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The Consumer Council

Consultation: Consultation on extension to programme and reallocation of costs between customer groups
Date: 30/04/15
Contact: Robert Dempster
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Introduction

The General Consumer Council for Northern Ireland (the Consumer Council) is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to 'make the consumer voice heard and make it count'.

We have a statutory remit to promote and safeguard the interests of consumers and have specific functions in relation to energy, water, transport and food. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers. In addition, from April 2014, we have taken on responsibility for representing consumers in respect of postal services in NI.

The Consumer Council is also a designated body for the purposes of super-complaints, which means that we can refer any consumer affairs goods and services issue to the Competition and Markets Authority, where we feel that the market may be harming consumers' best interests. In addition, we have 'super-complainant' status for financial services, with powers to bring super-complaints on financial matters to the Financial Conduct Authority (FCA).

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do. The Consumer Council welcomes the opportunity to respond to this consultation on extension of the NISEP programme and reallocation of costs between customer groups.

NISEP

The strategic objectives of the NISEP are to contribute to the achievement of:

- Efficiency in the use of energy;
- Socially and environmentally sustainable long-term energy supplies; and
- The above at best value to customers whilst also having due regard to vulnerable customers.

"*The benefits of NISEP link directly to the Regulators' duties. NISEP benefits all customers, not just those who receive the individual energy efficiency measures installed*."

Summary of our recommendations in relation to the future of NISEP:

- Continuation of NISEP but with a much simplified format with fewer administration costs so that funding can be utilised more effectively and

- Reallocation of accrued funds to boosting current schemes and to help them further assist customers in need, such as the Affordable Warmth Scheme or Boiler Replacement Scheme.

The Consumer Council does not believe that the current proposals to changes in funding, placing 80 per cent of the cost with domestic customers is an equitable solution to the issue of how the levy is paid. As the Regulator has pointed out, all consumers in NI as a whole benefit from the carbon reductions brought about by NISEP.

Any levy applied to consumers' bills towards a sustainable program like NISEP should adhere to principles of fairness and the "polluter pays" principle. According to the most recent transparency report, I&C customers used 59 per cent of the electricity consumption with domestic customers using 41 per cent. Given that the levy is charged on a per Kwh basis business customers pay for 59 per cent of the levy. Asking consumers who only use 41 per cent of the energy to contribute 80 per cent of the obligation would seem to go against the principle of a Sustainable Energy Programme or Public Service Obligation.

In addition, those calling for the current change in funding allocation have not taken into account that much of the money from NISEP helps to promote local businesses, who carry out the measures, set out by the various schemes. Furthermore, changing the amount levied on business customers will do little to change the problem of NI business consumers paying the highest rates in Europe. These higher rates are due to a number of factors including generation and transmission costs.

In relation to UR's question regarding Section 75, the Consumer Council would point out that any additional charges on electricity bills or ending of NISEP or similar schemes would have much greater impact on vulnerable consumers.

Consumer context

The consultation paper has made the point that Industrial and Commercial (I&C) consumers pay some of the highest rates in Europe. However, NI domestic customers have one of the highest rates of fuel poverty in Europe. At current rates NI energy prices are on a par with those or in some cases less than Great Britain (GB) and the Republic of Ireland (ROI). However, consumers in GB and ROI benefit from dual fuel tariffs for gas and electric. In some cases these combined rates can significantly reduce customer's bills. Unfortunately, due to economies of scale and the higher rates of off-grid rural customers with no access to the gas network, NI Customers' are as a result are much worse off in terms of choice and cost.

As the tables below show NI energy consumers, in many cases, fair better than ROI and GB consumers for individual unit rate costs. However, when a comparison is made between NI customers and those availing of dual tariffs we see that NI customers are significantly worse off. NI as a region also has the lowest disposable income figures and median wage figures in the UK according to the Northern Ireland Statistics and Research Agency (NISRA) and The Department for Social Development (DSD). DSD's most recent poverty bulletin and family resource survey of 2012/13.

Electricity comparisons (updated 22/4/15)			
3800kWh	Power NI standard domestic credit	ROI Electric Ireland standard domestic credit (ROI) (Bord Gais)	GB average standard domestic credit (EDF)
	£622	£625[1]	£629[2]

Gas comparisons (updated 22/04/15)			
13500 kWh	NI SSE Airtricity standard monthly direct debit	ROI (Bord Gais) standard direct debit[1]	EDF energy standard monthly direct debit[2]
	£597	£691.521	£589.78

Combined average fuel bills Electricity and Gas	
GB customer Gas and Electric dual Tariff (based on edf standard tariff dual as of 24 April 2015)	£1,153
NI Customer (Gas and Electric)	£1,219.00
Percentage difference	**5.56%**
Combined average fuel bills and Electricity and oil	
GB customer Gas and Electric dual Tariff (based on EDF standard dual tariff 24 April 2015)	£1,153
NI Customer (Oil and Electric) [5]	£1,238.33
Percentage difference	**7.14%**

[5] Based on Sutherland tables January 2015 average over NI property types. Figures are illustrative only

It is also worth noting that recent oil prices are at their cheapest level since 2009. The latest DECC report on domestic electricity prices covering up to Q4 of 2014 shows the average unit price in UK for this period is recorded as 15.93 p per Kwh for a medium user (2,500 - 4,999 kWh per annum). The unit rate for Power NI in June 2014 was 18.04 p per Kwh, meaning that prices NI domestic electricity customers were the 7th highest in the EU. Although this has now been reduced to 16.38 p Kwh as of April 2015 figures for the current period are not yet available.

[1] http://www.bonkers.ie/compare-gas-electricity-prices/gas/

[2] http://www.uswitch.com/gas-electricity/consumptions/new

[3] http://www.bonkers.ie/compare-gas-electricity-prices/gas

Domestic electricity prices in the EU for medium consumers (including applicable taxes)[6]	Pence per kWh
	Jan 14 - June 14
Denmark	24.98
Germany	24.48
Italy	20.09
Ireland	19.77
Cyprus	18.81
Spain	18.49
Northern Ireland (Powerni standard rate Q4 2015)	**18.04**
Portugal	17.86
Austria	16.60

Extension of the NISEP scheme

"*Although there continues to be under-spend with the non-priority schemes, there was also a similar under-spend in the priority sector, with individual measures schemes, in particular, underperforming, resulting in an under-spend." -NISEP annual report 2014*.

In December 2013, the Consumer Council published a report 'Saving Energy' into domestic energy efficiency government schemes in NI and consumers' views within the context of fuel poverty policy. The Consumer Council's research showed that NISEP recorded over £2.5 million of under-spend during the period 2008-12. Whilst the schemes achievements in gross customer savings and carbon reductions have made an impressive contribution over the years, there are a number of issues that the Consumer Council believes should be considered before extending the scheme in its present format. Stretching funding out over a number of disparate bidders increases administrative costs and may also contribute to the ongoing under-spend due to the fact that these bidders are often energy companies who then sub-contract any energy saving work out to contractors.

[4] http://www.uswitch.com/gas-electricity/consumptions/new

[6] DECC Domestic Electricity prices in the EU 26th March 2015: (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/415857/qep561.xls

[7] EST website: http://www.energysavingtrust.org.uk/domestic/content/replacing-my-boiler

Last year's NISEP had 23 separate approved schemes and the amount of spend on the administration of the schemes by the individual bidders and the overall administration is not reported. Multiple bidders and schemes also increases the amount of incentives paid out, which in the most recent NISEP report of 2013-14 was £235,434. In our report 'Saving Energy', our research also found that between 2005 and 2012, 1.4 per cent of the total funding was used to cover administration costs by the NISEP administrator, Energy Savings Trust (EST). In addition to this, indirect costs are allocated to scheme managers such expenses for scheme design and development, marketing, reporting and inspection. Between 2008 and 2012 over £2 million, or eight per cent of the total funding was used to cover the administration and indirect costs.

Recommendations:

- A continuation of NISEP but with a much simplified format where only one bidder would be selected based on the quality of their proposal and relevant previous experience to provide energy efficiency interventions. With a similar approach to non-priority schemes.

- In section 4.2 of the consultation suggests that "*The UR considers that, given the number of existing and planned energy efficiency schemes, it is likely that from 2016 the majority of households/non-domestic organisations who would have sought help from NISEP will be able to seek assistance elsewhere*." However, for vulnerable or fuel poor households the only remaining scheme is the Affordable Warmth Scheme which is area targeted and is not currently accepting referrals from those living outside the targeted areas. The scheme may also present problems for those in private rented households as landlords will be expected to contribute to costs and must be registered with the Department for Social Development's Landlord Registration scheme. The last Housing Condition Survey of 2011 reported that 41 per cent (190,000 households) of owner occupied homes were in fuel poverty; however the highest rate was in the private rented sector 49 per cent (60,300) households. NISEP funds accrued could be used in addition to current existing schemes designed to improve energy efficiency and assist vulnerable consumers. Some possible suggestions include:

Affordable warmth: Currently the Affordable Warmth Scheme is targeted on an area basis and does not have a referral option. Additional funds from NISEP could be used to add an additional referral tier. Bryson Energy which was formally involved in the Warm Homes Scheme still have a referral network in place from this and also the Bryson Energy Advice line would be in a position to make referrals to councils as would CCNI and other organisations. This additional tier could be aimed at the most in need by using the benefit passport system used by the Warm Homes Scheme. Energy companies under their obligations in the new codes of practice could also play an active role in making referrals for consumers experiencing payment difficulties.

Boiler Replacement Scheme: Whilst the scheme has proved successful, under the current terms, consumers still need to find money for the additional cost of replacing their boiler and in some cases their radiators. For those earning less than £20,000 the grant is £700 to replace the boiler but will rise to £1,000 if controls are also being installed. According to the EST[7] the average cost of replacing a gas or oil boiler is between £2,300 and £3,000. This means that consumers availing of the scheme would still need to find between £1,300 and £2,000. This is an amount that those in fuel poverty would at best find it very difficult to contribute. Therefore, the Consumer Council would suggest the possibility of adding another tier to this scheme which would entail boiler replacement that was fully covered for consumers most in need, for example those homes on the lowest incomes and with children.

Non-priority schemes could also be adjusted to have fewer primary bidders and a more focused approach on business sectors most in need or as with the above suggestions the funding could be directed to bolster the existing non-domestic Renewable Heat Incentive.

In conclusion, the Consumer Council I welcomes the initial extension of the NISEP program for this financial year and the continued hard work by the UR and EST to maximise value for consumers in need and help innovative businesses to save money and reduce their carbon output. However, in order for this good work to be improved upon and the funds available utilised in the most effective manner, then the scheme needs to be restructured. Once again we would like to thank UR for giving CCNI and other stakeholders to opportunity to respond to this consultation. For further information or to discuss any aspect of this response, please contact:

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