument) under which local authorities and the Scottish and Welsh Government may refer households living in a band D-G premises and that have a combined gross income below £31k.
  - Route two (article 18 of the instrument) under which local authorities and the Scottish and Welsh Government may refer households living in a band E-G premises using a combination of two proxies, which used together we consider would improve targeting of low-income households. These proxies are specified in article 18(2) of the instrument. Obligated suppliers can also refer households under Route Two (under article 20) by issuing a declaration that certifies that the household meets certain criteria relating to debt, receipt of discretionary credit or self-disconnection. The household must also meet at least one other proxy listed in article 18(2)(a) to (d).
  - Route three (article 19 of the instrument) under which local authorities and the Scottish and Welsh Government may refer households living in band D-G premises, and where patients are referred by a relevant health provider, who have been diagnosed with one of the following four umbrella conditions: Respiratory, Cardiovascular, Immunosuppressed or Limited Mobility.
  - Route four (article 21 of the instrument) allows energy suppliers or local authorities to submit applications to the Secretary of State, where they are able to demonstrate that they have identified new ways of finding households in fuel poverty. Projects approved under this route will get an uplift of 10% on their ECO4 score.
- 7.10 ECO4 has been modelled on a zero-contribution basis, meaning that measures are anticipated to be fully funded by the energy supplier. To avoid duplication of subsidy for the same measure, sources of government grant funding (such as the Home Upgrade Grant and Social Housing Decarbonisation Fund) cannot be blended with ECO4 for the same measure. Only measures promoted by the energy suppliers will count towards meeting the obligation. This provision is necessary to prevent duplication of funding given the introduction of grant schemes.
- 7.11 ECO4 will continue to extend support to owner-occupied premises, private rented premises and social housing. For properties in the private rented sector, the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 prescribe, subject to exceptions, a minimum level of energy efficiency for these properties, and these regulations are to be updated in due course. To keep pace with these updates and in keeping with the wider objectives of ECO4, certain measures can

be installed in private rented properties with a band E, F or G that are occupied by an eligible tenant. Tenants living in band E, F or G social housing will also be eligible for support for certain measures; those in band D social housing properties will be eligible for Innovation Measures only. The restriction on measures ensures that both private and social landlords cannot use ECO to meet their statutory requirements. The same restrictions will apply in Scotland.

- 7.12 Minimum insulation requirements have been introduced for homes receiving a heating measure, subject to certain exemptions, building on the ECO3 option to install certain insulation measures prior to upgrading inefficient heating systems and installing first time central heating. Encouraging the insulation of homes is consistent with the need to focus on measures that are most cost effective in tackling fuel poverty.
- 7.13 To phase out high-carbon fossil fuels the installation of new and replacement heating systems fuelled by oil, liquefied petroleum gas and biofuel will not be allowed. The installation of biomass heating systems fuelled by woodfuel will be restricted to homes in rural areas. Only homes connected to mains-gas on 31 March 2022 may be eligible for a mains-gas heating system, to prevent an expansion of the mains-gas grid network. Coal fuelled heating systems will continue to not be allowed.
- 7.14 Homes connected to mains-gas on 31 March 2022 (on-gas homes) may continue to be eligible for a renewable heating system, including a mains-gas fuelled hybrid, or a district heating connection. Mains-gas fuelled central heating systems, boilers, electric storage heaters and electric heating systems may continue to be allowed. Hydraulic balancing will be required where a new boiler is installed as part of a wet central heating system to ensure it runs efficiently.
- 7.15 Homes not connected to mains-gas (off-gas homes) may be eligible for a hydronic heat pump or wet central heating system fuelled wholly by a hydronic heat pump or a district heating connection fuelled by a hydronic heat pump. Where it is not possible to install one of these measures, the premises may be eligible for a district heating connection fuelled by something other than a hydronic heat pump or a biomass heating system fuelled by woodfuel in rural areas.
- 7.16 All replacement electric heating systems and electric storage heaters will be restricted to homes that are already electrically heated. Replacements must have a SAP<sup>2</sup> responsiveness rating equal to or greater than 0.8 to ensure the most efficient electric heating available is installed. Where a home meets this level of efficient electric heating or has a hydronic heat pump, solar PV may also be installed.
- 7.17 All inefficient heating systems will not be eligible for repair (with an exception for heating systems fuelled by renewables, oil, LPG and biofuel which may be repaired as a last resort in off-gas homes) but may be upgraded whether they are broken or not. However, broken efficient boilers and efficient electric storage heaters will also be limited to an allowance of 5,000 repairs and 5,000 replacements per year shared across all suppliers in accordance with their share of the home-heating cost reduction obligation (“heating repair allowance” and “heating replacement allowance”).
- 7.18 Homes that have never had a wet central heating system or where a home is heated by electric storage heaters which are either all inefficient or broken and cannot be

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<sup>2</sup> SAP refers to the Government’s Standard Assessment Procedure for Energy Rating of Dwellings (2012 Edition, version 9.92). this is available at [www.bregroup.com/sap/standard-assessment-procedure-sap-2012/](http://www.bregroup.com/sap/standard-assessment-procedure-sap-2012/).

economically repaired may be eligible for a first-time central heating system. This change has been made to enable premises with inefficient non-wet central heating systems to be eligible for support, such as gas warm air central heating systems.

- 7.19 Advice on the benefits of using a smart meter must be given to households before measures are installed to complement the energy efficiency advice requirements of PAS 2035 which were introduced through ECO3.
- 7.20 Support for innovative products through the scheme will continue to encourage the industry to deliver cost-effective technologies and more energy efficient products that can improve the energy efficiency of the GB housing stock. Up to 10% of a supplier's obligation can be met through innovation measures receiving an innovation measure uplift (see paragraph 7.24 for uplift reforms). Where there was previously a requirement for measures to be materially different from measures delivered under previous schemes, there is now a requirement for applications to provide a reasonable explanation of how the measure is an improvement on comparable measures to be recognised as a standard innovation measure. Ofgem may also recognise a measure as a substantial innovation measure if it considers that it is a substantial improvement on comparable measures, having regard to the criteria in article 34(5) of the Order. Innovation measures remain voluntary.
- 7.21 A new scoring framework has been developed for ECO4 to incentivise multi-measure installations in households. The scheme will change its focus to improve the least energy efficient housing stock, with a minimum requirement for energy efficiency improvement. This requires suppliers to upgrade the domestic premises to a minimum SAP band in order to receive a full project score, unless an exemption applies. Suppliers will be required to improve the SAP energy rating of band D and E homes to at least a SAP band C, and SAP band F and G homes to at least an SAP band D. As a result, ECO4 will likely see the delivery of multiple measures per home.
- 7.22 To incentivise a multi-measure approach, full project scores will be based on the difference in average annual bill expenditure (e.g. the "costs savings" of the project) between the starting and finishing SAP band of a property, with regard given to the property's floor area, following the installation of the required measures.
- 7.23 Where the minimum requirement for energy efficiency improvement is not met and the project does not attract an exemption from the requirement, suppliers will be awarded partial project scores. Most partial project scores are deflated by 20% to maintain an incentive on industry to meet the minimum requirement. No more than 12.5% of a supplier's total home-heating cost reduction obligation can be met by partial project scores. To evidence these scores, a pre-retrofit Reduced Data SAP (RdSAP) or SAP assessment is needed. This is also used to calculate the partial project score.
- 7.24 A series of score uplifts will be introduced to make some ECO4 qualifying actions more attractive to suppliers. These encourage desirable behaviour that supports the Government's fuel poverty objectives and other policy aims, for example encouraging innovation. Uplifts include:
- Rural, off-gas uplift (Scotland and Wales only): There are higher levels of rurality in Scotland and Wales compared to England. Therefore, to better target delivery to these areas, the off-gas uplift will only apply in rural areas in Scotland and Wales. The Home Upgrade Grants (a separate energy efficiency

scheme specifically targeting off-gas households) is already available in England only. The rural, off-gas uplift rate is 35%.

- Broken efficient electric storage heaters and heating system repair and replacement uplifts: Repair and replacement of like-for-like measures does not increase SAP rating, therefore, without an uplift, these measures would likely not be delivered. We apply an uplift rate of £40 and £140 annual bill savings for broken efficient electric storage heater repair and replacements and broken efficient heating system repair and replacements, respectively.
- Innovation measure uplift: To encourage delivery of measures that provide additional benefits due to their innovative nature, two innovation measure uplifts are available: 25% for a standard innovation measures and 45% for substantial innovation measures. An additional 5% uplift will be provided for the installation of innovation measures by the sponsoring supplier of the innovation measure application.
- ECO4 Flex route 4 uplift: This uplift encourages local authorities and energy suppliers to develop new methods of identifying and supporting fuel poor households by delivering measures under Route 4 of the Flexibility Eligibility Element (see para 7.9). The project will receive an uplift when installed in a household that has been found to be fuel poor and eligible for ECO4 measures via Route 4. A 10% uplift will be applied to the ECO4 project score.
- Building fabric repair uplift: Where properties contain building fabric issues, e.g., cracks, structural defects, damp or mould, suppliers will be allowed to count part of the cost of rectifying these issues. This will reduce the risk that these issues are allowed to worsen in affected properties. It will also make more eligible properties commercially accessible under ECO4. Failed cavity wall insulation and faulty loft insulation, evidenced by a chartered surveyor's report, can be extracted and replaced under ECO4, with the extraction cost counted under this uplift. No more than 0.5% of each supplier's obligation can come from the building fabric repair uplift.

- 7.25 The instrument will also allow measures where a scoring methodology cannot to be determined using SAP/RdSAP to be recognised as a standard alternative methodology measure by the Administrator and have an equivalent scoring methodology recognised that is compatible with the wider scoring methodology of the scheme. District heating connections can also be given an alternative scoring methodology where SAP/RdSAP would not provide an appropriate methodology for the measure. Additionally, a measure can be recognised as a data light measure, which will enable scores to be produced for measures where data evidencing the costs savings of the measure is below the threshold to be included in SAP but could still be considered robust enough to form the basis of a score under ECO4. Data light measures falling within the same measure description will be limited to a maximum of 5,000 for each measure description. This allowance is shared across all participants in accordance with their share of the home-heating cost reduction obligation.
- 7.26 Measures will be incentivised to be completed on time. Where a measure is not completed within the time limit, a late completion penalty will be applied to the full project score. The late completion penalty will correspond to 20% of the value of the late measure's partial project score.
- 7.27 Most ECO4 measures must be installed by, or under the responsibility of, a person who is registered with TrustMark (or an equivalent quality assurance and consumer

protection scheme). TrustMark includes requirements for the lodgement of information about measures that are installed on its Data Warehouse, compliance with the installation standards of PAS 2035 and PAS 2030, and requirements relating to warranties and guarantees. Less than 0.5% of ECO4 retrofits are expected to be out of scope of Trustmark. Measures in these projects must meet standards and requirements (e.g. guarantees) equivalent to that required by Trustmark.

- 7.28 Suppliers will continue to be able to transfer measures as an option to ease delivery. All measures forming part of a single ECO4 project must be transferred together. The instrument requires the Administrator to reject applications for the transfer of measures where it considers there is significant risk that the transferring supplier would be unable to achieve its obligation.
- 7.29 There is a high level of interest in the scheme from energy suppliers who deliver the scheme, fuel poverty groups and installers, and some interest in the scheme from the public.

## **8. European Union Withdrawal and Future Relationship**

- 8.1 This instrument does not relate to withdrawal from the European Union / trigger the statement requirements under the European Union (Withdrawal) Act.

## **9. Consolidation**

- 9.1 Not applicable.

## **10. Consultation outcome**

- 10.1 On 20 July 2021 the Department published a consultation on proposals for the ECO4 scheme, which closed on 3 September 2021. During the public consultation period, the Department conducted three virtual interactive stakeholder events to present the consultation proposals and gather initial feedback from attendees. A six-week consultation period was considered appropriate despite there being significant changes to the scheme design as regular engagement with stakeholders was conducted ahead of the public consultation period. In light of requests for additional time the original consultation period of 6 weeks was later extended by three working days. The Department received 144 responses to the consultation, including from energy suppliers, installers, manufacturers, managing agents, trade associations, accreditation providers/oversight bodies, consumer groups and local authorities.
- 10.2 The majority of consultees broadly supported the proposals and the final policy decisions reflect this. A majority agreed that the scheme should continue to be a GB-wide home-heating cost reduction scheme and focus on upgrading band D-G homes of low income and vulnerable households (those in receipt of means tested benefits or referred through the reformed ECO4 Flex route, of which will now be able to make up 50% of the obligation) with a new target for a minimum number of band E-G private tenure homes upgraded. This will help to meet our fuel poverty commitments, with greater investment targeted to the least energy efficient homes.
- 10.3 As such the outcome of the consultation is to implement the consultation proposals, but with some changes. In particular:
- Introducing the option for suppliers to deliver measures between 1 April 2022 and 30 June 2022 to ECO3 rules, subject to certain measure exclusions and new deadline for notifying those measures;



- Using the ECO3 Impact Assessment<sup>3</sup> to calculate the ECO3 average cost per £ of lifetime bill savings to set the scores for carry-over of measures from ECO3, ECO3 interim delivery actions and the building fabric repair uplift;
- Increasing the minimum equivalent from 100,000 to 150,000 private tenure band E, F and G homes to be upgraded;
- Slightly increasing the solid wall minimum requirement to the equivalent of 90,000 solid wall homes;
- Removing the requirement for measures to be installed in the order of a Mid-Term Improvement Plan;
- Requiring off-gas properties in Scotland and Wales to also be in rural areas to benefit from the uplift;
- Increasing the sponsoring supplier uplift to 5% for innovation measures;
- Limiting exemptions to the minimum requirement for energy efficiency improvement to band E-G premises only;
- Setting the exemption cap at 7,500 exemptions for the whole scheme, with each obligated supplier's share of this equivalent to their share of the overall obligation;
- Including a higher uplift rate of £1,251 in the hard-to-treat uplift (now renamed 'building fabric repair uplift');
- Allowing the repair of oil, LPG and biofuel heating systems where measures in the off-gas homes are not possible to install;
- Leaving requirements on boilers to meet Boiler Plus standards and central heating systems to be a low temperature heating system to be introduced and enforced through Building Regulations rather than specifically through ECO4;
- Deciding against including mortgage lenders in the referral mechanism under route two of ECO4 Flex;
- Introducing the Pay-for-Performance mechanism later in ECO4, rather than at the start, allowing us to develop a more accurate mechanism. Pay-for-Performance is an approach where the actual rather than assumed improvement in energy efficiency would be used as the basis for the ECO score.

10.4 A fuller description of the changes and a summary of the responses to these and other areas are included in the Government's consultation response which is available from <https://www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco4-2022-2026>.

10.5 As part of the consultation process the Department discussed its proposals with the devolved administrations in Scotland and Wales and subsequently received their formal responses.

## **11. Guidance**

11.1 After this instrument is laid, non-statutory guidance for obligated suppliers will be published, by the Office of Gas and Electricity Markets Authority ("the Administrator"), on its website.

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<sup>3</sup> <https://www.gov.uk/government/consultations/energy-company-obligation-eco3-improving-consumer-protection>

## **12. Impact**

- 12.1 The impact on business, charities or voluntary bodies is mainly that obligated energy suppliers will incur costs in meeting their obligations. They are expected to recoup their costs by passing them onto their domestic customers through their energy bills, although the energy bills of those households which receive energy efficiency measures will, as a result, be reduced for the long-term. The costs to obligated suppliers are estimated to be around £1bn per year on average over the scheme to 2026 (the period covered by the instrument), using 2021 prices, but the actual costs incurred by suppliers in meeting their obligations will depend on a range of factors, including: the cost of finding eligible households willing to install energy efficiency measures; the cost of installing energy efficiency measures into these homes; and in some circumstances the level of co-funding suppliers can secure from third-parties.
- 12.2 There is no, or no significant, impact on the public sector. The Administrator will continue to be responsible for the administration of ECO4, as it is for ECO3.
- 12.3 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the [legislation.gov.uk](https://www.legislation.gov.uk) website. The final stage Impact Assessment estimated that ECO4 would have a positive value to society of £810m (NPV, in 2021 prices), with around 800,000 measures estimated to be installed to around 450,000 households from April 2022 until the end of the scheme in March 2026.

## **13. Regulating small business**

- 13.1 Analysis of currently available data suggests that the instrument will not apply to activities that are undertaken by small businesses. The customer number and energy supply thresholds mean that small businesses (those with fewer than 50 full time employees) are likely to be exempt from obligations under this instrument.
- 13.2 To minimise the impact of the requirements on small businesses, the instrument includes a supplier allowance which, for all suppliers, exempts electricity and gas supply up to the threshold amount from the calculation of each supplier's share of the overall home-heating cost reduction obligation. The supplier allowance for calculating obligations is reduced to half of the energy supply thresholds. This will impact smaller obligated suppliers who will see an increase in share of obligation as more of their supply volumes will be used to calculate obligation share and hence increased delivery costs. This may also however create opportunities for economies of scale in delivery. Smaller suppliers will also continue to be able to trade their obligations. For existing obligated suppliers, the set up process for delivering ECO is likely to already exist, so reducing the supplier allowance should only impact delivery costs.
- 13.3 The Department consulted on introducing a buy-out mechanism under ECO4, obligating all suppliers, with exemptions for the very smallest suppliers, to create an equitable burden on all suppliers. However, given the dependency on primary legislation and recent volume of small supplier exits, the imminent need to extend the obligations to very small suppliers is less critical. We are not currently reducing the supplier obligation thresholds under ECO4, which will protect the smallest suppliers from set up and delivery costs as a new obligated supplier to deliver ECO4.

#### **14. Monitoring & review**

- 14.1 The approach to monitoring of this instrument is through a requirement on the Administrator to submit monthly progress reports to the Secretary of State on suppliers' performance against the overall target. The Department also has regular engagement with the Administrator, obligated suppliers, supply chain, local authorities and others to understand progress on delivery and any delivery issues.
- 14.2 The instrument does not include a statutory review clause by virtue of section 28(3)(d) of the Small Business, Enterprise and Employment Act 2015, because the deadline for the Administrator to determine whether suppliers have met their obligation under the instrument is 30th September 2026.

#### **15. Contact**

- 15.1 Andrej Miller at the Department for Business, Energy and Industrial Strategy. Telephone: 0300 068 6155 or email: [beisecoteam@beis.gov.uk](mailto:beisecoteam@beis.gov.uk) can be contacted with any queries regarding this instrument.
- 15.2 Olivia Haslam, Deputy Director for the Warm Homes and Fuel Poverty Team, at the Department for Business, Energy and Industrial Strategy can confirm that this Explanatory Memorandum meets the required standard.
- 15.3 The Minister of State for Energy, Clean Growth and Climate Change at the Department for Business, Energy and Industrial Strategy can confirm that this Explanatory Memorandum meets the required standard.