EXPLANATORY MEMORANDUM TO

THE ELECTRICITY AND GAS (ENERGY COMPANY OBLIGATION) (AMENDMENT) ORDER 2025

2025 No. XXXX

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.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Miatta Fahnbulleh, Parliamentary Undersecretary of State at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Nick French, Deputy Director for the Energy Company Obligations at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Saibh Finlayson at the Department for Energy Security and Net Zero Telephone: 07825852050 or email: saibh.finlayson@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 existing legislation do?

4.1 This instrument amends two pieces of existing legislation. First, it amends the Electricity and Gas (Energy Company Obligation) Order 2022 (the "2022 Order"), which imposes a home-heating cost reduction obligation on licensed gas and electricity suppliers that exceed domestic customer and gas or electricity supply thresholds (known as the "ECO4 scheme" or "ECO4"). A supplier must achieve its obligation under the ECO4 scheme by 31 March 2026.

4.2 Second, it amends the Electricity and Gas (Energy Company Obligation) Order 2023 (the "2023 Order"), which imposes a further home-heating cost reduction obligation on suppliers (known as "the Great British Insulation Scheme" or "GBIS"). A supplier must achieve its obligation under the GBIS scheme by 31 March 2026.

Where does the legislation extend to, and apply?

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

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is Great Britain.

5. Policy Context

What is being done and why?

5.1 This instrument makes amendments to the 2022 Order and the 2023 Order to provide more ways in which an obligated participant or "supplier" may comply with their obligation under GBIS and to make a number of administrative changes to both ECO4 and GBIS.

Articles 1-6 of the instrument

5.2 Article 4 changes the definition of "rural area" in the 2022 Order and 2023 Order to reflect the Office for National Statistics (ONS) and Scottish Government updated datasets. This will align the definition with the latest industry data and standards, which could permit more accurate targeting for the uplift available for properties in rural areas.

5.3 Article 5 sets out expressly the existing implication of the requirement that installers be registered with TrustMark: that Ofgem is to reject measures which have been referred to them as non-compliant by TrustMark.

5.4 Article 6 amends the 2022 and 2023 Orders to require an invitation to be given to consumers to enter into a voluntary pledge to seek a smart meter installation from their energy supplier(s) prior to the installation of any measure(s). The pledge will be non-binding and will act as a timely prompt to action, leveraging the retrofit process as a moment in which a customer may be more receptive to having a smart meter installed, and providing consumers with information on how to contact their supplier to arrange an installation.

Article 7 of the instrument

5.5 Article 7 creates a process in the 2023 Order by which suppliers can reassign annual bill savings ("ABS") achieved under ECO4 towards their GBIS target.

5.6 It is clear that GBIS delivery will not increase sufficiently over the remainder of the scheme to enable obligated suppliers to come close to meeting their GBIS targets. However, government does not want to see consumer bills increase to fund the full delivery of the GBIS target. Allowing ECO4 delivery to make up the shortfall in GBIS delivery is the most pragmatic approach to enable obligated suppliers to meet their GBIS targets while maximising ABS achieved, and the number of homes treated, within the original GBIS cost envelope. In addition, the government's fuel poverty target is to ensure that as many fuel-poor homes as reasonably practicable achieve a minimum energy efficiency rating of Band C by 2030. More progress towards meeting the final GBIS ABS target is needed to achieve that. Allowing ABS achieved under the ECO4 scheme to be reassigned to the GBIS scheme maintains continuity in the ECO4 supply chain. It also reflects better value for bill payers as ECO4 is cheaper for obligated suppliers to contract.

5.7 ABS achieved via ECO4 rules and nominated by a supplier will be eligible for reassignment towards a supplier's GBIS target. Any form of ABS achieved under ECO4 rules will be eligible for reassignment. Reassigning ABS is the simplest approach for obligated suppliers and Ofgem to administer, as opposed to nominating individual ECO4 measures or projects for reassignment. The instrument does not add to any sub-obligation targets within ECO4.

5.8 Due to reassigning ABS and not individual projects, there will be no restrictions on the types of ECO4 delivery which can be reassigned towards GBIS, and there will be

no impact on the GBIS innovation measure cap or Local Authority and supplier flex cap.

5.9 Any ECO4 delivery that is reassigned towards GBIS must meet the ECO4 eligibility criteria.

5.10 The instrument will allow up to 75% of an obligated supplier's GBIS target to be met through reassigned ECO4 delivery. This limit strikes an appropriate balance of maintaining support for those eligible for GBIS but not other government schemes, while enabling suppliers to deliver their obligations through increased ECO4 delivery. Allowing more than 75% of the GBIS target to be met via ECO4 delivery would mean a significant reduction in support for the GBIS supply chain and GBIS general group households. Allowing less than 75% would risk the GBIS target not being met.

5.11 ABS delivered during any time period under ECO4 can be reassigned towards GBIS. This simplifies administration and takes advantage of the fungibility of ABS. ABS achieved under ECO4 rules that is reassigned to GBIS cannot also count to ECO4: each ABS can only count towards one of the two schemes.

5.12 ECO4 ABS that counts towards GBIS, will be subject to a conversion factor of 1.251 That is, 1 ABS delivered through ECO4 will be worth 1.251 ABS in GBIS. This allows the GBIS target to be met within its original cost envelope.

5.13 The instrument introduces a separate conversion factor for GBIS ABS achieved above 25% of an obligated supplier's GBIS target. The conversion factor applied to this GBIS delivery will be 1.716. That is, for any delivery over and above that required to meet 25% of a supplier's GBIS target, 1 ABS will be worth 1.716 ABS. This recognises that any delivery over the 25% GBIS minimum could either be from GBIS or ECO4. Since a conversion factor is being applied to ECO4 ABS, a conversion factor must also be applied to GBIS ABS to equalise the cost of achieving 1 ABS under either scheme.

Articles 8-12 of the instrument

5.14 Article 8 amends the 2022 Order to reflect the most up-to-date version of Publicly Accessible Standards (PAS) 2035/2030:2023, which are building installation standards.

5.15 Article 9 makes administrative changes to clarify requirements related to the Improvement Options Evaluation report on the off-gas heating hierarchy, in the 2022 Order, for consistency with the requirements in the Publicly Accessible Standards mentioned above.

5.16 Article 10 amends the 2022 Order with the effect that shared ground loops can be considered for innovation measure uplifts and therefore will be eligible to issue a relevant application to Ofgem for consideration. This reflects consultation feedback that the current exclusion of shared ground loops from innovation measures is seen to be prohibitive to their delivery.

5.17 Article 11 the 2022 Order to more accurately reflect the role undertaken by the assessor when assessing the premises for determining building fabric repair expenditure.

5.18 Article 12 introduces a step method by which an overall amount can be determined to inform whether a participant has met its total home-heating cost reduction obligation. The step method includes a step whereby amounts relating to GBIS qualifying actions (amounting to over 25% of the total obligation) are converted by a factor of 1.716.

5.19 Article 12 also sets out a method for taking into account annual cost savings which are reassigned from ECO4 for contribution to the achievement of a participant's total home-heating cost reduction obligation.

5.20 Article 12 also sets out steps and a method for the determination of a participant's total low-income minimum requirement.

Articles 13-14 of the instrument

5.21 Article 13 amends the 2023 Order to permit combinations of two low-cost fabric measures in a GBIS retrofit, or two low-cost fabric measures and heating controls for owner-occupied households in the low-income group. This reflects consultation feedback that the scheme would be more attractive to the supply chain if it offered a combination of measures. It also allows households to benefit from combinations of measures if this is appropriate for their home.

5.22 Any two of the following measures may be installed together in both the low-income group and general group: cavity wall, loft, underfloor, solid floor, and pitched roof insulation. Installation of these measures should take place within the same retrofit and be completed on the same day or within three months after the insulation measure is finished.

5.23 Article 13 is expressed to apply to measures where the installation is or was completed on or after 14 November 2014. This reflects the understanding that suppliers would accrue the benefit of the more permissive scheme arrangements from that point on.

5.24 Article 14 amends the 2023 Order to introduce a scoring methodology for smart thermostats, which are to be announced as eligible for GBIS as part of Administrator guidance. Currently there is no scoring methodology for smart thermostats and so this legislation will benefit suppliers by increasing their options.

5.25 Article 14 is also expressed to apply to measures where the installation is or was completed on or after 14 November 2014. This reflects the understanding that suppliers would accrue the benefit of the more permissive scheme arrangements from that point on.

What was the previous policy, how is this different?

5.26 The changes from previous policy are as set out above.

6. Legislative and Legal Context

How has the law changed?

6.1 The changes in the law are as described in paragraph 5. The 2022 Order and the 2023 Order are made using the powers in section 33BD of the Gas Act 1986, section 41B of the Electricity Act 1989 and section 103A of the Utilities Act 2000.

Why was this approach taken to change the law?

6.2 This instrument is being used to amend the 2022 and 2023 Orders mid-scheme. We are doing this to provide obligated suppliers with additional opportunities ahead of the schemes' closure on 31 March 2026 to comply with their obligations under ECO4 and GBIS by expanding and being more permissive of the range of measures which count towards those targets. The smaller delivery changes we are making should help streamline delivery in these iterations of the schemes.

7. Consultation

Summary of consultation outcome and methodology

7.1 On 14 November 2024, the Department published a consultation on proposals for the ECO4 scheme and GBIS. The consultation closed on 12 December 2024. During the public consultation period, the Department conducted virtual interactive stakeholder events to present the consultation proposals and gather initial feedback from attendees.

7.2 A four-week consultation period was considered appropriate due to the need to make changes to GBIS as quickly as possible, with limited time remaining before the scheme ends in 2026. Also, regular engagement with stakeholders was conducted ahead of the public consultation period. The Department received 122 responses to the consultation, including from energy suppliers, installers, manufacturers, managing agents, trade associations, accreditation providers/oversight bodies, charities, consumer groups and local authorities.

7.3 Overall, respondents were supportive of the proposals and the final policy decisions reflect this. Changes made in response to the consultation include:

- GBIS will be expanded to allow two low-cost measures to be combined, rather than just loft and cavity wall insulation.
- The proportion of the GBIS target that can be reached through ECO4 measures will be capped at 75%.
- TrustMark Licence Plus (TMLP) will not be introduced for GBIS.
- A Pay for Performance pilot will not be introduced for ECO4 or GBIS.

7.4 A 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 at https://www.gov.uk/government/consultations/energy-company-obligation-4-and-the-great-british-insulation-scheme-mid-scheme-changes.

7.5 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.

8. Applicable Guidance

8.1 Non-statutory guidance for obligated suppliers under ECO4 and GBIS will be published by the Administrator on its website.

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 mainly that obligated energy suppliers should find it easier to meet their obligations due to a more permissive approach to delivery. The change to allow ECO4 delivery to be reassigned to GBIS

should make it cheaper for suppliers to delivery their ABS targets. Through reaching more households, more households should save money on their energy bills.

9.3 Analysis of currently available data suggests that the instrument does 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 unlikely to be included in the obligations imposed by this instrument.

9.4 There is no, or no significant, impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring of this legislation 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.

10.2 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 30 November 2026 (and 30 September 2026 for the ECO4 scheme).

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 Articles 13 and 14 in the instrument enable measures to be recognised which suppliers have introduced from 14 November 2024, the date on which the consultation was published. This expands on, and is permissive of, additional measures available to suppliers to comply with their existing obligations under ECO4 and GBIS ahead of the closure of these schemes on 31 March 2026.

12. European Convention on Human Rights

12.1 Miatta Fahnbulleh, Parliamentary Undersecretary of State at the Department for Energy Security and Net Zero, has made the following statement regarding Human Rights:

"In my view the provisions of the Electricity and Gas (Energy Company Obligation) Order 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

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