

Decision Paper on a Framework for the Northern Ireland Sustainable Energy Programme



September 2009

1. Background

- 1.1 On 1st August 2008, the Northern Ireland Authority for Utility Regulation (the Utility Regulator) published a consultation document entitled “NI Energy Efficiency Levy Strategic and Operational Review 2008¹” (the “August 2008 consultation”). As part of this review, the Utility Regulator appointed Skyplex Consulting Limited (“Skyplex”) to prepare a report to identify and discuss the key issues and present proposals for reform of the Northern Ireland Energy Efficiency Levy (EEL). The Skyplex report was the main focus for the August 2008 consultation with stakeholders.
- 1.2 Following analysis of the responses to the consultation, the Utility Regulator published a decision paper entitled ‘The Northern Ireland Energy Efficiency Levy Conclusions’ in March 2009. This decision paper set out the key high level actions to be taken to reform the EEL, including a name change to the Northern Ireland Sustainable Energy Programme (here after referred to as the NISEP or the Programme) in order to reflect the changing nature of the initiative. The decision paper promised further consultation on the detailed operational rules governing the new Programme and set out a two-stage approach to reviewing the Framework Document i.e. the manual that defines the operational rules and procedures of the Programme.
- 1.3 In July 2009, the Utility Regulator published a consultation paper (‘Northern Ireland Sustainable Energy Programme: Consultation on the detailed operational arrangements and revised Framework Document’) presenting a draft Framework Document incorporating the Stage 1 changes. This consultation paper was published on the Utility Regulator’s website and forwarded directly to all respondents to the August 2008 consultation.
- 1.4 Six responses to the consultation were received. Section 3 of this document lists the organisations that responded and provides a summary of the responses.
- 1.5 The purpose of this paper is to present the decisions made following the July 2009 consultation on the Stage 1 changes to the Framework Document and to present a finalised Framework Document which will apply to NISEP schemes being submitted for the programme year commencing 1 April 2010.
- 1.6 The decision paper is structured as follows:

¹ <http://ofreg.nics.gov.uk/pdf%20files/Elect%202008/EELCoverC1%20Aug%2008.pdf>

- Section 2 outlines the overall decisions and the next steps.
- Section 3 outlines the key issues raised by the consultation and the Utility Regulator's response to them.
- Appendix 1 contains the final Framework Document which will be operational for the programme year commencing 1 April 2010.

2. Overall Decisions and Next Steps

- 2.1 The responses to the consultation were given due consideration and the decisions made in response to specific points are outlined in Table 1 in Section 3. The draft framework document has subsequently been amended to take into account these decisions and a final version is attached as Appendix 1 to this document.
- 2.2 All eligible organisations will be invited to bid for funding to run schemes in the 2010/11 NISEP year on the basis of the attached NISEP Framework Document which has now been published on our website (www.niaur.gov.uk).
- 2.3 In the coming year, the Framework Document will be further revised to incorporate the Stage 2 actions from the March 2009 decision paper i.e. opening up the right to bid for NISEP funding to organisations other than licensed energy companies. The Utility Regulator will consult further on this Stage 2 Framework Document and the intention is that it will apply to the Programme year commencing April 2011.
- 2.4 The Utility Regulator will endeavour to ensure that the complete Framework Document for the year commencing 1 April 2011 is in place by September 2010 to ensure that potential bidders for funding have ample opportunity to develop NISEP schemes in accordance with the revised Framework Document.

3. Key Issues Raised by the Consultation and the Utility Regulator's Response

3.1 Six responses were received to the consultation on the draft framework document from the following organisations:

1. NIE Energy Supply
2. Airtricity
3. Northern Ireland Energy Agency
4. Viridian Power and Energy
5. Phoenix Natural Gas
6. Northern Ireland Environment Link

All of these responses have been placed on our website in full and can be viewed at (<http://www.niaur.gov.uk/publications/show/category/corporate/>). A summary of the key points raised and the Utility Regulator's response to them is included in Table 1 below.

Table 1: Summary of Responses to the Consultation and the Utility Regulator's Response

General Points
<p><u>Key Issues Raised</u></p> <p>In general the responses to the Framework Document were positive and all respondents welcomed the opportunity to comment on the draft Framework Document.</p> <ol style="list-style-type: none">1. In relation to the overall aims of the programme, one respondent felt that the objective of "socially and environmentally sustainable long term energy supplies," is too wide, and one respondent felt that carbon emissions reductions should be included as the objective of the programme.2. There was some disagreement among the respondents on the overall nature of the programme. For example, one respondent questioned the inclusion 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. Another respondent questioned the ring-fencing arrangements for priority domestic schemes on the basis that carbon reductions can more cost effectively be achieved in the non-priority commercial sectors. A third respondent questioned the removal of the ring-fencing arrangements for non-priority domestic customers

on the basis that these schemes will be 'squeezed out' by more cost effective commercial schemes. One respondent requested further justification of the ring-fence amounts.

3. One respondent felt that that the Utility Regulator had missed an opportunity to direct funding into energy efficiency advice and information.

Utility Regulators Response

1. The Utility Regulator believes that it is vitally important to include social and environmental sustainability within the overall programme aims as this demonstrates the two main benefits of the programme. It also links the programme aims back to the Utility Regulator's mission: "value and sustainability in energy and water".
2. The overall balance of the programme aims reflects the balance of the Utility Regulator's statutory duties which include the need to protect customers and, in particular, vulnerable customers.
3. The Utility Regulator considered energy efficiency advice and information as part of the initial August 2008 consultation. We remain of the view that measures provision should be the main focus of the NISEP as the benefits are more measurable, we also note that in Northern Ireland a number of other organisations already give information and advice.

Question 1: Respondents are asked to comment on the level of detail contained in the 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?

Key Points Raised

Respondents were largely positive on the amount of detail provided. However they did request that the final Framework Document should be published as soon as possible to allow the development of schemes and also asked for the following:

1. A change in the payment profile to allow monthly in arrears.
2. Further information on the submission phase.
3. Clarification that "over 70" can be used as a vulnerability criteria. One respondent stated that income restrictions were too low, quoting a figure of £20,000.
4. Notification to be given to successful bidders prior to March each year.
5. Clarification that no funding will be used to replace natural gas central heating systems which are over 12 years old.

6. Further information on branding.
7. One respondent was concerned that “vulnerable customers would not normally be expected to contribute to funding measures in the priority/vulnerable domestic sectors” stating that some customers who just miss the threshold for 100% assistance could be left out entirely.
8. One respondent asked about links with other programmes, run by government or other licence holders, providing funding for energy efficiency schemes e.g. the Low Carbon Buildings Programme or the Smart Programme.

Utility Regulator’s Response

1. The Utility Regulator believes that a move to payment monthly in arrears has the potential to add too much additional bureaucracy to the scheme. The Utility Regulator believes that three monthly payments in arrears or in accordance with a pre-agreed profile is appropriate. However, in recognition of the fact that pre-agreed profiles may vary from the actual profile of spending, the Utility Regulator will conduct three monthly reviews of the payments to ensure that the payment profile can be amended where appropriate.
2. Any organisation which has specific queries about the submission process should contact the Programme Administrator, currently the Energy Saving Trust (EST), as soon as possible. EST provides support and guidance to potential applicants and will answer queries from bidders as they arise.
3. The Utility Regulator has deliberately left the criteria for determining vulnerability at a high level in the Framework Document to allow potential bidders the freedom to develop vulnerability criteria to suit individual priority schemes. This will help ensure that a range of vulnerable customer groups are targeted by different schemes. The Utility Regulator has stated (in its Social Action Plan Decision Paper 2009-2012) that the main determinant of financial vulnerability is income, however, we also stated that we consider certain characteristics to be intensifying characteristics for financial vulnerability. These include age, disability or chronic illness, rurality and SAP rating of property. The Utility Regulator fully expects potential bidders to propose their own eligibility criteria based on both income and (where appropriate) one or more of the intensifying characteristics. Therefore, it is possible that we could see one scheme opened to anyone below a particular income threshold and another scheme only opened to those over 70, but with a different (perhaps higher) income threshold. Likewise bidders could propose a scheme aimed at helping low income individuals/families who live in properties with low SAP ratings or at helping the disabled. We would always expect an income threshold to apply, but due to the intensifying effect of the other characteristics, the income threshold could be higher for a scheme specifically

targeting these groups than the income threshold for a scheme aimed at everyone. For this reason the Utility Regulator has not stipulated an income threshold within the Framework Document but rather would expect bidders to propose an income threshold at the scheme submission phase. The Utility Regulator will then consider the appropriateness of proposed income threshold as part of the submission process.

4. The Utility Regulator aims to inform successful bidders before the end of February that their schemes have been given approval to proceed. However, delays may occur due to the need for the Programme Administrator (EST) to seek clarification and/or further information on some points within the scheme submissions.
5. While there is no explicit ban on the replacement of natural gas boilers, the Utility Regulator feels that it would be highly unlikely that any scheme aimed at replacing natural gas boilers could successfully compete for funding on the basis of cost effectiveness.
6. The Utility Regulator aims to release branding guidelines for NISEP schemes. The branding guidelines and NISEP logo (which can be seen on the cover of the Framework Document) will apply to the programme year commencing April 2010 and will be issued before the end of December 2009.
7. The NISEP encourages the leveraging in of additional funding, because when additional funding is brought in participants can exceed their target targets and therefore earn an incentive. Although vulnerable customers are not normally expected to make a contribution, there is no outright ban on asking some vulnerable customers, who are able to contribute a small amount to do so. However, where this happens the Utility Regulator will expect two things:
 - Firstly, that individuals will be given good advice on the best scheme for them i.e. if the individual is eligible for another scheme, which does not require a contribution they should be told about it or directed to the correct advice giving agency. (Before endorsing a scheme where vulnerable customers are expected to make a financial contribution, the Programme Administrator will seek assurances that there are processes in place to ensure that this happens.)
 - Secondly, the Utility Regulator considers that, unlike funds leveraged in from retailers, businesses and other bodies, funds contributed by vulnerable customers themselves should not allow the participants to earn higher incentive payments. Therefore, if vulnerable customers do contribute, the Utility Regulator retains the right to re-examine targets which then feed into the amount of incentives earned.

8. The Utility Regulator permits partnerships with other such programmes given the proviso that the energy savings attributable to the partnership scheme are allocated in accordance with the framework document.

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?

Key Issues Raised

All respondents agreed with this proposal.

Utility Regulator's Response

The Utility Regulator commits to carrying out further consultation on the type of organisation to be permitted to bid for funding before the further opening up of the programme to competition.

Question 3: Respondents were 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 consultation document?

Key Issues Raised

With the exception of one respondent, who did not comment, all respondents agreed with the purpose of the incentive mechanism and the general principles of target setting. However some respondents added further comments, these included;

1. Principles do not seem to have been carried through as some targets appear too generous (particularly for the priority schemes and non-priority renewable schemes).
2. Principles do not seem to have been carried through as some targets appear to be too stringent (particularly for non-priority schemes where leveraged funding from commercial partners is becoming particularly difficult in the current economic climate).
3. Targets should be reviewed when NISEP opens up to full competition.

In addition, one respondent welcomed the clarity of the information provided on the incentive mechanism and one respondent requested further detail.

Utility Regulator's response

The Utility Regulator notes that in practice the targets set and the incentive rate per

GWh of target are the two determinants of incentives earned by participants.

It is a fact that the higher the cost effectiveness of a measure, the more difficult it is to definitively establish additionality i.e. the added value of the scheme. The balance between high levels of additionality and high cost effectiveness is highlighted by the different opinions already referred to i.e. one respondent who felt that, commercial schemes should not be permitted, because “where they are cost effective they should happen without assistance,” and by another who felt that priority vulnerable schemes should not be permitted on the grounds that they are not cost effective when compared to commercial schemes. While seeking to achieve the overall aims of the programme, the Utility Regulator aims to both maximise additionality and encourage overall cost effectiveness and value for money by including ring fencing arrangements within the overall programme. Also, by structuring the target setting and incentive mechanism we aim to strike an appropriate balance while encouraging bids in the priority category.

As regards the claim that some targets are too difficult the Utility Regulator notes that no penalties are imposed in the event that targets are not met and that suppliers may have reasons, apart from earning incentive payments, for wishing to carry out energy efficiency work with customers. In Great Britain, suppliers are required through licence obligations to undertake this type of work under the CERT (Carbon Emissions Reduction Target). Under the CERT no incentives are payable, nevertheless, the Utility Regulator is of the opinion that the operation of an incentive mechanism has to date encouraged the efficient delivery of schemes. As per the principles set out in our consultation document, the Utility Regulator believes that the targets set for the commercial non-priority schemes are difficult but not impossible to achieve.

In relation to targets for priority / vulnerable schemes, the strategic objectives of the NISEP include the need to have due regard to vulnerable customers. The Utility Regulator does not consider that the targets for priority schemes are too generous given the high level of additionality normally associated with such schemes and also given the lack of economies of scale and the perceived risks and administrative difficulties of providing measures in the homes of vulnerable customers.

In relation to renewable technology, given the high level of additionality associated with renewable schemes, the Utility Regulator does not consider that the targets are overly generous.

The Utility Regulator, however, agrees that the targets and incentive rates should be monitored and reviewed again after one year's operation.

Question 4: Respondents are asked to comment on whether or not they agree with the target setting and incentives mechanism as set out in section 3.9 and 3.10 of the draft Framework Document and as detailed in section 3.0 of the consultation document?

Key Issues Raised

While the majority of respondents agreed that an ex-ante system is more appropriate than ex-post. One respondent felt that an ex-post system is the best way of ensuring targets are challenging.

Respondents further felt that the target setting and incentive mechanism should be subject to regular review.

There was continued support for the recycling of any incentive payments earned above a threshold of 8% of total scheme funds into other fuel poverty, energy efficiency and/or renewable schemes.

Other specific comments were reiterated from question 3 above.

Utility Regulator's Response

The Utility Regulator believes that the ex-ante system proposed in the consultation document is appropriate for the reasons that were given. However the Utility Regulator agrees that the system should be constantly reviewed to ensure that it is delivering as per the objectives of the NISEP. Therefore the Utility Regulator and Programme Administrator will carry out the following:

1. Continuous monitoring of targets to ensure they are appropriate.
2. A review of the targets, incentive rates per GWh and the expected level of incentives to be earned for the programme year commencing April 2011. This work should be completed by September 2010.
3. The Utility Regulator will reconsider the appropriateness of an ex-post system of target setting following the Programme being opened up to other organisations and as competition for funding becomes further established.

Question 5: Respondents are asked to list any topics/issues which they would like to be further considered when preparing the Framework Document for the September 2010 and beyond.

Key Issues Raised

Respondents made a number of points including:

1. Would like clarification on the age of boilers to be eligible for replacement

schemes.

2. Are unclear why renewable schemes are being restricted to solar thermal and biomass heating for time being.
3. Would like to see solid wall insulation and renewable energy technologies used as solutions for hard to treat vulnerable homes.
4. Would like to see more information and education as part of intervention.
5. Note that EEL (now NISEP) has been running for 12 years. Would like clarification on whether or not EEL installations, which are now aging, could eventually benefit from NISEP replacement.
6. Would like to see better support for business sector and innovation.
7. Would like to see greater transparency in reporting of the progress of schemes.
8. Believe that the focus on vulnerable groups should be reconsidered.
9. Would like to see schemes which add value in terms of education and advice not being rejected for funding in favour of those which focus purely on cost effective measures.
10. Would like to see role of Programme Administrator tendered.

Utility Regulator's Response

To clarify the age of heating boilers eligible for replacement schemes, boilers must be older than 15 years or be broken by viable repair. (There is no change on this issue from the EEL, the 12 years stated in the consultation document was a drafting error.)

The Utility Regulator wishes to thank all of the respondents for their contribution to developing the NISEP, both through this and previous consultations. The Utility Regulator considers the job of improving and reviewing the NISEP to be a continuous one and will duly consider all of the above points as we move forward.