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## EXPLANATORY NOTE

*(This note is not part of the Order)*

This Order applies in Great Britain. It establishes the Energy Company Obligation scheme for the period to 31st March 2022 for the promotion of measures for reducing the cost to individuals of heating their homes. The scheme is administered and enforced by the Gas and Electricity Markets Authority (the “Administrator”).

Article 3 of the Order sets who must participate in the scheme. These are licensed electricity and gas suppliers that have more than a specified number of domestic customers at the end of any year between 2017 and 2020, and that supply more than a specified amount of gas or electricity to domestic customers during that same year, or that are in a group that meets these thresholds.

Article 4 sets out the overall home-heating cost reduction target for the period from the commencement of the Order to 31st March 2022.

Articles 5 to 10 set out the process for the apportionment of the overall home-heating cost reduction target between participants. A participant's share of the target is referred to as its total home-heating cost reduction obligation (its “obligation”). A participant's obligation is determined in four phases, by reference to whether the participant is a participant in relation to the phase, and if so, by reference to the amount of gas or electricity supplied by the participant (or its group) in the calendar year preceding the phase. Phase 1 is the period from commencement of the Order to 31st March 2019. Phases 2 to 4 are each successive period of 12 months.

Article 11 requires a participant to achieve its obligation by no later than 31st March 2022, and by promoting “qualifying actions”, which are defined in article 13. It also requires at least 15% of a participant's obligation to be achieved by qualifying actions that are installed at domestic premises in a rural area as long as it is not the installation of equipment for the generation of heat wholly or partly from oil; and requires a participant to promote sufficient “solid wall actions” to meet or exceed its total “solid wall minimum requirement”, which is determined by the Administrator under article 6.

Article 12 sets limits on the amount of a participant's obligation that may be met by certain qualifying actions.

Articles 14 to 16 set out different conditions to be met for a measure to be a qualifying action, depending on whether the measure is installed at private domestic premises, social housing with an energy performance rating of band D or at social housing with an energy performance rating of band E, F or G. Article 17 sets out a condition that measures may meet to be a qualifying action, where a local authority has been consulted on the installation of a measure and made certain statements. Further requirements to be met by measures in order to be qualifying actions are set out in articles 18 and 19.

A participant may apply to the Administrator for a measure to be approved as a “demonstration action” (article 20), an “innovation measure” (article 21) or a “monitored measure” (article 22). Where such an application is accepted, some of the provisions of the Order differ for these measures, including the rules for calculating the contribution the measure makes to a participant's obligation (Part 7 of the Order), and in the case of demonstration actions and innovation measures, the conditions and requirements that the measure must meet under Part 4 of the Order.

A participant, or any other licence-holder on whom a total carbon emissions reduction obligation was imposed under the Electricity and Gas (Energy Company Obligation) Order 2014 (S.I. 2014/3219) (a “relevant supplier”), can also apply for a measure promoted under that Order to be recognised as a “surplus action” if it is not required or used by the applicant to meet its obligations under that Order and meets the criteria in article 23 of this Order. A measure recognised by the Administrator as a surplus action under article 23 may contribute towards a participant's obligation under this Order.

**Changes to legislation:** *There are currently no known outstanding effects for the The Electricity and Gas (Energy Company Obligation) Order 2018. (See end of Document for details)*

Except in the case of surplus actions, the requirements for a qualifying action include a requirement for the participant to notify the measure to the Administrator in accordance with article 24. The deadline for notification of the measure is set by, or determined under, article 25. Article 26 requires the Administrator to attribute a score to each qualifying action to determine the amount the qualifying action contributes towards the achievement of a participant's obligation. For all actions, except demonstration actions and surplus actions, the score is calculated by reference to the cost savings (as defined in article 2) determined in accordance with articles 27, 29, 30 and 32.

For demonstration actions, the score is calculated using the actual costs incurred or cost estimate provided by the participant in respect of the promotion of the demonstration action (article 28). For surplus actions, article 31 provides that the score is the cost score attributed to the measure under the Electricity and Gas (Energy Company Obligation) Order 2014, or the cost score calculated in accordance with that Order.

Article 33 requires the Administrator to publish a methodology for the purpose of calculating the cost savings of qualifying actions.

Relevant suppliers can apply to the Administrator under article 34 to transfer qualifying actions from one to another. Participants can apply to the Administrator under article 35 to transfer all or part of a participant's obligation or total solid wall minimum requirement from one to another. Article 36 requires the Administrator to determine by no later than 30th September 2022 whether a participant has achieved its obligation. The Administrator must also deliver monthly reports to the Secretary of State until April 2022, and a final report by no later than 30th September 2022 setting out whether participants achieved the overall home-heating cost reduction target.

Article 37 enables the Administrator to require information and evidence from a participant regarding compliance with the requirements of this Order and the costs of achieving its obligation. Article 38 transposes article 7(8) of Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency (OJ No. L 315, 14.11.2012, p1). It requires the Secretary of State to publish the energy savings achieved by participants and the provision of information to the Secretary of State by participants on their final customers.

Article 39 provides that a requirement placed on a participant under this Order is a relevant requirement for the purposes of Part 1 of the Electricity Act 1989 and Part 1 of the Gas Act 1986. A full impact assessment of the effect that this Order will have on the costs of business and the voluntary sector will be published and will be available from the Department for Business, Energy and Industrial Strategy at 1 Victoria Street, London, SW1H 0ET.

**Changes to legislation:**

There are currently no known outstanding effects for the The Electricity and Gas (Energy Company Obligation) Order 2018.