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Dear Frankie

Northern Ireland Sustainable Energy Programme
Consultation on the detailed operational arrangements and the revised Framework Document

Phoenix Energy Holdings Limited (PEHL) welcomes the opportunity to comment on the Utility Regulator's (UReg's) recent consultation on the detailed operational arrangements and the revised Framework Document of the Northern Ireland Sustainable Energy Programme (NISEP). We note that the changes largely implement the change of name of the fund and the extension of the current bidding process to gas licence holders.

Our responses to the specific questions are as follows:

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 of schemes for the year commencing April 2010?

We are very concerned with the statement that "*customers who have been identified as potentially 'financially vulnerable'* <u>*would not normally*</u> *be expected to contribute to the funding for measures* in the priority domestic categories. Phoenix Natural Gas has successfully project managed the Snug Plus scheme in its Licensed Area for a number of years. Consumers receive a contribution from NISEP towards the cost of improving the energy efficiency of their home and the scheme is aimed at the working fuel poor i.e. those individuals whose income is marginally above that which would entitle them to a free energy upgrade under another scheme. It is entirely inappropriate to exclude such customers from future NISEP schemes given that they are unquestionably vulnerable, running inefficient, carbon intensive systems and without some financial assistance would be unable to afford to replace the system.

For example, if NISEP deems the maximum income which entitles a consumer to a free energy efficiency upgrade is £20k, how is a consumer earning £21k expected to afford such an upgrade in the future? Snug Plus will have helped nearly 150 such homes in the Greater Belfast area in 2009/10 alone and it is absurd if the suggestion is that such a successful and well-established scheme would not be eligible for funding under the new Framework Document. Schemes such as Snug Plus are very cost-effective as the same level of NISEP funding is being used to help a greater number of homes than under fully funded schemes. We would therefore ask UReg to clarify this statement to provide assurance that proven schemes such as Snug Plus will continue to be eligible for future NISEP funding. We would also ask for clarification on the treatment of third party funding in relation to potential double counting of energy savings attributed to individual schemes.

In our November 2008 response we questioned the additionality of commercial schemes on the basis that if a commercial scheme is cost effective, the business ought to choose to undertake it without grant aid. Furthermore, organisations such as the Carbon Trust and Invest Northern Ireland already provide funding solutions and advice for businesses. We appreciate the level of detail already required in a project submission but welcome that applicants will now be required to provide a statement justifying the additionality of schemes given the split between non-priority commercial and non-commercial schemes has been removed.

It would be useful to understand the reasons for reducing the eligibility criteria for old oil and LPG boilers from 15 to 12 years old. It is unclear from the Framework Document whether the energy savings for all oil conversions will now be based on the energy savings achieved when converting from a typical 12 year old system or whether there will be further classifications e.g. oil boilers over 12 years old, oil boilers over 15 years old, oil boilers over 20 years old etc. It is reasonable to assume that the energy savings when converting from a 20 year old oil system would be greater than when converting from a 12 year old oil system. Additional age classifications could recognise increasing energy savings and may encourage bidders to target NISEP funding at the oldest, most inefficient oil systems in the first instance rather than at 12 year old systems where energy savings are less significant. We believe that this would provide the most appropriate use of NISEP funding and more accurate energy savings. UReg needs to ensure that NISEP funding is awarded to those schemes that produce the greatest carbon savings in the first instance i.e. solid fuel and Economy 7 conversions and therefore energy savings and target cost effectiveness must be set accordingly.

Natural gas arrived in Northern Ireland in 1996 and in the coming year the first systems installed here will have been operating for 12 years. Given the loosened age criteria for households using oil, the question whether 12 year old natural gas heating systems now qualify for NISEP funding is not unreasonable. At this time, we do not think that it is appropriate to include the replacement of natural gas heating systems within NISEP. Significant carbon savings can be achieved when converting to natural gas from other fuels and as NISEP funding is finite, these conversions should be prioritised. We believe that the Framework Document should clarify that NISEP funding will not be given to the replacement of natural gas heating systems regardless of the age or operation of the current system.

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 organization permitted to bid for funding, before the second wave of opening up the NISEP to competition begins?

A further round of consultation is essential as appropriate qualification and selection criteria will need to be established. This will be a fundamental change to the current operation of NISEP and will have a major impact on the future application of NISEP funding.

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 this consultation document?

Once we have effective competition for NISEP funding it may be appropriate to review the purpose of the target setting and incentives mechanism again; however we welcome UReg's indication that the ex-ante system of target setting will remain. This is essential in providing clarity for bidders in developing their schemes.

4. Respondents are asked to comment on whether or not they agree with the target setting and incentives 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.)

Once we have effective competition for NISEP funding it may be appropriate to review the target setting and incentives mechanism again; however at present we believe that the proposed mechanism is appropriate and that the ex-ante system of target setting should remain.

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.

NISEP (formerly the Energy Efficiency Levy) was introduced in 1997/98 and over the next few years the first systems installed via NISEP will have been operating for 12 years. As stated in question 2, we do not believe that the replacement of natural gas heating systems should be within NISEP's remit. However we will also undoubtedly come across households that originally received NISEP funding to convert their heating system to oil (where natural gas was not yet available), that system is now 12 years old and needing replaced. Given the loosened age criteria for households using oil, the system would qualify for NISEP. This situation may become more prevalent over the next few years as the original NISEP systems reach the end of their natural life and we believe that UReg needs to carefully consider whether such replacements are appropriate use of NISEP funds.

At this time, we do not think that it is appropriate to use NISEP funding to replace NISEP installed heating systems given that there are still homes having yet to receive any NISEP funding that are also vulnerable, but may be running a less efficient, more carbon intensive system and have never had the opportunity to replace this with a more efficient heating system. Significant carbon savings can be achieved when converting to natural gas from solid fuel, Economy 7 and older inefficient oil systems and as NISEP funding is finite, these conversions should be prioritised.

Another example may be if a NISEP installed heating system breaks beyond viable repair. If the evidence indicates that this was a direct result of the boiler not being maintained properly then UReg will need to to carefully consider whether such replacements are appropriate use of NISEP funds. As stated above, we do not believe that NISEP funding should be used to replace NISEP heating systems however boiler maintenance is an important issue. It would seem unreasonable to reward a household for not maintaining their system when there are many more eligible vulnerable households who have yet to receive any NISEP funding. We believe that the best solution is to mitigate this from the offset by for example including a service package to ensure that systems installed via NISEP are maintained and therefore ensure that they continue to operate at their maximum achievable efficiency throughout their economic life.

If you have any queries regarding our response please do not hesitate to contact me.

Yours sincerely

Abigail

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