Northern Ireland Sustainable Energy Programme (NISEP)

Consultation on phase II opening of the NISEP to competition and the new operational arrangements and the Programme Framework Document

Date 26 April 2010

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1.0 Background

Objectives of this Consultation

The Utility Regulator appointed AECOM Ltd, as external consultants, to undertake a review of the appropriate mechanisms for opening the Northern Ireland Sustainable Energy Programme (NISEP formerly named the Energy Efficiency Levy or EEL) to further competition (phase 2 opening). Bidding for the 2011 NISEP year will commence in September 2010.

The purpose of this consultation is to invite comments on;

1) the arrangements for Phase 2 opening to new participants,
2) the incentive arrangements, and
3) the framework document and procedures for participants.

The draft NISEP Framework Document is attached as Appendix 1 for comment and it contains the detailed draft rules and procedures that are required for the NISEP year 2011/12, it also includes details of the targets and incentives mechanism. All the rules and procedures for the year commencing April 2011 year need to be finalised and agreed by September 2010 so that potential bidders are given enough time and information to put together meaningful bids.

Although the following paper is not a line by line, issue by issue comparison between the attached draft Framework Document and the current Framework Document covering the scheme year 1 April 2010 – 31 March 2011, it does attempt to address the most significant issues. The most significant changes relate to the proposed arrangements for allowing new participants (Phase 2 opening), arrangements for the incentive mechanism, other rules and procedures detailed in the framework document including:

- ring fence provisions,
- arrangements to ensure that participants use funding appropriately,
- bidding, auditing and reporting procedures
- the NISEP timetable

Before proceeding it is worthwhile recapturing some of the issues which were raised at the time of the 2008 review of the EEL and which some stakeholders have continued to raise.

Previous Consultations

The Utility Regulator consulted on the then Energy Efficiency Levy (EEL) in August 2008 and from this consultation established the need for a number of high level changes including:

- The opening of the EEL to organisations other than electricity suppliers.
- Allowing renewable and innovative schemes to obtain funding.
- Revising the incentive mechanism, and
- Ensuring that the framework documentation is clear for new potential participants.

In July 2009 the Utility Regulator published a consultation on the detailed operational rules for the programme to cover the Phase 1 opening. This consultation set out the key rules for participants in the programme for the year April 2010 to 31 March 2011. For Phase 1 the right to bid for funding was opened up to licensed gas suppliers as well as licensed electricity suppliers. These consultations also set out the aims and format of the NISEP.

The aims of the NISEP are set out below;

a. the achievement of efficiency in the use of energy,

b. socially and environmentally sustainable long term energy supplies,

c. to achieve the above at best value to consumers while also having due regard for vulnerable customers.

The format of the NISEP is a voluntary incentivised programme of schemes, funded by customers through the electricity system in the form of a Public Service Obligation. During the 2008 review of the EEL the Utility Regulator was asked the whether we had considered the possibility of an obligation on all energy suppliers similar to the CERT obligation in the UK.

Given that the Utility Regulator has been asked the question again during the preparation of this document, we felt it appropriate to repeat the answer for the avoidance of doubt. We confirm that the CERT is backed by legislation in GB and that the introduction of any similar type of legislation in Northern Ireland would be a matter for the Department of Enterprise Trade and Investment (DETI). In addition EST's analysis at the time of the 2008 review showed that the levy style scheme offered good value for money to customers. The Utility Regulator considers that value to customers is an important criteria, whichever format is chosen. This is because under both the

CERT and the NISEP format, the cost is ultimately picked up by customers either through the PSO (as with the NISEP) or through supply companies (as with the CERT). The Utility Regulator considers that competition is an important mechanism for ensuring value for money. In the absence of fully developed competition in the supply of electricity and gas, competition for NISEP funding will help ensure value for money.

The Utility Regulator confirms that it will revisit this question at the time of the next review.

The Utility Regulator has also been asked about the level of spending on the NISEP and again this question was addressed during the 2008 review and will not be opened up again until the next review, or pending the outcome of the current debate on social tariffs. However for the avoidance of doubt the level of spend on the NISEP is set at a level which the Utility Regulator considers to be a proportionate response to our duties. Some commentators have suggested increasing the amount of funding under the NISEP to equal that of the CERT (expressed as a per customer average). However such a move would raise the question of proportionality and could potentially require a change in legislation, which would be a matter for the Department of Enterprise Trade and Investment (DETI).

For the period under consideration (to 2012/13) the aims of the NISEP as noted above will remain unchanged and in addition the NISEP funding will remain at the current level, increasing annually by inflation, supplier participation will remain as a voluntary activity rather than an obligation on energy companies and suppliers. The current NISEP provides advantages in terms of the leveraging of third party funds and innovation and it effectively delivers meaningful solutions to priority customers. Respondents should be aware that moving to an obligation would require legislation and would therefore take a minimum of two years due to legislative timetables in Northern Ireland. If respondents wish to comment on the aims, general form or level of the NISEP they may do so.

As part of the Phase 2 opening of the NISEP to competition the Utility Regulator will take into consideration responses to all previous consultations in respect of setting meaningful targets and providing appropriate incentives in relation to the Programme, whilst obtaining best value for money from the customer funds and attracting a wide variety of schemes from the relevant sectors and interested parties.

Q1 Respondents may comment on the aims and general form or level of the NISEP

Responses

The Utility Regulator wishes to conduct this consultation in as open a way as possible and to consider the views of all interested parties. If you wish to express a view on these proposals or any related matter, we would welcome your response. Responses should be returned no later than 18 July 2010 addressed to:

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Note: We regret that due to the NISEP time table we will be unable to permit extensions to the consultation period.

Individual respondents may ask for their responses, in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be published.

As a public body and non-ministerial Government department, we are bound by the Freedom of Information Act (FOIA) which came into full force and effect on 1January 2005. According to the remit of the Freedom of Information Act, it is possible that certain recorded information contained in consultation responses can be put into the public domain. Hence, it is now possible that all responses made to consultations will be discoverable under FOIA – even if respondents ask the Utility Regulator to treat responses as confidential. It is therefore important that respondents note these developments and in particular, when marking responses as confidential or asking the Utility Regulator to treat responses as confidential, should specify why they consider the information in question to be confidential.

If you have any queries concerning the issues raised in this document, please contact Alison Farr.

As a public authority, the Utility Regulator has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

- persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- men and women generally;
- persons with disability and persons without; and
- persons with dependants and persons without.

The Utility Regulator must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

In the development of all its policies the Utility Regulator also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore be covered by these vulnerable groupings.

Since its inception in 1997/8 the EEL Programme (now the NISEP) has represented an important element of the Utility Regulator's response to its duty to protect customers and its duty to have regard for the environment. The importance of the Programme has increased over the years as issues such as fuel poverty, fuel security and environmental sustainability have increased in importance.

The Utility Regulator considers that the effect of the NISEP is to improve equality of opportunity for disadvantaged groups. Initial screening has been carried out on this draft paper to identify any equality impacts. As none of the changes proposed in this document will impact on the current 80% "ring fence" of funding to vulnerable customers it has been decided that the document will not be subject to a full Equality Impact Assessment.

Summary Questions

Q1 Respondents may wish to comment on the aims, general form or level of the NISEP.
Q2 Respondents are asked if they agree that only fit and proper organisations, who are financially and technically capable of delivering NISEP schemes, should be permitted to register as primary bidders?
Q3 Respondents are asked to comment on the criteria set out in section 1.4 of the attached Framework Document. Will the application of these criteria ensure that only fit and proper organisations register?
Q4 Respondents are asked to comment on the accedence document set out in Appendix 8 of the attached Framework Document. Do respondents agree that all registered primary bidders (including licence holders) should sign the accedency document?
Q5 If any respondents feel that the criteria set out in 1.4 will not be sufficient to ensure that only fit and proper organisations become involved they are asked to suggest alternative criteria.
Q6 Respondents are asked to comment on the responsibilities of the primary bidder as regards operating schemes in accordance with their bid. Are these responsibilities clear? Are the terms and conditions clear? Are there any other responsibilities which should be set out for primary bidders?
Q7 Respondents are asked if they agree with the objectives of and reasons for an incentive mechanism.
Q8 Respondents are asked if they agree that the quality of measures is a central issue and that incentives should be withheld where significant quality issues are not dealt with? Should incentives be withheld in the other listed circumstances or any other specific circumstances that have not been alluded to?.
Q9 Respondents are asked if they agree with the other circumstances under which incentives may be reduced or energy savings apportioned?
Q10 Respondents are asked if they agree that the methodology suggested is the best method of ensuring the aims and objectives of the programme are achieved?
Q11 Respondents are asked if they agree that the Framework Document is set out in a clear and understandable format?
Q12 Respondents are asked if there are any sections of the Document which need to be clarified?
Q13 Respondents are asked if they agree that the Framework Document delivers its stated aims and objectives?
Q14 Respondents are asked if the Programme timetable as set down in the Framework Document is clear and understandable?
Q15 Respondents are asked if there are any further comments they wish to make?

2.0 Phase 2 Opening the NISEP to Competition

Objectives of Competition

The key objectives of opening the NISEP to competition are to promote best value for money for customers through competition by allowing a variety of different organisations to bring forward efficient and innovative schemes. However for completeness we acknowledge that over time, energy savings may become more difficult to achieve in light of the "low hanging fruit effect," i.e. once all the most cost effective measures have been installed we must then consider the next most cost effective measures and so on. In addition desirable solutions such as, for example, solid wall insulation and other solutions for hard to treat homes will be more expensive than standard cavity wall insulation, therefore the ringfence provisions within the programme ensure that such desirable solutions can be progressed despite the fact that they appear less cost effective when compared on a pounds per kWh of energy saved basis.

Competition Safeguards

There are risks involved in opening the programme to competition. These risks include the possibility that NISEP funding could be paid over to an organization for an energy efficiency scheme, and for whatever reason the organization fails to deliver the scheme as agreed. Reasons why an organization might fail to deliver could be as diverse as unforeseen circumstances, mismanagement or fraud. To guard against this the Utility Regulator considers that it is vitally important that only fit and proper organisations register to become involved in the NISEP. Therefore the attached framework document includes a process whereby organisations must apply to register to become "primary bidders" to the NISEP, it also contains a number of other rules and provisions covering:

a) the information which organisations must supply and the criteria which will be used to assess which organisations are allowed to register as primary bidders;
b) primary bidders must agree to be bound by rules within the framework document;
c) once funding is agreed, monitoring and auditing procedures will ensure that the funding is properly spent;
d) funding is paid over on the basis of submission of invoices for work completed,

e) primary bidders are bound by an agreement to ensure that any unspent or misspent funding is returned to the NISEP fund.

The March 2009 high level conclusions paper stated that the Utility Regulator would bring forward a registration process to allow organizations to demonstrate their financial and technical soundness before they are permitted to bid for schemes. In this paper the Utility Regulator has made the distinction between "primary bidders" for funding and "secondary bidders" also known as "scheme partners".

These terms are explained within the "NISEP Framework Document" (See sections 1.4 and 1.5.1 of the attached draft Framework Document). Organisations which are accepted under the registration process would be registered as "primary bidders" and would be entitled (once the bidding opens up in September 2010) to apply for funding for the programme year commencing April 2011. All primary bidders who are successful will be responsible for the delivery of approved schemes and will be bound by the provisions of the Framework Document.

The Utility Regulator will give further consideration to the adequacy of the safeguards in the Framework Document taking into account the responses to this consultation and any other information that comes to light through the operation of the NISEP.

Who can register as a primary bidder?

All organisations which hold a license which is issued by or regulated by the Utility Regulator may register as a primary bidder. In addition all organisations which meet the criteria laid down in section 1.4 of the draft Framework Document attached may also register as a primary bidder. Registration gives organisations the right to be included in the call for schemes each September and to bid for funding. It also gives organisations the responsibility to ensure that all conditions within the Framework Document are adhered to.

All registered primary bidders must sign the accedence document contained in Appendix 8 of the attached draft Framework Document. The March 2009 paper stated that organizations applying to become registered primary bidders would be required to demonstrate;

1) financial soundness
2) established track record in the delivery of energy efficiency, fuel poverty or renewable energy schemes, and
3) technically capable of ensuring high quality measures

The purpose of Section 1.4 of the draft Framework Document is to set out the information which organisations must provide and the criteria they must meet to satisfy the above requirements.

If I cannot meet the criteria for a primary bidder can I become involved in the NISEP?

Other organisations may partner up with primary bidders. This means that the programme will be open to a wide range of organisations, but it will only be the primary bidders who can bid for funds by sending submissions to the Programme Administrator, Energy Saving Trust (EST)[1]. Although the submissions may well be schemes which have been brought forward to the primary bidders by scheme partners only primary bidders will receive funding directly from NISEP. While the Utility Regulator would encourage potential primary bidders and scheme partners to seek each other out, we do not intend to mandate the relationship between the two. In addition we must stress that it is the primary bidder who will ultimately be held responsible under the Framework Document to ensure adherence to the Framework Document rules and delivery of schemes as per scheme submission.

Key features of registration

- All organisations who wish to register as primary bidders must sign the accedence document.
- All organisations which hold a licence issued by or regulated by the Utility Regulator are automatically entitled to bid for NISEP funds upon signing the accedence document.
- Other organisations which meet the criteria set out in 1.4 of the attached Framework Document may also sign the accedence document.
- Once an organisation signs the accedence document they are called primary bidders and will be included in the call for schemes each September.
- Primary bidders are responsible for adherence to the rules in the Framework Document including the provision of accurate information.

Other organisations may take part in the scheme by partnering up with primary bidders, in this instance the primary bidder will remain solely responsible for adherence to the Framework Document.

[1] The role of Programme Administrator is set out in the Framework Document. The role is currently fulfilled by EST, who administer the programme on behalf of the Utility Regulator.

What happens once I have registered?

Once registered, primary bidders will be included in the call for schemes each September and they may then bring forward schemes and bid for funding. Once the primary bidder makes a successful bid and receives funding they have certain responsibilities to ensure that the schemes are carried out in accordance with their bid. The responsibilities of the primary bidders are set out in the Framework Document. The terms and conditions also set out in the framework document in Appendix 8.

Q2 Respondents are asked if they agree that only fit and proper organisations, who are financially and technically capable of delivering NISEP schemes, should be permitted to register as NISEP primary bidders?
Q3 Respondents are asked to comment on the registration criteria set out in section 1.4 of the attached Framework Document. Will the application of these criteria ensure that only fit and proper organisations register?
Q4 Respondents are asked to comment on the accedence document set out in Appendix 8 of the attached Framework Document. Do respondents agree that all registered primary bidders (including licence holders) should sign the accedence document?
Q5 If any respondents feel that the criteria set out in 1.4 will not be sufficient to ensure that only fit and proper organisations become involved they are asked to suggest alternative criteria.
Q6 Respondents are asked to comment on the responsibilities of the primary bidder as regards operating schemes in accordance with their bid. Are these responsibilities clear? Are the terms and conditions clear? Are there any other responsibilities which should be set out for primary bidders?

3.0 Incentives and the Incentive Mechanism

Objectives of a good incentive mechanism

The Utility Regulator considers that a good incentive mechanism is one which is capable of:

- Encouraging participation in the NISEP.
- Delivering the NISEP objectives at best value for money to customers.
- Encouraging innovation and ensuring additionality.

The Utility Regulator recognizes that there are a number of reasons why primary bidders become involved in the NISEP;

- Opportunities for marketing or building relationships with potential or existing customers.
- Opportunities to obtain funding to deliver on social or environmental commitments or corporate social responsibility (e.g. delivering voluntary agreements under the Energy End-use Efficiency and Energy Services Directive)

The Utility Regulator further recognizes that, unlike the usual regulatory experience where regulated companies are permitted to earn a return on capital invested, or where regulated companies are permitted to earn a margin on turnover, in the NISEP it is customers and in some instances partners and/or a range of other organizations which provide funding. (See Appendix 2 for information on returns earned on regulated businesses)

However the ability to earn incentives has long acted as the driving force to deliver efficiency and innovation to the NISEP (previously called the EEL). This has proved to benefit customers overall. Participants, rather than simply meeting their targets with the funding available find it in their commercial interests to continue to strive to exceed those targets. In order for this to work as it should the Framework Document should deliver clarity and transparency in relation to targets and incentive payments.

This should also be balanced against the customers' view that incentives which are too high may not represent good value for money. Therefore the Utility Regulator considers that a system whereby the Programme Administrator constantly monitors and reports on forecast and outturn incentives must be in place whatever incentive mechanism is chosen. The Programme Administrator would be required to report to the Utility Regulator where the incentive mechanism is forecast to deliver, or does deliver incentives which may be considered excessive when expressed as a percentage of NISEP funding. As part of its report the Programme Administrator would suggest corrective action or adjustments to the incentive mechanism (e.g. by adjusting the amount payable per GWh, adjusting the groups of schemes to which targets apply), which could be delivered into the framework document by September for the following year's programme. The Utility Regulator recognizes that in order to maintain transparency and certainty for participants the targets and incentives should not usually be adjusted in year. Instances where targets can be reset in year must be restricted to a limited number of circumstances which should be outlined in advance via the Framework Document and any associated guidance or correspondence.

Options for delivering the objectives of the incentive mechanism

AECOM on behalf of the Utility Regulator considered a number of options for incentive mechanisms in relation to their ability to deliver the objectives noted above.

Table 3 below summarises the options examined

<u>Energy Efficency Levy Mechanism as established by EST and in use up until scheme year commencing April 2009:</u>

Key features of this mechanism
Energy saving targets set for three years in advance.
Targets based on assumptions regarding the measures mix plus EST independent assessment of expected energy savings and additional comfort from the measures mix.
Incentives paid per GWh of target exceeded at the rate of £4995 (in 2007/08 prices adjusted annually for inflation)
Advantages:
Reduced risk for bidders.
Certainty of targets for bidders.
Independently set targets.
Disadvantages:
Inability to reset targets in the event that significant outperformance is detected during the 3 year period.
Difficult to ensure scheme return is consistent within a group of schemes.

<u>Methodology proposed by Skyplex Consulting Ltd. March 2009</u>

Key features of this mechanism
Energy saving targets set on an expost basis after bids are received.
Incentives paid on target exceeded at the rate of £3460 per GWh (reduced to £1000 in year 1).

Advantages
Allows customers to immediately capture the benefits of high performing schemes.

Disadvantages
Increases risk to potential bidders.
Does not permit transparency for scheme developers.
Less benefit to potential bidders of coming up with better schemes than previous year.

<u>Methodology applied in the current "NISEP Framework Document" governing the programme year commencing April 2010.</u>

Key features of this mechanism
Energy saving targets set in advance based on cost-effectiveness of schemes over previous three years.
Uplift (multiplier X2) applied to Priority Schemes (i.e. those targeted to vulnerable customers) to ensure they are at least as attractive as other schemes.
Incentives paid on targets exceeded at the rate of £1000 per GWh for non priority schemes and £2000 per GWh for Priority Schemes

Advantages
Encourages priority schemes.

Reduces risk as potential bidders know their targets well in advance of any bidding process.

High performing schemes earn incentives thus encouraging bidders to bring forward innovative, high performing efficient schemes. Customers benefit both from the innovative schemes and because targets in the following year will take into consideration the performance of the innovative scheme.

Disadvantages
Brings forward a restricted range of scheme types since high cost effectiveness schemes were included with lower cost effectiveness schemes in the same pot of ring-fenced funding.

Difficult to bring renewable energy schemes forward on the basis of cost effectiveness.

Difficult to ensure scheme return is consistent within a group of schemes.

NIE Energy proposed methodology from consultation response

Key Features
Change ring fencing of groups with similar cost effectiveness schemes grouped together.

Re-base targets to provide consistent outcome across the various scheme types and ring fenced groupings. Do not use multiplier uplift for priority schemes, but instead offer a higher incentive to ensure the required return is achieved.

Advantages
Potentially encourages broad range of schemes.

Disadvantages
Difficult to ensure scheme return is consistent within a group of schemes.

A feature of all the above options is that the incentive earning potential is capped through recycling. Participants commit to the recycling of any incentives earned in excess of 8% of total funds (i.e. NISEP funding plus leveraged funding) into fuel poverty, energy efficiency or renewable energy schemes which are additional to any work already planned.

Recommended Option

Following review of the above, AECOM recommended that the incentive mechanism best suited to delivering the objectives noted above is as follows:

- Targets and incentives will be reset annually in time for the call for schemes each September to remain in place for the following 1 April – 31 March scheme year.
- Where possible targets will be based on the average cost effectiveness in the previous three years within a defined category. (Where appropriate outliers may not be included in the calculation).
- Where a new category of scheme is brought forward, e.g. renewable and innovative, there may be no previous years to go on. In this instance incentives will be based on the Programme Administrators assessment of what is appropriate given the technology type. Individual schemes/participants which out perform may earn incentives whilst schemes/participants which under perform will not earn incentives. There will be no incentive paid for simply meeting the target.
- The recycle of funds will remain as a safety valve, whereby participants are required to commit to recycle any incentive earned above the threshold of 8% of

total scheme funds into fuel poverty, energy efficiency and or renewable schemes which are additional to any work already planned.

- Priority schemes will for the time being continue to earn a higher rate of incentive in recognition of the fact that they involve more effort and offer a greater degree of additionality.
- Incentives forecast and incentives earned will be continually monitored by the Programme Administrator.

Ring fence provisions ensure that a variety of scheme types are brought forward. The cost effectiveness targets based on the above are set out in Table 3.5 of the attached Framework Document. Ring fence provisions are set out in Figures 1.1 and Table 2.1 of the attached draft Framework Document.

Incentives continue to be awarded on the basis of GWh of target exceeded, with no incentive paid for simply meeting the target. The incentive rate for priority and non priority schemes for the year commencing April 2011 is proposed to be as follows.

Priority Group schemes = £2,000 per GWh

Non Priority Group schemes = £1000 per GWh

Circumstances in which incentives may not be paid or where energy savings may be apportioned include the following:

If schemes are not delivered in accordance with the requirements in the framework document, accedence document and the terms on which they were approved/varied.

Some schemes may involve funding from other energy suppliers or Government Departments/Organisations such as DSD or NIHE. If it can be confirmed in writing that Government Departments/Organisations such as DSD or NIHE would not have undertaken the relevant scheme without NISEP funding and that they (DSD/NIHE) will not be counting the energy savings or measures for the purposes of fulfilling performance targets, then the applicant can be credited with all the savings. Otherwise energy savings will be apportioned on the basis of funding provided.

If third party funding is sought from a gas/water/electricity license holder, subject to a price control, the energy savings from the scheme must be split pro-rata on the basis of funding provided by NISEP. This is to ensure that there is no double counting between energy savings attributed to a price control and NISEP.

Where a participant in the NISEP has also signed a voluntary agreement with DETI under Directive 2006/32/EC of the European Parliament on energy end-use efficiency and energy services - incentives will not be paid for activities which are reported to DETI as having been carried out in fulfillment of the voluntary agreement. This is because incentives will only be paid on measures which are additional to all other planned activities.

Where significant quality issues are discovered the Utility Regulator reserves the right to with hold the payment of incentives or payment of further funding until such issues are resolved. For clarity, significant quality issues are taken to mean installations which do not meet safety or energy saving standards or quality of installation standards.

Where a priority group scheme requires a customer contribution for the purpose of calculating incentives – the energy savings will be divided pro-rata on the basis of the level of customer contribution. Those savings which result from the customer contribution will not attract an incentive payment. Apportionment of savings will be discussed with applicants, as required, when they are submitting schemes.

How the proposed methodology delivers against the objectives of the incentive mechanism:

- Encouraging participation in the Programme.
  The proposed methodology allows participants to develop schemes based on transparent information about targets which is published in the September before the scheme submission stage starts.

- Delivering the NISEP objectives at best value for money to customers.
  The proposed incentive mechanism encourages participants to bring forward new and innovative schemes which are highly cost-effective. When this happens participants may be able to earn incentives. Customers will benefit from the variety of innovative schemes. They will also benefit the following year when targets are reset.

- Encouraging innovation and ensuring additionality.
  Where participants bring forward schemes which are highly innovative and efficient, participants may earn incentives. Ring fence provisions and other rules within the Framework Document also ensure additionality and innovation.

Questions
Q7 Respondents are asked if they agree with the objectives of and reasons for an incentive mechanism.
Q8 Respondents are asked if they agree that the quality of measures is a central issue and that incentives should be withheld where significant quality issues are not dealt with. Should incentives be withheld in the other listed circumstances or any other specific circumstances that have not been alluded to?.
Q9 Respondents are asked if they agree with the other circumstances under which incentives may be reduced or energy savings apportioned.
Q10 Respondents are asked if they agree that the methodology suggested above is the best method of ensuring the aims and objectives of the programme are achieved.

4.0 NISEP Framework Document

Purpose of Framework Document

As noted earlier, the attached draft NISEP Programme Framework Document contains the detailed rules and procedures that will be in place for the NISEP year 2011/12. All the rules and procedures for the 2011 year must be finalised and agreed by September 2010 so that potential bidders are given enough time and information to put together meaningful bids. We feel that it is essential that the Framework Document sets the rules and procedures down in a clear manner that can be easily understood and followed.

The Framework Document is designed to communicate the principles of NISEP and to detail the procedures covering for example:

- The pre-registration of primary bidders (see section 1.4 of the attached Framework Document),
- The arrangements around scheme bidding (see sections 1.3 to 1.6 and section 4 of the attached Framework Document),
- The detailed monitoring, reporting and auditing arrangements (section 5 of the attached Framework Document).
- Terms and conditions for successful primary bidders (see Appendix 8 of the attached Framework Document)
- The arrangements as set down in the Framework Document are binding on bidders (and this is detailed in section 1.4). Bidders accede to the terms and conditions of the Framework Document by signing the Accedence Agreement in Appendix 8.
- The NISEP time table and scheme year are also set out in 4.6 of the attached Framework Document. Note the closing date for scheme submissions has been moved forward to 1 December each year.

The Utility Regulator has a duty to protect and safeguard customer money and it does this through a series of careful checks and balances, carried out by the Programme Administrator on its behalf. Only reputable organizations with a sound financial standing and a track history of delivering energy efficiency schemes will be accepted as primary bidders.

Other Key Changes and Clarifications

Ring Fencing Arrangements

The ringfence arrangements are included in the Framework Document, for the 2011/12 year they are set out below for clarity. The purpose of the ringfence arrangements is to ensure that a wide variety of schemes are brought forward and to ensure highly desirable schemes (such as innovative and renewable schemes and schemes aimed at priority vulnerable customers) are able to obtain funding.

NISEP funding

	2011/12
Total Fund available	7,479,775
Programme Administrator's fee	104,717
Amount available for schemes	7,375,058
Priority Pot	5,900,046
Whole house	2,507,520
Whole house – no customer contribution sought	1,253,760
Priority Domestic individual measures	3,392,527
Priority Domestic Other – no customer contribution sought	1,696,264
Non Priority Pot	1,475,012
Conventional	737,506
Innovative	737,506

If the bids for funding do not use up all the money allocated to a particular pot or ringfence, the Programme Administrator with the consent of the Utility Regulator may move the under-spend to another oversubscribed pot.

Where NISEP money is returned as unspent at the end of a scheme year it may be added to the funding available in the following scheme year.

Appointment and Role of Programme Administrator

The Programme Administrator manages the programme on behalf of the Utility Regulator. The Programme Administrator's duties are set out in Appendix 7 of the attached Framework Document. The Programme Administrator is currently the Energy Savings Trust. It is proposed to go out to tender for the Programme Administrator role in 2011.

Inflation

The money available to the NISEP will be subject to inflation.

- The rate of inflation to be used is the RPI (All Items excluding house prices) referred to as CHAZ by the Office of National Statistics (ONS). The RPI average from April to April for each NISEP year is applied. Details of the RPI changes are held on the ONS website;
  http://www.statistics.gov.uk/StatBase/tsdataset.asp?vlnk=229&More=N&All=Y
- This is detailed in section 2.4.1 of the attached draft Framework Document.

Questions
Q11 Respondents are asked if they agree that the Framework Document is set out in a clear and understandable format?
Q12 Respondents are asked if there are any sections of the Document which need to be clarified?
Q13 Respondents are asked if they agree that the Framework Document delivers its stated aims and objectives?
Q14 Respondents are asked if the Programme timetable as set down in the Framework Document is clear and understandable?
Q15 Respondents are asked if there are any further comments they wish to make?

Appendix 1 Framework Document

This appendix is included as attachment to the web link or if this document has been sent to you via email as an attachment to the email.

Appendix 2 Allowed Returns On a Range Of Regulated Businesses.

Name	Allowed Return
Phoenix Natural Gas Ltd Distribution	7.5% pre tax[2]
Firmus	7.5% pre tax[3]
SONI	6.3% pre tax
NIE T&D	Low 3.8% High 6.2% pre tax
BNE ROI	7.08% Pre tax
BNE NI	8.07% Pre tax
ESB Transmission	5.63% Pre tax
ESB Distribution	5.63% Pre tax
Ofgem – Distribution Price Control	6.91% Pre tax
Ofgem – Transmission Price Control	6.25% Pre tax
DECC Consultation on Renewable Heat Incentives	12% for all technologies except Solar Thermal 6% for Solar Thermal[4]

Name	Margin on turnover
NIE Energy Supply	Fixed amount rather than a % of turnover. This equates to a margin of approx 1.7% on forecast turnover[5]
PNG Supply	1.5% [6]
ESB Customer Supply	1.3%

[2] PND Distribution License Page 96, http://www.niaur.gov.uk/uploads/licenses/GAS_Phoenix_Natural_Gas_Limited_Distribution.pdf

[3] Toens Distribution license Page 142, http://www.niaur.gov.uk/uploads/publications/2009-01-20_BGE_Towns_Distribution.pdf

[4] Renewable Heat Incentive, Consultatiuon on the Proposed RHI financial support scheme Feb 2010, Page 39 http://www.decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx

[5] NIE Energy Supply Price Control 2010/11 Decision Paper, page 11, http://www.niaur.gov.uk/uploads/publications/2010-11_Decision_Paper_for_NIEES_Price_Control.pdf

[6] Utility Regulator Decision on Phoenix Supply Price Control 2009-2011 Page 1, http://www.niaur.gov.uk/uploads/publications/Phoenix_Supply_Price_Control_Final_Determination_2009.pdf