

Energy Efficiency Levy – Strategic & Operational Review 2008

Response from N.I. Housing Executive

In relation to each of the recommendations listed below, from the Skypex Report, on which NIAUR are seeking comments, the Housing Executive response is as follows;

1. Organisations other than licensed electricity suppliers should be permitted to compete for Levy funding.

The NIHE agree that other bodies, apart from licensed electricity suppliers, may be able to effectively manage the funding. There are a number of organisations, including NIHE, with the experience and management resources to deliver energy efficiency programmes and they should be able to compete for Levy funding.

2. The Utility Regulator should seek views as to whether measures providers should be allowed to bid for Levy funding directly and as to whether controls and monitoring could compensate for the loss of transparency and prevent the inflation of measures costs.

The NIHE would have reservations with providers being able to access funding directly without going through a scheme manager. In our view the Manager's role is to ensure appropriate controls, including value for money considerations, are in place.

In the absence of very strict controls there would be a risk of inflation of the cost of measures. Where public funds are being spent, an element of competitive tendering has always been essential to ensure that prices charged provide best value for money.

3. Other constraints should be placed on the identity of bidders. For example in order to avoid excessive administration costs both of handling a high number of bidders and of monitoring bidders that may be submitting schemes purely in their own interests, schemes should be of a minimum size, say £10,000 of Levy funding. Bidders should be or use reputable contractors.

The NIHE agree that constraints should be placed on the identity of bidders.

4. A number of constraints under the existing scheme should be retained and kept under review, depending upon the success of the more competitive arrangements, i.e.

- *incentive payments to encourage schemes to maximise the energy savings measures obtained for Levy funding*
- *the requirement to provide transparency of the costs of measures*
- *controls on the level of management and administrative expenses.*

The Executive agrees that it may be prudent to retain features of the existing scheme until experience is gained of the degree of interest by non-suppliers in order to ensure continuity for the programme. However, a timescale should be placed on this.

5. The incentive rate should be reduced from the current £5120/GWh to £1000/GWh, whilst experience of the extent of competition for funds can be assessed.

The NIHE agree with the incentive rate should be reduced given that the report implies (pages 20-21) that current rates are too high. However, as to whether or not it should be reduced to £1000/GWh, the Executive would rely on NIAUR's judgement on whether this level of incentive would be enough to ensure that existing suppliers are happy to continue running the scheme in the interim - until the extent of competition for funds can be assessed.

6. More realistic targets should be set by ensuring that the assumptions regarding the mix of measures, the fuel mix and third party funding are more realistic of actual outturns. For the first year, the contribution to the incentive target for each scheme should be based on an average of the marginal cost-effectiveness of the group and the cost-effectiveness of the specific scheme. To prevent any distortion to incentives, schemes with such outlying costs could be excluded from the group average calculation.

This recommendation along with the supporting text in the paper was difficult to follow. If it means using calculations which arrive

at an average and exclude schemes with outlying costs, particularly those least cost-effective projects, then NIHE would support this proposal.

7 Additional clarity should be introduced in to the Framework Document, specifically for situations where, thus far, rules have not been needed.

The Housing Executive would agree with this recommendation.

8. No specific arrangements for underperformance should be introduced, other than that funding will be pro-rated by the energy savings achieved. However, if under-performance becomes an issue, more onerous arrangements for under-performance should be introduced.

The Executive would agree with this recommendation. Individual schemes may underperform due to circumstances beyond the control of the scheme manager and as long as the funds are redistributed to other projects, there is no overall loss to the Levy Fund. However, if an EELP managers programme underperforms across a large number of schemes, this should be taken into account when considering their application to manage future programmes.

9. Pending analysis of the 2006 House Condition Survey, the Utility Regulator should seek views as to the scope for further energy savings measures. In the absence of views to the contrary, the size of the Levy should remain broadly at current levels for the first year (with appropriate indexation). Taking reduction in incentive payments into account, the funding for measures costs should be increased by £1m which would, except in the event of a very large increase in energy savings, not result in any increase in the total Levy funding including incentives. The size of the Levy should be kept under review, based on the nature and number of schemes submitted. If there is a high demand for funding whilst scheme costs remain acceptably low, consideration should be given to increasing the size of the fund in later years.

The NIHE agree that the size of the Levy should remain at the same level at present. It also agrees that it should be kept under continuous review – a matter of good practice.

10. The relative focus of the scheme on priority schemes – currently 80% should be reviewed in light of: (i) the 2006 House Condition Survey, (ii) the Utility Regulator seeking views on the issue; (iii) further detail emerging of other initiatives to assist the fuel poor; and (iv) on an ongoing basis, depending upon the types of schemes that are submitted following changes to permit non-suppliers to bid for Levy funding.

The NIHE agree that the relative focus of the EELP on priority schemes should be reviewed in light of the 2006 House Condition Survey. Whilst 80% of funds are directed at the fuel poor, analysis of the Survey shows that increasingly fuel poverty is primarily caused by high fuel prices and low household income. Enhancing insulation and changing heating does not necessarily on its own eliminate fuel poverty.

11. The emphasis on whole house solutions should be lessened with a view to enabling measures to be spread over a larger number of homes within the priority group, with a view to levelling up the worst cases of fuel poverty or maximising energy efficiency gains alleviating fuel poverty. Whole house solutions should be selected on the grounds of their cost-effectiveness.

The NIHE would disagree that the emphasis on whole house solutions should be lessened. Spreading the limited funds over a larger number of dwellings may mean that less people actually have poor energy efficiency removed as a cause of their fuel poverty. A better option would be that the criteria for a whole house solution is changed – e.g. rather than paying up to £5k to replace an existing oil system, a new heating system should only be provided where no central heating currently exists, where solid fuel or E7 is being replaced or where an existing oil system is more than 15 years old.

12. Views should be sought as to whether schemes should be permitted to assist with the purchase costs of heating oil and, if so, how this assistance should be prevented from going beyond that necessary to give effect to energy efficiency and becoming, instead, a pure subsidy of fuel purchase.

The NIHE do not agree that the Energy Efficiency Levy should be used to assist in the purchase of oil. This is not energy efficiency – in fact, if families are assisted to purchase oil they

may not have the same incentive to use it wisely – they may feel they can simply go back to the fund. Also, if oil is bought why not coal, gas or electric? Furthermore, given that the Levy is only around £7.3m it would not go very far if it was used to purchase fuel for the fuel poor. Another practical consideration is, with limited Funds, how to decide who qualifies for assistance – this could be extremely cumbersome and costly to administer.

13. The Utility Regulator should seek views on ending the segregation of funds between non-priority domestic measures and non-priority commercial measures, in order to maximise energy efficiency gains.

The NIHE believe that there should be some segregation of funds between non-priority domestic measures and non-priority commercial measures. Many people who fall just outside eligibility for fuel poverty schemes (eg working fuel poor) and who are genuinely struggling to pay bills, feel aggrieved that there is little enough being done to help them as it is.

14. The 20% additionality criterion should be augmented by a requirement for scheme proposals to justify why measures are additional.

Rather than simply augmenting the 20% additionality criterion with a justification clause, as proposed, the Executive would also suggest building in some discretion to the 20% threshold. For example, some schemes may be excellent but can only raise 15% additional funds and would therefore fail to meet criteria. Other schemes may be able to raise 25% extra funds but ultimately prove to be totally ineffective.

15. The 5% cap on indirect costs should be replaced by a more sophisticated criterion. Views should be sought on the appropriate form and level of the cap to ensure that, whilst the allowance for indirect costs is realistic, the maximum funds are available to be spent on measures.

The NIHE agree that a more appropriate form and level of the cap on indirect costs should be sought.

16. The raising of Levy funds should not be extended to gas unless it is also extended to oil.

The NIHE agree that it would be totally inappropriate to extend the Levy to gas without extending it also to oil.

17. The option of placing obligations on suppliers to submit a certain quantity of schemes should not be introduced initially but this should be kept under review in light of experience of operation of the scheme.

The NIHE agree that obligations on suppliers to submit a certain quantity of schemes should not be introduced but this should be kept under review.

18. The Utility Regulator should seek views as to whether scheme sponsors should be required to explain to customers the origin of funds used to pay for measures or whether it might be appropriate to apply this requirement only to dominant suppliers.

The NIHE agrees totally that scheme sponsors should be required to explain to customers the origin of funds used. We would regard this as good practice and it increases transparency. Otherwise customers might assume that the measures they receive come from funds provided by the scheme sponsors themselves.

24th September 2008