



Department for
Business, Energy
& Industrial Strategy

Lord Callanan
Minister for Climate Change and
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Dear Darren,

Government Responses to the consultations on expanding the Warm Home Discount and Energy Company Obligation to 2026

I am writing to inform you about the publication of the Government Responses to the consultations on expanding the Warm Home Discount (WHD) and the Energy Company Obligation (ECO) schemes until 2025/26. WHD and ECO are two vital schemes for supporting fuel poor households through a combination of shorter-term direct financial support with the costs of heating and longer-term energy efficiency measures to reduce household energy bills for the long term.

At a time of high energy prices, I am pleased to provide certainty to consumers, energy suppliers, and industry partners about the future of these two important schemes, which complement the Government's other policies for tackling fuel poverty and improving energy efficiency. More widely, the Government has announced a package of support worth £9.1 billion in 2022/23 to help households with rising energy bills.

Warm Home Discount expansion and reform

The Warm Home Discount is a key policy in tackling fuel poverty and reducing the energy costs of low-income and vulnerable households. Under the scheme, participating energy suppliers provide support to households who are in or at risk of fuel poverty, primarily through rebates on their energy bills every year. Since 2011, over £3 billion in direct support has been provided to low-income and vulnerable households under the WHD scheme.

In the Energy White Paper, the Government committed to extend the scheme to 2026, expand the scheme to reach around 3 million households, and consult on reforms to improve the fuel poverty targeting of the scheme in England and Wales. As a result of these changes, around 750,000 more households will receive a rebate worth £150 under the scheme each winter compared to the current scheme.

The Government will consult separately on a WHD for Scotland.



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Reformed scheme proposals

BEIS consulted on reforming the scheme in England and Wales last summer. These reforms would improve the fuel poverty targeting of the scheme and ensure that the vast majority of all eligible households receive their rebates automatically; for the first time, working-age households need not apply. The main features are:

- Expand the spending envelope to £475 million (in 2020 prices) per year;
- Maintain the current Core Group of low-income pensioners;
- Replace the application-based Broader Group, run by each energy supplier, with a new and centralised Core Group 2, consisting of low-income households with highest energy costs. Eligible households would be identified by those on a qualifying means-tested benefit or Tax Credit and with high energy costs, estimated using property characteristic data;
- Lower the scheme participation threshold to 50,000 domestic customer accounts in 2022/23 and to 1,000 domestic customer accounts from 2023/24;
- Make Industry Initiatives mandatory and increase their budget over time, in recognition of the value they provide as financial and energy-related support.

Consultation responses

The consultation attracted 86 responses and there was broad support for the proposals.

Respondents to the consultation agreed with expanding the scheme to support more households, focusing on improving the fuel poverty targeting rate of the scheme, and enabling more rebates to be awarded automatically. Respondents also supported standardising the eligibility criteria for rebates across energy suppliers, and generally supported reducing the supplier participation thresholds. The largest concerns were around: the use of an algorithm to estimate energy costs and therefore determine eligibility for a rebate, and the factors that are used in the algorithm; the impact on disabled households, as fewer households where a person in receipt of a disability benefit will receive a rebate; and additional restrictions on specific Industry Initiatives measures, for instance on financial assistance.

The Government has decided to implement the main proposals consulted upon. We have made several changes in response to the consultation, such as the inclusion of Housing Benefit in the qualifying benefits under Core Group 2 and requiring Ofgem to monitor the levels of spending under each Industry Initiative in relation to disabled households through estimated annual reporting from energy suppliers.

Energy Company Obligation expansion

The Energy Company Obligation (ECO) follows previous supplier obligations and was introduced in 2013. It obliges energy suppliers above a certain size to reduce



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home heating costs through the installation of energy efficiency and heating measures. The scheme is focused on households who are low income and vulnerable, or at risk of fuel poverty, living in energy inefficient band D-G homes.

The current iteration of ECO, ECO3, ends in March 2022. ECO4 will apply to Great Britain from April 2022 to March 2026 and will be worth £1bn a year. It will have a greater focus on insulation, making greater improvements to the least energy efficient homes. By increasing ECO from £640 million to £1 billion and extending it until 2026, we are helping upgrade an extra 450,000 homes, cutting £300 on average off their energy bills, or up to £1,600 in the least energy efficient homes, and preventing 15.08 megatons of carbon emissions over the total lifetime of the measures, as we build back greener.

The Scottish Government have requested the UK Government to put in place an ECO4 scheme covering Scotland. Therefore, we will make provision for its extension across Great Britain.

Household eligibility and targeting

ECO4 will continue the focus on supporting low income and vulnerable households, helping meet the statutory fuel poverty target and milestone. We will mandate minimum energy efficiency improvements by requiring:

- band F and G homes to be improved to a minimum of band D
- band D and E homes to be improved to a minimum of band C

Eligible households will be those: in receipt of means tested benefits; living in social housing and PRS bands E-G; or referred by a participating local authority, energy supplier or devolved government, under the new reformed ECO4 Flex route, which is increasing from up to 25% to up to 50% of the obligation target. A minimum target is set for upgrading 150,000 band E-G private tenure homes, to ensure the least energy efficient homes are not left behind. As delivery costs are higher in off-gas rural areas, we will incentivise delivery in Scotland and Wales with an uplift of 35%. The Home Upgrade Grant will complement ECO delivery in off-gas rural England, to ensure households there are not missing out.

Consultation responses

BEIS received 144 responses to the ECO consultation stakeholders ranging from the larger energy suppliers and trade associations to individuals with an interest in energy efficiency and fuel poverty. Broadly, the responses were supportive of the proposals.

Most respondents disagreed with the proposal to exclude people on non-means tested disability benefits as it excludes vulnerable households in need of assistance. However, we will proceed as per the consultation and we estimate that the proportion of recipients with a long-term illness or disability will be in excess of the proportion in the population as a whole and in line with the proportion in the fuel poor population.



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Measures

Measures under ECO4 will align with the Heat and Buildings Strategy and net zero targets. There will be limited support of repairs and replacements of broken gas and electric storage heating systems and limited repairs of inefficient or efficient oil and LPG systems. Support for new and replacement LPG and oil heating systems will be removed. We will continue to support solid wall insulation (SWI) with a new minimum SWI target of 90,000 measures throughout ECO4.

A new scoring methodology will be introduced, providing greater support to the worst performing homes. This will be based on the difference in bill savings between the starting and finishing energy efficiency rating, with regard given to a property's floor area. Meanwhile, we will continue to support new and innovative installation methods and measures via a reformed Innovation Measure mechanism. Only fully tested measures with adequate consumer protection will be delivered.

Next steps

The Government intends to lay the Regulations for WHD and ECO as soon as possible after the Easter Recess. While the WHD regulations will come into force after the usual start of the scheme year, spending on Industry Initiatives incurred between 1 April 2022 and the regulations coming into force will count towards suppliers' obligations, as long as they are subsequently approved by Ofgem.

ECO4 is a radical policy change compared to previous iterations of ECO. As in previous schemes, delivery is usually slower in the early months while suppliers and the supply chain implement and deliver to new scheme rules. To support the transition, we will allow suppliers the choice to deliver to existing ECO3 rules for a period of three months from April – June 2022. Delivery during this period will align with our net zero approach under ECO4.

I hope the BEIS Select Committee will support these Regulations and the extension of these vital schemes for fuel poor households.

Yours sincerely,

Lord Callanan