

**Northern Ireland Sustainable Energy  
Programme (formerly known as the Energy  
Efficiency Levy Programme)**

**Consultation on the detailed  
operational arrangements and  
the revised Framework  
Document**

**NIE Energy Supply's Response**

21 August 2009



## **Introduction**

NIE Energy Supply (NIEES) welcomes a further opportunity to provide input to NIAUR's review of the NI Sustainable Energy Programme (NISEP). We recognise that NIAUR has taken on board some of the previous comments made by NIEES however remain concerned about some significant details and have provided further feedback below.

## **Question 1:**

**Respondents are asked to comment on the level of detail contained in the attached Framework Document. Are there any points which need to be clarified in order to facilitate the smooth operation for the year commencing April 2010.**

### Objectives

NIEES welcomes the inclusion of strategic objectives for the NISEP. We agree with the first objective on encouraging the efficient use of energy. With regard to the second objective (the achievement of socially and environmentally sustainable long term energy supplies), we feel that this has potential to be very wide ranging and not directly linked to delivering either energy efficiency or renewable energy technologies in homes or other premises. For example it could include the development of large scale renewable technologies. We recommend that this is removed and replaced with something more specific about carbon reduction in homes and businesses in Northern Ireland. The third objective seems to encourage value for money and makes a general reference to vulnerable customers. Given that 80% of the fund is ring fenced for fuel poverty, perhaps this should be explicit in the objectives, although we agree with encouraging cost effectiveness.

### Framework publication

NIEES would urge NIAUR to publish the final version of the Framework Document as soon as possible to ensure that sufficient time is allowed for suppliers to develop schemes. This is particularly important as it appears that there are fundamental changes which will require suppliers to re-examine how they have operated in the past and develop new schemes to ensure that they fit with new requirements.

### Scheme submission process

With regard to the application process, it appears that NIAUR/EST are proposing the addition of further layers of bureaucracy. For example, requiring marketing plans to be developed, leaflets and point of sale material to be designed, specifics of retailer offers (that may be running 12 months hence) to be finalised, details of scheme managers (which may require an EU procurement process) for inclusion in the scheme submission. In a competitive bidding process, these activities (which require considerable time and financial resources) would need to be undertaken at risk by the supplier, not to mention the additional resources that would be required by the scheme manager/NIAUR to administer. NIEES suggests that the proposals in the FD are excessive, impractical and certainly not proportionate.

### Payment of NISEP

With regard to the issue on payment of NISEP funding (section 2.4), NIEES has concerns with both options:

- a) payment three monthly in arrears: NIEES recommends that monthly would be more appropriate given the significant level of funding.
- b) Pre-agreed profile: this approach may be practical assuming that the scheme manager accepts that the projected spend profile is always likely to differ from the actual and that any differences do not result in the introduction of additional bureaucracy.

### Vulnerability criteria

The proposals outlined suggest using financial vulnerability as the key requirement. NIEES has been working with a range of voluntary sector organisations to ensure our criteria reflect the needs of vulnerable customers. In the current year, to avoid duplication with the government's Warm Homes scheme, in consultation with voluntary sector groups, a new qualifying criteria was introduced to allow support for older customers (aged over 70) to have access to free insulation and whole house solutions. NIEES would ask NIAUR to clarify if this group would be permitted in future years.

### Notification timescales

NIAUR is proposing an extension of the time to notify applicants (ie until mid March). Given that the funding should be available from 1 April, this provides little time for suppliers to agree contracts with partners. We would ask that the process of assessment and notification is completed by the end of February.

### **Question 2:**

**Respondents are asked to comment on whether or not they agree with the proposal to carry out a further round of consultation on the types of organisation permitted to bid for funding, before the second wave of opening up the NISEP to competition begins.**

NIEES remains concerned about NIAUR's proposals to open the scheme to non-licence holders and therefore we welcome consideration of this decision in a further consultation.

### **Question 3:**

**Respondents are asked to comment on whether or not they agree with the stated purpose of the target setting and incentive mechanism and the list of criteria for a good incentive mechanism as presented in table 1 of the is consultation document?**

NIEES welcomes the inclusion of criteria for effective target setting and incentive mechanism and agrees with the criteria outlined.

We are however disappointed that many of the principles have not been consistently followed through into the operational level within the framework

document, particularly with regard to ease of use, encouraging participation and the delivery of customer effectiveness. A number of examples are highlighted below:

- 7p / kWh for a scheme that should achieve 3-4p/kWh.
- 9p / kWh for some renewable schemes – it would be more cost effective to give the customer free energy.
- Despite stating that it is keen to encourage leverage, many barriers have been put in place which will essentially remove any incentive for suppliers to gain leverage funds which will therefore reduce the cost effectiveness of the programme.
- Additional requirements have been established regarding information required at scheme submission stage (this issue is highlighted in question 1).

#### **Question 4:**

**Respondents are asked to comment on whether or not they agreed with the target setting and incentive mechanism as set out in sections 3.9 and 3.10 of the attached Framework Document and as detailed in section 3.0 of this consultation document? (if respondents feel that they have ideas for a mechanism which better meets the criteria set in Table 1 they are asked to submit their ideas).**

NIEES firmly believes that the ex-ante approach is the only way that NISEP can operate transparently.

We agree with the concept of assessing generic scheme types against specific cost effectiveness. However, we are unclear how NIAUR will make decisions on which schemes to approve when there is more than one cost effectiveness target per ring fenced group. Currently, schemes within a generic group eg non priority commercial, are ranked according to cost effectiveness and only the most cost effective schemes receive approval. By way of example, should suppliers submit schemes for solar water heating and biomass, assuming there is more demand for funding than is available, if being judged in terms of cost effectiveness, it is likely that only biomass schemes will be approved. The same will apply to any category with more than one level of cost effectiveness.

The table below has been colour coded to highlight the different cost effectiveness targets within each generic group.

<b>Category</b>	<b>Target cost effectiveness</b>
Priority domestic individual measures	1.964
Priority domestic whole house solutions	7.364
Non priority domestic whole house solutions	0.624
Non priority domestic established individual measures	0.329
Non priority domestic renewable biomass boilers	2.243
Non priority domestic renewable solar thermal	9.754

Non priority domestic innovative individual measures	0.329
Non priority domestic hard to treat whole house solutions	2.796
Non priority domestic hard to treat insulation only (including solid wall insulation)	6.363
Non priority commercial established technology	0.276
Non priority commercial innovative technology	0.276

With regard to the proposed arrangements, outside the priority and innovative groups, we would not envisage for example any domestic insulation or heating schemes as they would have to compete at a cost effectiveness of below 0.276p/kWh and the 20% additionality level may well then be an issue. The vast majority of activity would by necessity have to focus on electricity saving in the commercial sector in order to achieve below 0.276p/kWh. If NIAUR wish to maintain a mix of measures, in both domestic and commercial non priority groups, this will need addressing as a matter of urgency.

Also, increasing the cost effectiveness target in the priority domestic whole house solutions sector to 7p/kWh has the potential to lead to non-economic installations, rather than focusing on the most cost effective (at 7p, it would be cheaper to provide the customer with free energy).

NIAUR has stated that it believes that 6% is a reasonable return. NIEES agrees that this figure is acceptable but we struggle to see where a 6% return comes from. Using figures from the current year, whilst the average may work out at 6%, many of the schemes would not be either accepted or be awarded the level of savings as the current year (apportionment etc) under the new regime. We believe that setting reasonable incentive levels achievable against realistic cost effectiveness targets is a more appropriate and transparent way to achieve the stated criteria of NISEP.

#### **Question 5:**

**Respondents are asked to list any topics/issues which they would like to be further considered when preparing the Framework Document for September 2010 and beyond.**

NIEES has noted a few lower order issues below:

- There appears to a bit of confusion over boiler life (ranges from 12-20 years)
- We remain unclear as to why only solar water heating and biomass boilers have been included in the renewables category. We assume that schemes will not be able to operate along side the Low Carbon Buildings Programme which provides grants for both the technologies indicated in the framework. We would welcome clarification on this point.