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THE ENERGY COMPANY OBLIGATION: FIGHTING FUEL POVERTY

WHAT IT DOES AND WHY IT MUST STAY

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The Energy Company Obligation (ECO) is Britain's first line of defence against fuel poverty, delivering new boilers, heating controls and energy-saving insulation measures to households that could otherwise not afford them. It provides immediate relief to struggling families and can reduce their long-term exposure to rising energy prices through energy efficiency.

ECO has saved low-income customers £17.5bn in lifetime energy bills since 2013.¹ The average saving for homes improved under ECO is £290 per year.² Cutting ECO or suspending the uplift planned for this year would be deeply counterproductive for households and industry.

The government must respond to the dramatic rise in the energy price cap anticipated this April.³ The government is reviewing a range of options, including expanding the Warm Home Discount, moving legacy policy costs from electricity bills into general taxation, cutting VAT, and giving loans to suppliers to spread costs. Another option that has been suggested is to cut or suspend the next iteration of ECO.

But a kneejerk cut to ECO would put the UK in an even more perilous position in the future, particularly if wholesale international gas prices remain high, as they are expected to.⁴ It would also do very little to ease pressure on household

¹ BEIS, *Household Energy Efficiency, Statistical Release 25 November 2021*.

² *The Times*, 'Green insulation levy may fall to reduce the cost of energy bills', 11 January 2022.

³ E3G has recently considered the key drivers of the energy price increase, and set out potential short- and long-term solutions in a [briefing paper](#).

⁴ C. Lowrey, 'Ticking Clock', *Cornwall Insights*, 13 January 2022.



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finances. Suspending the next iteration of ECO funding (ECO4) would save households just £7 on their annual energy bill. Cutting ECO completely would save households just £3 per month (or 75p per week) - barely 5% of the forecast price cap rise.⁵ This would do next to nothing to ease the cost of living, while leaving most people in fuel poverty with no long-term solution to bring down their energy bill.

What is ECO?

The Energy Company Obligation (ECO) is a government programme to tackle fuel poverty and reduce carbon emissions through energy efficiency and new heating technology installations. Measures are installed in the homes of those either in fuel poverty or otherwise considered vulnerable by energy companies, and the costs are recovered through a levy on bills.

ECO has to date consisted of three main phases. ECO1 ran from 2013 to 2015, ECO2 ran to 2017, and ECO3 is due to be replaced by ECO4 this year. ECO4 is planned to run until 2026 with funding increased from £600m to £1bn per year.

ECO4 will upgrade a minimum of 100,000 homes rated Energy Performance Certificate (EPC) E, F and G.⁶ Homes rated EPC E, F and G have much higher running costs than other homes, and residents in them are therefore more likely to be living in fuel poverty. Without intervention, between 70 and 80% of households living in homes rated EPC F or G will be spending more than 10% of their household income on energy.⁷

Without ECO the government cannot meet its statutory fuel poverty targets

In December 2014 the government legally bound itself to ensure that “as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of band C by 2030.”⁸ In February 2021, the government’s

⁵ In 2021 ECO added £29 to the average annual energy bill. This would rise to £36 under ECO4. Versus a forecast price cap rise of at least £600 - £700. Data from **BEIS, ‘Consultation stage Impact Assessment ECO4’, 25 June 2021.**

⁶ **BEIS, ‘Consultation stage Impact Assessment ECO4’, 25 June 2021.**

⁷ **A. Corlett, L. Judge and J. Marshall, Higher and Higher: Averting a looming energy bill crisis, Resolution Foundation, 17 January 2022.**

⁸ Energy efficiency ratings are part of an Energy Performance Certificate, which measures the likely running costs of a home on the basis of its heating system, building typology, insulation levels, etc.



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updated fuel poverty strategy for England put ECO at the heart of its approach to meeting that target.⁹

Cutting or suspending ECO would throw the government’s commitment into jeopardy at the worst possible time – when around 4 million households are at risk of having to pay over 10% of their income on energy.¹⁰ 80% of households living in homes rated EPC G (the lowest) and 70% of households living in homes rated EPC F could be in this situation if the energy price cap rises in April as projected.

Removing or suspending ECO would damage the levelling-up agenda

The biggest beneficiaries of ECO spending have been the North West and North East of England, the West Midlands, and Scotland. Figure 1 shows which local authority areas have benefitted the most from ECO.

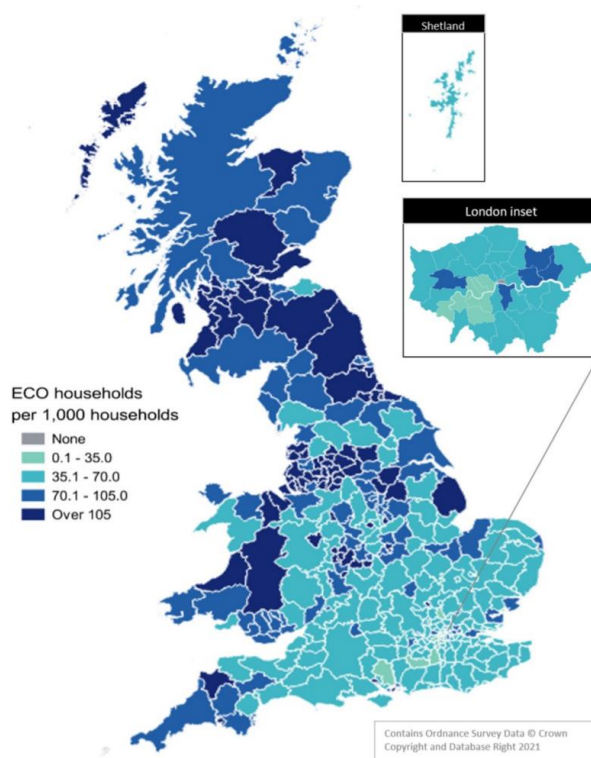


Figure 1: Households in receipt of ECO measures by Local Authority per 1,000 households, to end of quarter 3 2021.¹¹

⁹ BEIS, *Sustainable Warmth: Protecting Vulnerable Households in England*, February 2021

¹⁰ A. Corlett, L. Judge and J. Marshall, *Higher and Higher: Averting a looming energy bill crisis*, Resolution Foundation, 17 January 2022 In Scotland, Wales, and NI, fuel poverty is defined as needing to spend at least 10% of household income on energy. England uses a different definition, but 88% of households defined as fuel poor in England would remain so under the Scotland, Wales and NI metric according to the UK government *Sustainable Warmth* fuel poverty strategy. Resolution Foundation uses the term “fuel stress” in order to group the four nations together under the latter metric.

¹¹ BEIS, *Household Energy Efficiency*, Statistical Release 25 November 2021.



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ECO saves treated households £290 per year on average. By investing in lasting domestic infrastructure, putting money back in people’s pockets, and providing green jobs, ECO has been “levelling-up” relatively deprived areas since before the term was coined. Scrapping or suspending it now would consign people in the North of England and West Midlands – who are more likely to live in inefficient homes - to face higher bills than those living in the South and South-East.

ECO is not a “green tax”

ECO is first and foremost a fuel poverty reduction scheme. The environmental benefits of increased energy efficiency *are* enormous - reducing the amount of gas we use reduces harmful greenhouse gas emissions as well as saving money – and we need to invest in energy efficiency to meet net zero.¹² But while ECO helps this goal, it is not primarily a “green” measure. In fact, 22% of all measures delivered under ECO since 2013 have been gas boilers.¹³

Cutting ECO would cost 30,000 jobs and decimate a critical industry

The government’s *Ten Point plan for a Green Industrial Revolution* sets out an ambition to create and support 250,000 green jobs across the UK.¹⁴ The jobs associated with retrofitting our homes to make them more energy efficient will be key to meeting this ambition.

Removing or suspending ECO would throw this critical industry into disarray. An interruption to ECO of just four months could result in a 40% insolvency rate in the sector, meaning a loss of over 30,000 jobs in installation, manufacturing and certification.¹⁵

Pausing ECO even for four months would therefore do huge damage while only saving households around £12 on their annual energy bill (suspending the introduction of ECO4 would only save £7 annually).¹⁶ Climate Change Committee analysis shows that when ECO was scaled back in 2014, a similar proportion of jobs were lost. That funding cut also led to a precipitous fall in the installation of

¹² Climate Change Committee, *The Sixth Carbon Budget: Buildings*, 9 December 2020.

¹³ BEIS, *Household Energy Efficiency, Statistical Release 25 November 2021*.

¹⁴ HM Government, *The Ten Point Plan for a Green Industrial Revolution*, November 2020.

¹⁵ Based on Insulation Assurance Authority analysis of solvency and credit ratings of insulation companies and their ability to withstand the cashflow interruption implied by suspending ECO for 4 months.

¹⁶ BEIS, *‘Consultation stage Impact Assessment ECO4’*, 25 June 2021.



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key insulation measures – loft insulation installations fell from 1.6 million in 2012 to less than 200,000 in the following years.¹⁷

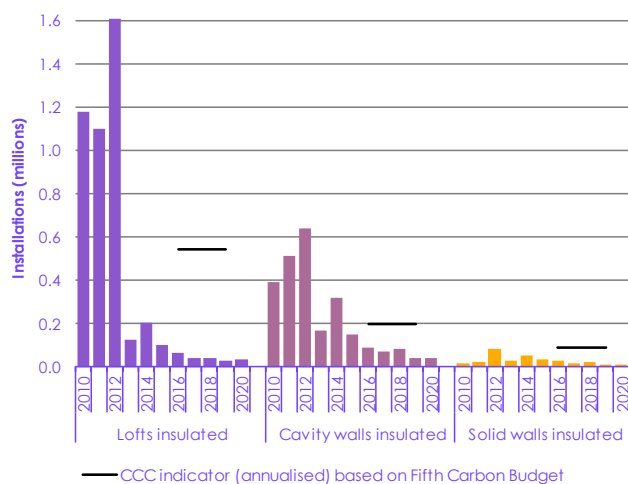


Figure 2: Home insulation rates by measure and year¹⁸

Losing thousands of jobs from the sector now would imperil action on fuel poverty and net zero delivery over the next decade. The energy efficiency investment that the Climate Change Committee says is needed to reach net zero cost-effectively is a multi-decade project that will provide up to 190,000 green jobs in installation and manufacturing across the country.¹⁹

Cutting ECO or suspending the ECO4 uplift must be taken off the table

It is vital that pausing or lowering ECO is not viewed as a quick and easy fix. The cost of the ECO levy on energy bills is modest and keeping the cost there (as opposed to paying through the annual government budgeting process) gives the policy more stability and therefore more impact for the poorest homes. Because ECO spending is distributed to the poorest households, its impact is much more progressive than legacy policy costs, which many have called to be shifted into general taxation. The ECO4 uplift will deliver an average annual fuel bill saving of £300 to over 300,000 treated households.²⁰

ECO is the UK's primary means of tackling fuel poverty. It has delivered savings worth £290 per year to some of the country's most vulnerable families, and lifetime aggregate savings of £17.5bn. If insulation rates had stayed at 2009-12

¹⁷ Climate Change Committee, *Progress in reducing emissions: 2021 Report to Parliament*, July 2020.

¹⁸ Climate Change Committee, *Progress in reducing emissions: 2021 Report to Parliament*, July 2020.

¹⁹ Energy Efficiency Infrastructure Group, *Turning stimulus into recovery*, September 2020.

²⁰ BEIS, 'Consultation stage Impact Assessment ECO4', 25 June 2021.



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levels between 2013 and 2020, the UK would have installed 15 million more energy efficiency measures and saved another £13.8bn in lifetime energy costs.²¹

Expanding the Warm Homes Discount, shifting some legacy costs from bills into general taxation, and a payment to recipients of the Cold Weather Payment are better options available to the government to lower energy bills immediately.

Key ECO statistics

- **ECO measures have saved households £17.5bn** in lifetime energy savings, at a total cost of £5.63bn.
- Households with ECO improvements **save an average of £290 p/a**.
- Under the most recent iteration of ECO (ECO3), the average cost of delivery has been 23p per £1 of lifetimes bill savings.
- Since 2013, **3.4 million measures have been installed under ECO**.
- The estimated **lifetime carbon savings from ECO measures is 57 MtCO₂** and the estimated energy savings is up to 217,700 GWh.
- **Suspending ECO for four months would cost 30,000 jobs** in the insulation industry, with a 40% attrition rate for businesses.²²
- **Scrapping the ECO4 uplift would only save households £7 in 2022**.
- **Cutting ECO entirely would be worth just £3 per month** (based on ECO4 costs of £36 per year) for the average household – against an anticipated price rise of up to £723 in the Spring.²³
- The ECO4 uplift will **upgrade a minimum of 100,000 homes rated EPC E/F/G**.
- Suspending ECO for four months would only save households around £12 from their annual energy bill – just 30p per week.
- **The North West and North East have the highest rate of ECO measures** in England (129 and 117 per 1000 households).
- Around 9% of households in Britain have had a measure installed under ECO, equivalent to 87 per 1000 households.
- The North West, North East, West midlands, Yorkshire and the Humber, and East Midlands all have an installation rate above the England average.²⁴

²¹ National Energy Action estimate based on Energy Savings Trust figures on annual savings per measure.

²² Insulation Assurance Authority analysis.

²³ Anticipated price rise drawn from **A. Corlett, L. Judge and J. Marshall, Higher and Higher: Averting a looming energy bill crisis, Resolution Foundation, 17 January 2022**.

²⁴ Unless otherwise stated all above statistics drawn from **BEIS, Household Energy Efficiency, Statistical Release 25 November 2021** and **BEIS, 'Consultation stage Impact Assessment ECO4', 25 June 2021**.



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About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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