EXPLANATORY MEMORANDUM TO

THE ELECTRICITY AND GAS (ENERGY COMPANY OBLIGATION) (AMENDMENT) ORDER 2026

2026 No. 155

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 Martin McCluskey, Minister for Energy Consumers 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 Scott de Senerpont Domis at the Department for Energy Security and Net Zero can be contacted by email at the following address with any queries regarding the instrument: scott.desenerpontdomis@energysecurity.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument 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 ("energy suppliers") that exceed domestic customer and gas or electricity supply thresholds (known as the "ECO4 scheme" or "ECO4"). This instrument changes a requirement that a measure must meet to be a qualifying action under ECO4. The requirement now specifies which grants from public funds may not fund measures. This instrument also corrects drafting errors in the Electricity and Gas (Energy Company Obligation) (Amendment, Savings and Transitional Provisions) Order 2025 (the "2025 Order").

Where does the legislation extend to, and apply?

4.2 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.

4.3 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 amends Article 12 of the 2022 Order and names each government grant that may not fund ECO4 measures. Specifying which grants are subject to this requirement allows grants from public funds to be made by the government specifically for the purposes of funding ECO4 measures (rather than these other named schemes). This retains the original policy intent to avoid duplication of subsidy for qualifying actions funded from other government energy efficiency grants, such as Warm Homes: Social Housing Fund (see paragraph 7.10 of the explanatory memorandum for the 2022 Order).

What was the previous policy, how is this different?

5.2 This change is consistent with the original policy intent of the 2022 Order, as set out in paragraph 5.1.

6. Legislative and Legal Context

How has the law changed?

6.1 The principle changes in law are as described in paragraph 5. These changes are to be found in article 2 of the instrument. Article 3 of the instrument corrects drafting errors that were included in the 2025 Order. A definition is provided for the expression "post-project energy efficiency assessment" where previously a definition had been omitted by the drafter as an oversight. This article also corrects a defect in the definition of "post-installation energy efficiency assessment". The definition of "pre-installation energy efficiency assessment" is reenacted without any change in legal effect.

Why was this approach taken to change the law?

6.2 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 On 8 December 2025, the department published a public consultation on a proposal to specify which government grants are subject to the article 12(1)(e) requirement. The consultation closed on 5 January 2026. 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 The department received 128 responses to the consultation from a variety of stakeholders ranging from the larger energy suppliers and trade associations to individuals with an interest in energy efficiency and fuel poverty.

7.3 Overall, a majority of respondents supported the proposal to specify which government grants are subject to the requirement. In response to the consultation, the government has taken the decision to specify which government grants are subject to this requirement.

7.4 A description of the change and a summary of the responses to this are included in the government's response to consultation which is available at: https://www.gov.uk/government/consultations/amending-the-eco4-order-to-allow-cost-recovery-via-grant-funding.

7.5 As part of the consultation process, the department discussed its proposals with the devolved administration in Scotland and subsequently received its formal response.

7.6 Details of the consultation that preceded the making of the 2025 Order are provided in the explanatory memorandum for that instrument. This instrument makes no substantive policy changes to the 2025 Order, but merely makes minor technical drafting changes.

8. Applicable Guidance

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

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 An impact assessment has not been prepared for this instrument because specifying which government grants are subject to the 2022 Order's requirement is not expected to result in additional costs to energy suppliers or have bills implication.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 The impact on the public sector is limited to ongoing programme management and monitoring.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring 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, energy suppliers, supply chain, local authorities, and others to understand progress on delivery and any delivery issues.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

11.1 Article 3 of this instrument contains provisions which correct unintended drafting errors in the 2025 Order (S.I. 2025/802) that were identified by the Joint Committee on Statutory Instruments in its 37th Report of Session 2024-2026. Having consulted with the Statutory Instrument Registrar in accordance with paragraph 4.7.6 of the Statutory Instrument Practice, the department will apply the free issue procedure.

12. European Convention on Human Rights

12.1 Martin McCluskey, Minister for Energy Consumers 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) (Amendment) Order 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts"). It does not relate to the withdrawal of the United Kingdom from the European Union and does not trigger the statement requirements under the relevant European Union Acts.