



The Consumer Council

Response to the Utility Regulator's
Consultation on

“The Energy Efficiency Levy”

24 November 2008

1.0 Introduction

1.1 The General Consumer Council (the Consumer Council) was set up in 1985 to promote and safeguard the interests of all consumers in Northern Ireland. It has certain specific statutory responsibilities for energy (including natural gas, electricity and coal), passenger transport and food, and from April 2007 became the consumer representative body for water and sewerage services.

1.2 The Consumer Council welcomes the opportunity to comment on the consultation prepared by Skyplex Consulting on behalf of the Utility Regulator and commends the Regulator for bringing forward the review of the Energy Efficiency Levy (the Levy) from 2009 to 2008. The Northern Ireland energy market is in a very different situation from that of 1997/8 and it is right that a full “top down review” of the scheme should take place to ensure that the operation and administration of the Energy Efficiency Levy Programme is fit for purpose.

1.3 Consumers in Northern Ireland are seeing unprecedented increases in their energy bills and Fuel Poverty is at its highest level ever with an estimated 40 - 45 per cent of households in Northern Ireland now having to spend more than 10 per cent of their income on keeping their homes warm. Consumers are facing increases in the cost of living and households are having to find an extra £32 more each week than this time last year to pay for life’s essentials according to our analysis at time of responding.

1.4 The Energy Efficiency Levy has been in existence since 1997/98 and the Consumer Council has made several submissions to the Utility Regulator on the subject. In 2005 the Consumer Council called for a review of the Energy Efficiency Levy and responded to a consultation document issued by the

Regulator in June 2006 in which we requested that a full and proper review of the Energy Efficiency Levy be conducted as we felt strongly that we had, and continue to raise issues, which are still outstanding today.

1.5 Many of the key issues highlighted in our 2006 consultation response are as pertinent today as they were then:

- Objectives of the Levy
- Focus of the Levy
- Transparency of the Levy
- Auditing and reporting of outcomes
- Increase in the Levy

1.6 In addition to these ongoing issues with the Levy further discussion is now appropriate and urgent on the incentives payments to NIE Energy (NIEE), the ability to provide competition to NIEE in bidding for funding for Levy money, and the lack of public openness and accessibility to bid for the levy.

2.0 Objectives of the Energy Efficiency Levy

2.1 In May 2008, during the scoping exercise conducted by the Utility Regulator's management consultants prior to development of the consultation, the Consumer Council firmly stated that the review of the Levy should start with a baseline question of "should the Energy Efficiency Levy exist?" This, we believe, is a fundamental question which should address the rationale for the existence of the Levy, its objectives and how it should be paid for. Reviewing documentation we do not believe that this question has been adequately or explicitly addressed by the review and ask that this be rectified. It is fundamental to understand what the key objective for the Levy is and once articulated by the Utility Regulator that that objective be consulted on and agreed.

2.2 The Consumer Council would also suggest that the objectives of the Energy Efficiency Levy be closely aligned to those proposed by the NIAO for the Warm Homes Scheme and contribute to alleviating fuel poverty. As the NIAO report states, the Warm Homes Scheme by itself is not enough to eliminate fuel poverty therefore we believe that the Energy Efficiency Levy should be used to complement the Warm Homes Scheme to contribute to alleviating fuel poverty.

2.3 Another fundamental question regarding the Levy, which has not been broached in this consultation, is who should be paying for these measures? An assumption has been made at the start of the process that the energy consumers, domestic and commercial, should continue to be the only contributors to this fund. Consumers in Northern Ireland have asked the question why are the energy companies including energy suppliers, network and distribution companies, electricity generators and oil, coal and gas importers not paying for this scheme from their profits? Also they are asking why Government is not paying for this Levy. If one of the Levy objectives (which has not yet been made clear) is to help meet national carbon reduction targets why, is this money not coming from central Government and why is it the responsibility of consumers? The Consumer Council would echo this view and believes that this should be examined as a matter of urgency. Consumers have contributed around £35 million from 1997 to 2008/09 and we believe that any increases in the levy must be examined from an additionality perspective using sources other than the consumer.

3.0 Focus of the Energy Efficiency Levy

3.1 In 2001 when the Regulator sought to increase the contribution to the Levy to the equivalent of £5 per customer, the Assembly passed a motion

stating:

“That this Assembly encourages the Regulator General for Electricity and Gas to contribute to the eradication of fuel poverty by increasing the energy efficiency levy to £5.00 per customer, creating £3.6 million to tackle fuel poverty.”

NORTHERN IRELAND ASSEMBLY, 25 SEPTEMBER 2001

If, in 2001 the NI Assembly stated that this money be used to tackle fuel poverty, surely this would lend credence to idea that the Energy Efficiency Levy should be focused purely on helping those households considered to be fuel poor.

3.2 In June 2008 the NIAO report on the Warm Homes Scheme states that,

“As the 2010 deadline approaches it is hard to see how fuel poverty can be eliminated amongst the target group without a massive and costly expansion of the Warm Homes Scheme.”

In this climate of significant price increases this would indicate that all available funding be coordinated and concentrated on alleviating fuel poverty.

3.3 The Consumer Council proposes that instead of an 80/20 split in funds with 80 per cent going to priority fuel poor customers, 10 per cent to non-priority customers and 10 per cent to businesses that all Levy funds be diverted to helping those in Fuel Poverty as a matter of urgency. These funds must complement the funds from other Fuel Poverty initiatives such as Warm Homes with money being targeted to the most vulnerable households.

3.4 One proposal of how Levy funds could be used was to direct all the funds towards one large-scale project. An example given was a project aimed at helping fuel poor households with young children, which would give lifelong

benefits to that age group. The Consumer Council has sympathy with this proposal because in that way the Levy can have a significant impact on one specific target group.

3.5 At the presentation given by Skyplex on the Levy review, it was suggested by energy suppliers that the Levy follow the example of the Carbon Emissions Reduction Target (CERT) in GB which has a target of 40 per cent vulnerable consumers. The Consumer Council strongly opposes this. Given that Northern Ireland has approximately three times the number of households in fuel poverty as England we would strongly reject the idea that the focus on fuel poverty should be reduced. Another concern is that the split between fuel poverty and commercial energy efficiency measures may increase the amount of incentive that could be earned by suppliers as it has been suggested that commercial schemes see higher energy efficiency reductions thus allowing targets to be more easily exceeded. We believe that this would be wholly inappropriate use of Levy money.

4.0 Transparency of the Levy

4.1 The Consumer Council raised the issue of transparency of the Energy Efficiency Levy in 2006 saying,

“A reference to the levy should appear in future on electricity consumers’ bills”

It is disappointing to see that this issue was not addressed then, and has not been addressed at all in the current consultation. Northern Ireland energy consumers are entitled to know the full composition of their electricity tariff and where every penny goes. As part of our consideration of the Levy consultation

we spoke with a range of energy consumers across Northern Ireland on the issue. All were surprised to learn that part of the electricity tariff included this levy for energy efficiency measures. Consumers were unhappy that this was not made known to them and felt that it was a tax. The comments below are representative of the opinions of the consumers.

“But that’s what I was making reference to a charity. In principle I don’t object but I would like to have been consulted.”

“I think initially we should have been told about it, that it was going to be implemented.”

“It is not necessarily happy about the principle about paying/helping for individuals, that is not the point, the point is the way that it has been instituted and yes it is a small amount of money but it is an amount of money taken without your consent.”

4.2 The Consumer Council also discussed this issue with MLAs and representatives from the political parties who also agreed that transparency should be paramount in energy pricing and billing. We would seek reassurance from the Utility Regulator that remedying this issue will be a priority outcome from this consultation process.

4.3 There are also concerns regarding how the most vulnerable consumers pay disproportionately more towards to Levy. The elderly, the chronically ill, disabled and those on low incomes living in less energy efficient homes and at home for more of the day are most likely to be higher users of electricity and as a result will be paying more towards the Levy. This shows an inherent unfairness in the makeup of the scheme irrelevant of the argument of the small amount contributed by households to the Levy. Again this was an issue that was also raised spontaneously by our consumer panels as illustrated below.

“There are a couple of things that struck me there, the average is £2.70 per year, people who use more electricity are charged more, so who uses more electricity? People who are at home during the day, i.e. old people, unemployed people, etc. so there is a bit of penalisation going on towards them.”

While this issue has been raised in previous consultation responses, we are again disappointed that it has not been examined in this current review.

4.4 Consumers also raised the issue of transparency of access to schemes. None of our panel members were aware of any schemes to help with energy efficiency or home heating measures. The Consumer Council continues to call for open promotion and advertisement of the schemes both in terms of consumer awareness but also in terms of recruiting measures providers. To date this has not been addressed. This will result in a diversity of projects and organisations covering more locations. Not only should the Levy be promoted more to these organisations but also they should be guided through the process to ensure that each year there is a range of projects across Northern Ireland. There is no argument against open advertisements calling for applications if the decision is made to have a number of projects or just one large one.

5.0 Auditing and Reporting of Outcomes

5.1 Transparency should also extend to the use of the Levy funding and the outcomes of the funding in terms of reducing fuel poverty. Consumers who contribute to the fund should be advised each year how much has been contributed to the fund, the total amount collected and the use to which the monies have been put. This reporting of outcomes was also spontaneously suggested by consumers in the panels who believed that if they were contributing money to a fund they should be entitled to see how that money is spent and the impact that it is having on homes.

“Do you see people who this has already helped? How did they find out about it? Who have they helped? If you’re paying £2.70 then you’re entitled to know.”

“I would like to know where my £2.70 is going. Who’s it helping and how are they getting on with it?”

5.2 To date, the Levy has focused on outputs such as energy saved rather than outcomes, i.e. the number of homes lifted out of fuel poverty. As the Consumer Council believes that the focus of the Energy Efficiency Levy should be fuel poverty, the measuring of outputs does not indicate how successfully managed the funds have been with respect to the impact on fuel poverty.

5.3 In addition, on the NIAUR website the most recent report is for a summary of Levy Schemes 2004 – 2005 which shows a lack of up to date information on which to base any conclusions on how successful schemes are.

5.4 The NIAO report on Warm Homes suggests that the Warm Homes Scheme provides an indication of the impact of the scheme on improving energy efficiency and reducing fuel poverty. The Consumer Council would propose that Levy reporting should do the same.

5.5 In terms of auditing the Energy Efficiency Levy and its schemes, the Consumer Council would suggest that an independent auditor such as the NIAO should audit the Levy rather than the Energy Saving Trust who are closely aligned with the scheme. The independence of the auditor will allow a purely objective view of the process and the success of the scheme, the suitability of its objectives and criteria for funding.

6.0 Increase in the Levy

6.1 It has been suggested in the consultation that views be sought on the size of the Levy. The Consumer Council strongly opposes any increase in the Levy without full costing and public consultation, and would seek assurances that any future proposed increase would be subject to rigorous public consultation and approval by the Enterprise, Trade and Investment Committee. Given the significant increases in energy prices that NI consumers are currently facing, no additional increase should be added to electricity bills that are already the highest in the UK no matter how small the increase is deemed to be.

7.0 Organisations eligible for Levy Funding

7.1 As part of the consultation it has been proposed that organisations other than licensed electricity suppliers should be permitted to compete for Levy funding. The Consumer Council supports this proposal. We would advocate that this extension should not only be granted to other licensed energy suppliers but to other organisations such as those in the 'Not for Profit', Community and Voluntary Sector. Furthermore, we would suggest that not only should other organisations be allowed to compete but that organisations should be supported and guided through this process and that no barriers to competition, such as an obligation to submit a certain number of schemes, should be allowed.

7.2 Regarding the process for the selection of measures providers, anecdotal evidence suggests that the process on occasion is difficult and lacks transparency. Communication is poor with little or no feedback. The Consumer Council would suggest that a lack of competition in the bidding for Levy funding may lead to poor management of the selection of measures providers and would suggest that increased competition will improve the whole process. An improved bidding process should include support for bidders, feedback on unsuccessful

bids and on-site support for those bidding for the first time. The Big Lottery Fund was suggested as a model for bidding process.

8.0 Incentive Payments

8.1 The Consumer Council is pleased to see the discussion on Incentive Payments raised as part of this review. Since 1997/98 approximately £5 million of the £35 million paid by consumers in the Levy has been paid to electricity suppliers in incentive payments with the vast majority of this going to NIE. Historically we could find no rationale for the existing amount of incentive paid and indeed would question why an electricity supply company, in the absence of any real competition should be receiving any incentive for facilitating these schemes.

8.2 The Consumer Council would agree, that as they stand, the incentives are too generous and that furthermore, a review of the targets should be undertaken to ensure that they are at a suitable level. We suggested this in December 2007, in our response to the Utility Regulators consultation on proposals to amend the incentive payment mechanism. However, we would call for an explanation why the amount has been set at this proposed level of £1000 /GWh and what the rationale is for this figure.

8.4 Consumers in the panels across Northern Ireland asked why electricity companies would be receiving any incentive from what is essentially bill payers' money, and then suggested that if other organisations, such as those in the Community and Voluntary sector, were allowed to bid for funds the incentive may be reinvested in the community.

“Surely they should just make it a condition of the licence. If you are the electricity provider for Northern Ireland part of your licence is you must administer this scheme, because it is a private company. The Government is paying a private company to do something for it, but at the same time it’s slightly immoral.”

8.5 An additional concern, which has come to light as part of the review, is the payment of incentive based on projects with multiple funders. From the Consultation document it would appear that suppliers would receive incentive payment on the full energy savings from a scheme irrespective of the proportion of funding that the Levy is responsible for (unless the other funder is a public body). This increases the incentives disproportionately to the money invested. The Consumer Council believes that this is an inappropriate way of boosting an already generous incentive payment. If this is the case, this practice should be reviewed immediately so that electricity suppliers are not benefiting from the spending of other organisations.

9.0 Focus on Whole House Solutions

9.1 It has been proposed that the focus on whole house solutions be lessened with a view to spreading measures over a larger number of homes. It has previously been demonstrated that the whole house solution is the most effective way of gaining efficiencies and is more palatable to recipients. For example, the Armagh and Dungannon Fuel Poverty and Health scheme was funded by the Levy and allowed whole house solutions to be provided successfully.

10.0 Additionality

10.1 In theory the principle of additionality, i.e. that the project could not have taken place without the Levy funding being in place, would seem sound to ensure that maximum use is being made of funds collected. However, as stated above, this highlights a more serious issue where the incentive for the full lifetime

benefits of the measure can be claimed even for a minority contribution. The flaw here lies in the incentive criteria and should be addressed as a matter of urgency.

11.0 Extension of Levy to Gas

11.1 As in the Consumer Council consultation response in 2006, and in our first views on this matter in 1999, we do not believe that a levy should be introduced on natural gas customers in Northern Ireland. It would be unfair to charge gas customers an additional levy when coal and oil customers do not pay and given the recent hikes in gas prices for Northern Ireland consumers any increase would be a further burden to them.

12.0 Purchase of Heating Oil

12.1 Views have been sought through the consultation as to whether schemes should be allowed to assist the purchase of heating oil. We believe that in order for a consistency of approach there would need to be assistance in paying for all household heat which could then be considered a social tariff. The Consumer Council will make a full representation to the Utility Regulator on Social Tariffs subject to consultation. Simultaneously the Northern Ireland Housing Executive and the Consumer Council has commissioned Bryson House to conduct a feasibility study into energy brokering, including heating oil. We believe that this proposal to allow Levy money to purchase heating oil should not proceed until the study into Energy Brokering has come to conclusion.

13.0 Knowledge of Source of Money

13.1 With regard to advising recipients of energy efficiency measures the Consumer Council believes that transparency of information is not a selective procedure and that all information on the Levy, its schemes and outcomes should

be available to all. In that light, sponsors should indicate to recipients the source of the funding.

14.0 Conclusion

14.1 While the Consumer Council welcomes the early review of the Energy Efficiency Levy we are disappointed that issues raised in earlier consultations have not been adequately addressed and we would urge the Utility Regulator to examine these issues as soon as possible.

There must be an understanding that in current conditions, all organisations that work in the energy markets have a social responsibility and this must be the context in which the Energy Efficiency Levy is examined and reviewed. In particular the Levy must complement the work of other Fuel Poverty initiatives such as Warm Homes and have specific regard to Northern Ireland's most vulnerable consumers.