



UK: ECO - Energy Company Obligation Scheme

Renovating the unfit housing stock: case study #5



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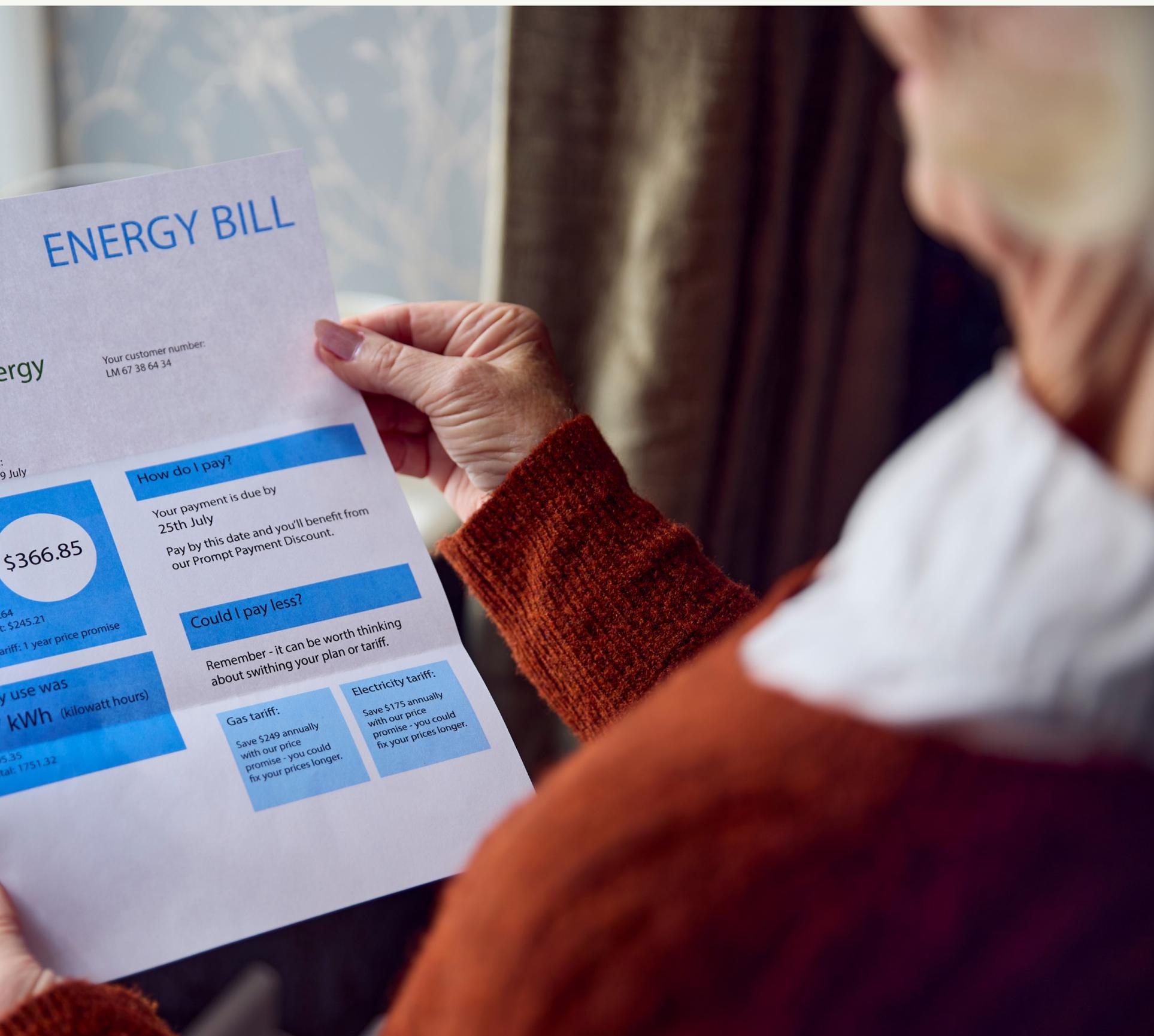
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1. Context

Energy efficiency obligation schemes (ESOS) are placing responsibility on energy companies to achieve energy savings targets. Various ways to specify the scope and the way targets can be achieved by the obligated parties exist. The UK was the first to introduced energy-saving obligations for energy providers in Europe in 1994. Since then, many other European countries has introduced **ESOS**, partly because from 2012 the European Energy Efficiency Directive requires EU member states to introduce energy efficiency obligation schemes or alternative measures to reach energy saving targets. The **Energy Company Obligation (ECO) scheme** in

Great Britain is the only one in Europe dedicated entirely to the residential sector and targeting energy poor and vulnerable households. This is not surprising, as the UK has been a pioneer in recognising and measuring energy poverty and to introduce policy measures to tackle it.

Motivation

Upgrading the energy efficiency of homes is the most effective way of tackling fuel poverty. At the same time, the residential sector is responsible for a significant share of greenhouse gas emissions and primary energy consumption. The **ECO scheme** aims to drive uptake of

energy efficiency measures among low income and vulnerable households in or at risk of fuel poverty; make progress against fuel poverty and climate change commitments of the UK government; reduce energy demand in the residential sector, thereby lowering energy bills and improving energy security; improve thermal comfort and subsequent health outcomes; and support jobs and growth.¹

Source of Inspiration

The **ECO scheme** in Great Britain is an excellent example of mutually reaching social and climate targets by focusing energy efficiency interventions where most needed. By improving the worst-performing segment of the stock, energy

savings are helping vulnerable households to save on their bills and live in healthy housing.



1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1065825/eco4-final-ia.pdf

2. Project Description

The **ECO schemes** are the current form of energy saving obligation of Great Britain requiring energy provider companies in Great Britain to deliver energy efficiency upgrades to homes of vulnerable or fuel poor households that reduce emissions, and electricity and energy bills. The latest completed **ECO scheme**, the **ECO3** (2018 – 2022) solely focused on low-income, vulnerable, and fuel poor households. The supported measures were the following:

- ◀ heating control measures
- ◀ installation of first-time central heating
- ◀ boiler replacement

- ◀ electric storage heater
- ◀ wall, loft, and floor insulation

Suppliers must have achieved a share of their total requirement by delivering measures to homes in rural areas and by delivering savings through solid wall insulation.

The energy saving obligation scheme of Great Britain has been gradually restructured to focus only on low-income households. The more focused scheme came along with massively reduced energy-saving targets. The reduced target on the one hand resulted in a smaller impact on bills: the cost of delivering energy

saving targets are passed onto bills, thus lower targets resulted in lower delivery costs and consequently in lower passbacks. The targets also reduced the carbon-saving impact of the scheme, as it became smaller in size.

Target Group

The energy obligation scheme focuses on low-income, vulnerable and fuel poor households. Both homeowners and private or social housing tenants can benefit from the interventions. Eligible households of the last completed **ECO scheme**, the **ECO3** (2018-2022) were recipients of at least one social benefit or referred by the local authority as fuel poor households.

The **ECO4** scheme launched in 2022 set an income threshold (to the non-means tested child benefit) to better focus on low-income households. It also introduced energy efficiency requirements to target measures to the worst-performing stock and to guarantee significant energy savings.

Stakeholders involved

- ◀ Fuel poor or vulnerable households – measures are carried out in their homes.
- ◀ The government: the obligation scheme is placed by the UK government on larger energy suppliers of Great Britain.
- ◀ Medium and large energy suppliers of Great Britain with over 250,000 consumers

- ◀ Registered installers can deliver the measures
- ◀ The energy regulator, **OFGEM**: administers the scheme (allocating targets, monitoring, reporting, etc.)
- ◀ Local municipalities can identify a quarter of beneficiaries.

Funding

Costs of energy efficiency measures implemented under the energy obligation scheme are covered by energy suppliers which they then recoup through their consumer's energy bills. Administrative costs of the **ECO scheme** mostly occur at **OFGEM**, the energy regulator.

Cost type	ECO costs (2013 – 2022)	ECO3 costs (2018-2022)
Delivery costs	£5.62 billion	£1.837 million
Administrative costs	£514 million	£115 million
Total combined costs	£6.14 billion	£1.953 million

3. Outcomes

Positive Outcomes

In 10 years, 2.4 million low-income and vulnerable households have been supported through the multiple waves of the **ECO program**. In earlier parts of the energy saving target was larger, and non-vulnerable households could also benefit from the program, thus the even more households received support to renovate. It is estimated that measures installed under the **ECO scheme** since 2013 will provide lifetime carbon savings of around 58.2 MtCO₂e, an equivalent to the amount of carbon absorbed by 264 million mature trees over ten years.²

The focus and target of **ECO scheme** evolved over time: the share of insulation measures was much higher under the last concluded scheme (**ECO3**) than the share of insulation measures across all ECO phases. Still, over half of ECO3 measures (~56%) were heating measures. More specifically, around 25% were boiler upgrades and 31% were 'other heating measures' (90% of which were heating controls). The rest (~44%) were insulation measures. **ECO4** requirements further incentivise complex measures that bring significant improvements across the lowest-performing stock and among low-income, vulnerable households.

²<https://www.ofgem.gov.uk/publications/energy-company-obligation-eco3-final-determination-report>

Innovation and Key Success Factors

The **ECO program** is the first energy saving obligation scheme entirely dedicated to low-income, energy poor or vulnerable households. With relatively low public costs (administration costs) the program brings multiple benefits, such as long-term reduction of fuel poverty, contribution to climate targets, and savings on public health costs by reducing the number of cold homes.

An innovation sub-scheme is also part of the program, which supports the testing and upscaling of innovative energy savings measures.

The evidence-based design of the policy and regular updates based on the monitoring and assessment of the program provides a good

basis for reaching its scope: to simultaneously save energy and tackle energy poverty. The latest **ECO scheme** ensures that the measures are directed to low-income, vulnerable households living the worst-performing stock and that significant energy efficiency improvements are reached through more complete upgrade of homes - shifting to a multi-measure whole-house retrofit approach.

Barriers and Difficulties

Obligated suppliers might ask households to contribute to the installation costs. If the contribution asked by a supplier seems too high, a household might “shop around” to find a better offer.

As suppliers hold the cost of measures, they

might pass that on the consumers through energy bills. The expected saving of households benefitting from the intervention is higher than the expected increase of their energy bill due to the pass-on. However, not all low-income households sensitive to energy

prices benefit from the **ECO program**, thus are unequally impacted by the cost of the program built in the energy costs.

Additionally, the measure has a relatively high administrative cost. While insulation measures are more beneficial over



British Gas installing a heatpump under the 'Boiler Upgrade Scheme' (BUS), administered by Ofgem

the long term and are more cost effective at making progress in tackling fuel poverty, under the **ECO3 program**, the majority of measures were smaller interventions (e.g. heat measurement or boiler replacement). With adjustment of the **ECO4 programs**, share of measures bringing higher energy savings is expected to be increased. However, this might increase the required contribution from households, risking the exclusion of the most vulnerable ones.

Keys of Transferability

Where energy-saving obligation schemes are already set up, the transfer can be rather easy, especially if the obligation already targets households not only industrial and commercial users. The target of the scheme can be refocused

on the worst-performing stock and energy poor households. However, political will is necessary to do so. Ringfencing a share of energy savings to energy poor households is required by the updated EED, this might move forward the social targeting of energy saving obligation schemes.

Well-established energy poverty monitoring practices are not a prerequisite of targeting energy saving obligations to where most needed. Focusing measures on the worst-performing stock, low-income households and social benefits recipients is a good start, and municipalities or healthcare services can also be involved to refer households. It is, however useful to assess if targeted households cover approximately the same pool of people impacted or at risk of energy poverty.

A strong institutional background is necessary to effectively plan the program, distribute obligations and monitor the program (ministry, energy regulator)

Relatively high administrative costs need to be covered, but can easily be recovered by savings resulting from the program (health costs, employment, school, and work performance)

Policy Recommendations

The ECO4 program requires more complex measures, which is beneficial as larger energy savings can be achieved. To keep the scheme accessible to the lowest-income households, the contributions of households should remain as low as possible. The programme should remain wide-reaching - involving a large

number of households despite the increasing complexity of measures.

Resources

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