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21 August 09

Dear Frankie

**NORTHERN IRELAND SUSTAINABLE ENERGY PROGRAMME (NISEP) –
CONSULTATION ON THE DETAILED OPERATIONAL ARRANGEMENTS AND THE
REVISED FRAMEWORK DOCUMENT**

Thank you for this opportunity to input to the above arrangements in support of NISEP.

We welcome the retention of the basic framework that underpinned its predecessor: the Energy Efficiency Levy. We believed then, as we do now, the scheme represents good value for money whilst delivering significant benefits for consumers and the environment. As such, it reflects a good blend in meeting requirements in accordance with the Energy End-Use Energy Services Directive (ESD) and facilitating a pro-market philosophy that encourages innovation.

It is also worth noting that its predecessor (EEL) has been very successful, and reflects well on how voluntary schemes can and do work in practice. Even when concerns were raised last year with respect to the level of the incentive payment for exceeding targets, Energia had no difficulty in responding positively by making a voluntary commitment that ensures a significant proportion of Energia's incentive payments are re-invested in additional energy efficiency measures. We continue to honour this commitment.

Naturally, we are keen to see the NISEP build on this success. However, we do have a significant reservation with respect to the detailed operational arrangements. Very specifically, we would like to draw your attention to the targets and incentive arrangements which have disproportionately swung in the wrong direction for the business sector.

Since 2007, the targets for commercial customers have been ratcheted up by almost 200%¹, which together with a decrease of over 400% in the level of incentive payment for each scheme, is making participation very challenging.

Target Cost Effectiveness

Against an environmental backdrop where increasing emphasis should be placed on reducing carbon emissions, it is odd that the scheme does not correctly apportion due weight to those sectors that can deliver the greatest environmental benefit. An effective incentive mechanism under NISEP, could be a means to encourage market innovation. For example, innovation around load interaction and the interplay with smart grids, perhaps even support for the electric vehicle.

The 0.276p KWh for commercial schemes is not only one of the lowest (surpassed only by domestic biomass), but is also significantly out of alignment with what the business market needs. It is far removed from the other extremes, such as Non-priority Domestic Renewable Solar Thermal, which attracts 9.754 p/KWh.

Increasingly, it is becoming more difficult to locate and secure commercial schemes for two main reasons.

First, for the past four years we have been promoting schemes to all the larger business enterprises that operate in excess of 16 hours per day, as well as those companies that are proactive in driving the environmental agenda forward. Consequently, most of the low lying fruit within this business sector has been addressed.

Second, increasingly business sector customers are pulling away from energy efficiency schemes. The main cause seems to be the economic climate. For example, cancellations are now running at over 40% meaning that just 48% of schemes make it through, leaving suppliers like ourselves finding it increasingly difficult to locate alternatives. This appears to be due to a combination of factors, including businesses finding it difficult to justify such investment when also making their people redundant due to economic circumstance.

Criteria 3 for NISEP, states that targets should be stretching but not impossible to meet and exceed. We are suggesting that, for the business sector, this needs urgently addressing. The targets and incentives need modifying to provide a better incentive to reflect the increasing difficulty in securing adequate schemes as we go forward.

¹ 2007/08 scheme commercial customers attracted a target of 0.8 p/KWh, but is now 0276 p/KWh

Incentive payment level

The level of incentive payment for each type of scheme is a serious concern for Energia.

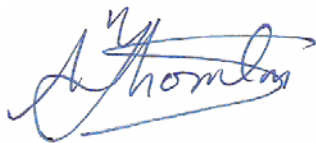
NIAUR explain the variance in incentive payments for Priority and Non Priority Groups is to acknowledge the generally greater degree of complexity involved in undertaking schemes for vulnerable customers. However, we observe strong parallels with the commercial sector, with the increasing difficulty finding suitable customers and the increasing level of withdrawals due to economic circumstance.

At the very least, we argue the level of incentives for non-priority commercial customers should be similar to, if not the same as, the level set for Priority Groups, i.e. increased from £1,000 to £2,000 based on each GWh of target exceeded.

We hope that NIAUR will reconsider the targets and incentives for the business sector.

Please find our answers to the specific questions addressed by the consultation in the attached annex and do not hesitate to contact us if we can help further.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'A Thornton', with a stylized flourish above the name.

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ANNEX A

VPE RESPONSE TO THE CONSULTATION QUESTIONS

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 of schemes for the year commencing April 2010?

RESPONSE: So far as the schemes administrative operation is concerned, we have no concerns.

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

RESPONSE: Yes, further consultation is necessary. The following aspects will also need very careful consideration:

- *How to ensure the same level of regulatory control across all participants, to maintain a level playing field and good governance for all concerned.*
- *How to ensure financial transparency and accountability, especially given that these are effectively 'public funds' and as such need to be handled sensitively.*
- *How to deal with the concept of additionality. The Levy would in effect cross subsidise those organisations that are potentially already engaged in, or actively marketing to customers a particular energy efficiency measure.*
- *How to ensure that fragmentation of the tendering process does not lead to less overall efficiency, i.e. lead to potentially greater overall administrative cost.*

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 this consultation document?

Response: The list of criteria (set at this level) seem appropriate, but we question the extent to which they are actually reflected in the schemes arrangements. Please see our cover letter and comments below with respect to target setting for the business sector.

QUESTION 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?

RESPONSE: No, please also refer to our cover letter and our comment below.

We find the justification for the target variations questionable across the various sectors, which coupled with a lack of analysis on the treatment of the business sector vs domestic, leaves us less confident the business sector is being adequately served. We ask NIAUR to reflect on the following:

- *Business customers are now less likely to commit to energy efficiency schemes due to the economic climate effects.*
- *Finding new eligible schemes has become much more difficult since 2007 due to the success of previous years.*
- *Targets have increased by almost 200%, and incentives payment levels reduced by over 400%.*
- *The revised targets do not fully meet NIAUR's criteria.*
- *The complexities of dealing with commercial schemes versus domestic have not been considered and therefore dealt with.*
- *Incentives payments are already being reinvested in the business sector, and therefore the reduction in the incentives will deny these additional benefits, making the resultant effects even greater.*

We are therefore recommending that target levels and incentive payments for the business sector be urgently improved upon.

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.

RESPONSE: We would appreciate greater transparency (through more regular reports) with respect to the schemes progress as reported by the EST to NIAUR. We would also like the NISEP incentive mechanism to provide better support for the business sector, and especially innovation.