

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT ELECTRICITY AND GAS (ENERGY  
COMPANY OBLIGATION) ORDER 2023

*Monday 3 July 2023*

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**Friday 7 July 2023**

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**The Committee consisted of the following Members:**

*Chair:* PETER DOWD

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| † Bowie, Andrew ( <i>Parliamentary Under-Secretary of State for Energy Security and Net Zero</i> ) | † Lopresti, Jack ( <i>Filton and Bradley Stoke</i> ) (Con)     |
| † Bradshaw, Mr Ben ( <i>Exeter</i> ) (Lab)   | † Lord, Mr Jonathan ( <i>Woking</i> ) (Con)                    |
| † Brown, Alan ( <i>Kilmarnock and Loudoun</i> ) (SNP)  | † Mohindra, Mr Gagan ( <i>South West Hertfordshire</i> ) (Con) |
| Burgon, Richard ( <i>Leeds East</i> ) (Lab)  | † Morrissey, Joy ( <i>Beaconsfield</i> ) (Con)                 |
| † Burns, Sir Conor ( <i>Bournemouth West</i> ) (Con)   | † Richardson, Angela ( <i>Guildford</i> ) (Con)                |
| Carden, Dan ( <i>Liverpool, Walton</i> ) (Lab)   | † Wakeford, Christian ( <i>Bury South</i> ) (Lab)              |
| † Carter, Andy ( <i>Warrington South</i> ) (Con)   | † Whitehead, Dr Alan ( <i>Southampton, Test</i> ) (Lab)        |
| † Clarkson, Chris ( <i>Heywood and Middleton</i> ) (Con)   | Bethan Harding, <i>Committee Clerk</i>                         |
| † Hollern, Kate ( <i>Blackburn</i> ) (Lab)   | † <b>attended the Committee</b>                                |
| † Hudson, Dr Neil ( <i>Penrith and The Border</i> ) (Con)  |  |

**The following also attended (Standing Order No. 118(2)):**

- Farris, Laura (*Newbury*) (Con)  
 Kruger, Danny (*Devizes*) (Con)

## Second Delegated Legislation Committee

Monday 3 July 2023

[PETER DOWD *in the Chair*]

### Draft Electricity and Gas (Energy Company Obligation) Order 2023

4.30 pm

**The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Andrew Bowie):** I beg to move,

That the Committee has considered the draft Electricity and Gas (Energy Company Obligation) Order 2023.

It is a pleasure to serve under your chairmanship this afternoon, Mr Dowd. The draft order was laid before the House on 24 May.

Since the energy company obligation scheme was introduced in 2013, it has ensured that about 2.4 million predominantly low-income households have received much-needed support to improve the energy efficiency of their home, with more than £19 billion-worth of savings for households over the lifetime of the measures installed. The Government committed, in the growth plan 2022 and the energy security plan, to placing a new obligation on energy suppliers to deliver vital energy efficiency upgrades, helping hundreds of thousands more households to take action to reduce their energy bills by making their homes cheaper to heat.

The draft order will deliver on those commitments by introducing a new energy company obligation, the Great British insulation scheme, to run until March 2026. Alongside that, it will introduce small additions to the existing ECO4 scheme, providing heating support for certain households that are not currently eligible for these measures.

I turn to the detail of the order. It will establish the Great British insulation scheme in law as a complement to the existing energy company obligation scheme, ECO4, in Great Britain. Its main provisions are an additional energy company obligation to run from 2023 to 2026, boosting previously planned energy efficiency investments by another £1 billion across this period; a focus on the rapid installation of the most cost-effective single insulation measures; and the extension of support through the ECO schemes to a much wider group of households living in the least energy-efficient homes in the lower council tax bands, which are also now challenged by higher energy bills.

The Great British insulation scheme will boost further the support already available through ECO4 that targets low-income and vulnerable households—those most at risk of being in fuel poverty. Energy suppliers must deliver at least 20% of the new help available through the scheme to those households. That low-income group will include those on means-tested benefits, as well as households in the least energy-efficient social housing. Fuel-poor homes in the private rented sector will benefit, too. That builds on the provisions of existing regulations.

Working alongside the low-income minimum, the scheme's flexible eligibility provisions will offer additional routes to reach those who are on low incomes or in other ways vulnerable, such as through ill health, but

where households may not be in receipt of benefits. The flexible eligibility provisions will enable local authorities, energy suppliers, Citizens Advice and the NHS to work together to help those most vulnerable to the effects of living in a cold home.

As with previous ECO schemes, the obligation will be set based on annual bill savings. That incentivises energy suppliers to target those homes where the savings from energy-efficient measures will be greatest; they will also be installing the measures that will have the greatest impact. The scoring approach for this will mirror the approach used for ECO4, minimising complexity and any bureaucracy for industry. Installation quality will be governed and assured under TrustMark's compliance and certification framework. The quality of installations, alongside a whole assessment of the property, will continue to rely on independent industry standards: PAS—publicly available specification—2030 and PAS 2035.

The draft order will also add to the circumstances in which some heating measures, in particular solar PV and electric heating, can be available for households in the existing ECO4 scheme.

We estimate that as a direct result of the boost provided by the Great British insulation scheme, about 376,000 measures will be installed in around an additional 315,000 homes. That is expected to save households on average £300 to £400 per year.

To help to insulate as many homes as possible before next winter, the draft order will permit measures installed since 30 March to count towards the suppliers' obligation target. This provision was signalled to energy suppliers in the Government response to their earlier consultation on scheme design; the response was published on that date. The Government consultation was conducted towards the end of 2022. The scheme design encapsulated in the draft order takes forward the main provisions set out in the consultation. The majority of consultation responses supported the proposals, including as central features the extension of energy efficiency help to the wider household group and a focus on the most cost-effective single insulation measures.

The Government are therefore proceeding with the main proposals, with some key changes considering the responses received and the final impact assessment. We have expanded the eligible council tax bands in Wales from bands A to C to bands A to E, better aligning with the proportion of eligible households in England and Scotland. We are requiring all measures to be installed with the PAS 2035 requirements, given the complexity of defining low-risk measures that could use any alternative standards. We have not implemented the proposal consulted on that suppliers must provide evidence that low-income households cannot meet the ECO4 scheme minimum requirements, to simplify administration.

We have ensured that households supported under the Great British insulation scheme will not be excluded from receiving future help under the ECO4 scheme where the eligibility criteria for that scheme are met. We will uplift scores on measures delivered to low-income rural off-grid households in Scotland and Wales, given the additional challenges that those households are likely to face. Equivalent households in England will be supported via the home upgrade grant. Recognising the value of innovation, those innovative products offering

the greatest improvements and delivered to the low-income group will be eligible for both at 25% and 45% uplifts, subject to a cap.

The Great British insulation scheme will continue building on the successful ECO approach that has delivered energy efficiency measures to millions of households for the past decade. The scheme will extend help to hundreds of thousands more households previously ineligible for Government energy efficiency support. It will build momentum towards the Government's ambition to reduce total UK energy demand by 15% from 2021 levels by 2030, and it is estimated that it will save more than 5 million tonnes of CO<sub>2</sub> emissions from the lifetime of the measures installed. It will empower thousands more people to insulate their homes, protecting the pounds in their pocket and supporting jobs across the country. I commend the draft order to the Committee.

4.36 pm

**Dr Alan Whitehead** (Southampton, Test) (Lab): The draft order is, in general, an unexceptionable statutory instrument, as the Minister says. Essentially, it will extend what was provided for in ECO4 to a further group of people who would otherwise not be eligible for assistance under that scheme. The explanatory memorandum indicates that the extent of the total obligation—taking ECO4, ECO4+ and ECO4A together—will be increased from about £1 billion to £1.3 billion or £1.4 billion overall.

If I may reprise a debate that the Minister and I had in the recent Energy Bill proceedings, what we call something and what it legally is appear to be two different things to the Government these days. For the benefit of the Committee, my understanding is that ECO4+, ECO4A and the Great British insulation scheme are the same thing; they are just different names for one scheme. For the purposes of our discussion, I will call it ECO4A, the middle of the three definitions, which will reasonably clarify what we are talking about.

As I understand it, ECO4A extends the eligibility of a number of people for ECO in its present manifestation: a scheme that is running from now until 2026 and is, or has been, targeted at more vulnerable customers, particularly people receiving particular benefits. ECO4+ will continue with a general approach of targeting disadvantaged customers, but on a much wider scale than was previously the case. However, ECO4A will not change ECO's rules on the eligibility of properties: a wider canvas of customers, but the same canvas of properties, will be eligible. That is where some of the big problems with ECO4 have manifested themselves so far.

There is certainly a general feeling in industry and elsewhere that ECO4 is beginning to fail. I understand that that is for two particular reasons. First, whether a property qualifies for assistance under either ECO4 or ECO4A is based on whether the measures can make a difference of two bands to the property. Most properties cannot achieve that very easily. A lot of work has gone into searching for properties and particularly for people who qualify for ECO4, but it has been found that the people qualify and the properties do not. Some 90% of found searches are proving impossible to proceed with under ECO. The high rate of aborted programmes adds an enormous cost to the companies that are seeking searches for people who can qualify for ECO4.

The second issue is the very substantial difference in the cost of materials, given interest rate increases and inflation, and the ability of the programmes to stay within the ECO cost parameters for the schemes. For example, loft insulation has proved 430% more expensive than the ECO4 and ECO4A methodology assumed. Cavity wall insulation is 372% more expensive, and external wall insulation is 147% more expensive. Companies are just not able to do the amount of work for the amount of money that the ECO4 costings assume. An obliged company is therefore not able easily to meet the obligation targets in the way the methodology for ECO4 assumes. The delivery of ECO4, in comparison with that of previous ECO iterations, is very seriously behind schedule.

What dismays me is that none of those problems has been recognised in the methodology for ECO4A. Indeed, as we can see from the draft order, that methodology is pretty substantially the same as that for ECO4, with the exception of one or two things about off-grid customers and various other matters.

My question to the Minister, at the end of all that, is what consideration he has given to changing the methodology for ECO4A so that it does not fall into the traps that ECO4 has already started to fall into. Perhaps ECO4 could be brought back into any new methodology, because the two schemes run in parallel up to 2026, and we could solve a number of the problems in implementation over the period.

I think I may know the answer. Informal sources tell me that a further SI might be on its way in the not-too-distant future and will seek to correct a number of those methodological problems as ECO4 goes forward. Is that the case? If something is indeed coming to correct the methodological problems, will the solutions apply to both ECO4 and ECO4A, bearing in mind that that has not happened today? If the answer to both those questions is yes, I will be fairly pleased. If the answer is, "I am not sure: maybe," I think we need to look at that further.

Finally, if the Minister is looking at methodological issues, might he consider whether the issue of the eligibility of the number of homes—as opposed to people—for ECO4A could be substantially ameliorated with a methodology that puts the focus of ECO4A, and by implication ECO4, on reducing energy costs in homes, rather than heating costs only? A number of measures that seem evident to most of us are not actually allowed under the ECO4 methodology as a result of the distinction between heating and energy costs. For example, where a home needs to upgrade light fittings and wiring so that it can switch to LED lighting, that makes an enormous difference to energy costs, but it is not eligible under ECO4 because it is only about heating costs in-home. Perhaps when the Minister tables his new SI—if indeed he is going to—he will think about that, because it would be helpful in taking the progress of ECO4 and ECO4A in a positive direction.

Other than our disappointment in the lack of a new methodology to mend both ECO4 and ECO4A, the official Opposition have no objections to the draft order, because we need to make progress with energy efficiency as quickly as possible.



4.47 pm

**Alan Brown** (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship, Mr Dowd.

I welcome the draft order. The more money we can invest in energy efficiency, the better. How could I not be drawn in by a scheme that includes “Great British” as part of its title? It is so alluring. *[Laughter.]* But I do welcome the investment.

I have just a few questions for the Minister. Page 4 of the impact assessment states that, overall, the UK Government have a target to reduce energy consumption by 15% by 2030, compared with a 2021 baseline. How much will the draft order and these proposals for the installation of energy efficiency measures contribute to that 15% reduction target? What is the overall plan to get that 15% reduction by 2030?

The impact assessment also states that more than 100,000 additional homes will be helped to meet the target of being upgraded to achieve an energy performance certificate rating of band C. That is welcome, but to put it in context, it will still leave another 14 million or so homes to upgrade to EPC band C. What is the long-term target for getting those other 14 million homes upgraded to EPC band C, which is critical? That is the scale of the task that lies ahead.

The impact assessment further mentions a 20% uplift allowed for tackling rural properties in Scotland and Wales. What is the derivation of that 20% uplift? How realistic is the uplift as an allowance enabling rural homes in Scotland and Wales to fall under the scheme?

The whole thrust of the scheme seems to be based on cavity wall insulation as the main measure. Is that the right strategy overall, or does it mean that we are not tackling enough homes with other measures that could lift people out of fuel poverty? That is also critical. It is not just about reducing energy usage; it is about lifting people out of fuel poverty.

Further to the comments made by the hon. Member for Southampton, Test, I also want to highlight that the Government need to look at the roll-out of ECO4+, because it is quite clear that energy companies are saying that they are not getting the number of target properties to keep the scheme operational.

4.50 pm

**Andrew Bowie:** I thank both my counterparts. Obviously they have not spent enough time locked in a Committee Room over the past six weeks, so they wanted to come back for some more today. It is a pleasure to be back with them both this afternoon.

Improving the energy efficiency of our homes is the best long-term solution to reduce energy bills and therefore to tackle fuel poverty. That is why the Government have set a new and ambitious target to reduce final energy demand from buildings and industry by 15% by 2030, and are committed to ensuring that homes are warmer and cheaper to heat by investing £12 billion in Help to Heat schemes such as the home upgrade grant and the social housing decarbonisation fund. The Government remain committed to helping low-income and vulnerable households to reduce their fuel bills and heat their homes. The Great British insulation scheme will be a crucial element of that help over this winter and for years to come.

The hon. Member for Kilmarnock and Loudoun asked why a smaller number of all properties are projected to be insulated and why we are not focusing on solid wall insulation. The scheme will focus on the most cost-effective insulation measures to ensure that as many households as possible can receive support. Solid wall insulation remains eligible for the scheme, but as it is a high-cost measure, it is more likely to require a consumer contribution.

The Government are absolutely determined to reach our energy efficiency ambitions by 2030. We need to balance the ambition of the scheme with the impact of consumer bills and the ability for existing supply chains to deliver measures quickly. This Government are taking action now, led by the energy efficiency taskforce, and building on what has already been achieved through more efficient use of energy in the UK.

Let me address the points raised by the hon. Member for Southampton, Test. Why is the number of homes estimated to be upgraded through the insulation scheme lower than was originally estimated? Compared with the modelling undertaken for the consultation stage impact assessment, the final modelling has incorporated higher-measure cost assumptions. These updated cost assumptions were informed by independent surveys of installers and have been the primary factor in causing the estimated number of homes treated through the scheme to fall.

I accept the hon. Gentleman’s statement that ECO4A, ECO4+ and the GBIS are the same scheme. He asked whether a minimum of two standard assessment procedure band improvements would be required, which might create problems for the insulation scheme. The GB insulation scheme has no minimum improvement requirement; it will target the most cost-effective single measures to make the biggest difference to the most energy-inefficient properties.

Should we support fully those who are on the lowest incomes and are the most vulnerable? We want to extend support to a broader pool of households who are currently ineligible for support through existing schemes but are also likely to be struggling to pay higher energy bills. At least 20% of the obligation will focus on low-income households, targeting those on means-tested benefits, living in the least efficient social housing or referred by a participating local authority or energy supplier and considered to be on a low income or vulnerable. The remainder will be open to households in the lower council tax bands: A to D in England and A to E in Scotland and Wales, equivalent to EPC rating D to G.

Has a comparative assessment been made of the cost assumptions for the ECO4 scheme and of those set out in the Great British insulation scheme consultation? We are monitoring ECO4 delivery against the current cost assumptions and will consider changes if necessary. However, changing the cost assumptions may require either a change to the overall energy bill reduction target, the estimated funding scheme policy details or a combination of all three. Such changes would require public consultation, and possibly regulatory change.

**Dr Whitehead:** I think the Minister has just indicated, in his very last sentence, that another SI may be on its way. If so, what is the timescale?

**Andrew Bowie:** I would not want to commit either to another SI being on its way or to a timescale for that happening. However, as the hon. Gentleman has just heard me say, any changes would require possible regulatory change. He can take from that what he will.

I thank the hon. Members for Southampton, Test and for Kilmarnock and Loudoun for their contributions and for the points that they made, and I thank everybody else for turning up today. I recognise that there is

agreement that the scheme should continue at this time, providing critical support to a greater pool of households challenged by higher energy bills. Once again, I commend the draft order to the Committee.

*Question put and agreed to.*

4.55 pm

*Committee rose.*

