

Decision Paper on a Revised Framework Document for the NISEP 2013-14



October 2012

1. Background

- 1.1 The Northern Ireland Sustainable Energy Programme (NISEP) is a voluntary incentivised programme of energy efficiency/renewable energy schemes, funded by electricity consumers through the electricity system in the form of a Public Service Obligation. When the NISEP was introduced in 2010-11, following a review of its predecessor the Energy Efficiency Levy, it was to run for a period of three years after which its continuation would be the subject of a further review.
- 1.2 The Department of Enterprise, Trade and Investment (DETI) has recently been consulting on policy proposals for a new Energy Bill for Northern Ireland which includes consideration of a new energy efficiency measure that has the potential to replace the NISEP. Review of the NISEP has therefore been put on hold for the time being, pending the outcome of the DETI consultation, but in the meantime the NISEP will continue for at least a further year i.e. 2013-14.
- 1.3 The NISEP is operated on an annual cycle with schemes running from April to March. Organisations registered as Primary Bidders to the Programme submit bids in the autumn of each year for schemes to begin the following April.
- 1.4 The NISEP Framework Document provides the rules and procedures that must be followed by participants in the NISEP. A revised version of the document is published each year, to apply to schemes being undertaken in the coming year, to ensure that the information contained within it remains up to date. This process includes an annual review of the cost-effectiveness targets for categories of schemes to take into account the previous year's performance.
- 1.5 The Utility Regulator does not consult every year on this technical document but, as there were a few more significant changes than usual, the UR decided to issue a consultation document in August 2012 outlining the changes being proposed for the coming year. The consultation document, along with a draft Framework Document, was published on the UR's website and sent directly to key stakeholders.
- 1.6 As explained in the consultation document, most of the revisions to the Framework Document for the coming year are in response to one of the following:
 - i. The decision to roll the NISEP forward for another year but retain the costs at a similar level to the 2012-13 NISEP;
 - ii. The introduction of the Renewable Heat Premium Payment by DETI;
 - iii. Lessons learnt from the previous year.

- 1.7 The purpose of this paper is to present the decisions made following analysis of the responses to the consultation and to present a finalised Framework Document which will apply to the NISEP year commencing 1 April 2013.
- 1.8 This decision paper is structured as follows:
- i. Section 2 outlines the overall decisions and the next steps;
 - ii. Section 3 outlines the key issues raised by respondents and the UR's response to them;
 - iii. Appendix 1 lists the respondents to the consultation;
 - iv. Appendix 2 contains the new Framework Document for 2013-14 (published as a separate document).

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 been amended to take account of these decisions and a final version has been published as Appendix 2 to this document.

2.2 The main decisions/actions that have been taken are as follows:

- i. The final date for submission of scheme bids for the NISEP 2013-14 has been put back to 31st December 2012;
- ii. The NISEP funding will remain static at the 2012-13 level for 2013-14. If the NISEP continues beyond the coming year, this will be looked at again and, in that context, consideration will be given to the responses to the relevant questions in DETI's policy consultation on an Energy Bill.
- iii. Renewable energy measures other than Solar PV may be considered for inclusion in schemes provided that there is no overlap with other grant or incentive schemes, the technology is proven and approved by the Programme Administrator and the measures are in the customer's financial interest.
- iv. 10% of Non-Priority funds will be ring-fenced for both renewable energy and innovative schemes. The previous split between the two types of scheme has been removed.
- v. A cap on incentives has been introduced at a level representing 6% of NISEP funds available for the year. The amount available for incentives for 2013-14 schemes will be £470,000. If the total amount earned is above this level, the incentives payments to Primary Bidders will be reduced on a pro-rata basis.
- vi. Further amendments have been made to the Framework Document in response to comments made regarding the Accedence Document, State Aid guidance and procurement/sub-contracting requirements.
- vii. The cost-effectiveness targets have been reviewed, as is the normal procedure before the start of a new year, but with particular regard to the issues raised by respondents.

2.3 The 'Call for Schemes' for the NISEP 2013-14 will be published along with this decision paper. All registered Primary Bidders are entitled to submit schemes for potential funding up to the cut-off date of 31st December 2012. Primary Bidders should refer to the Framework Document for details of what

is required in scheme submissions. The Programme Administrator (the Energy Saving Trust) will be available to answer queries and provide advice as required.

- 2.4 Any organisation that is interested in becoming a Primary Bidder for the 2013-14 programme should contact the Programme Administrator as soon as possible, and before 31st October 2012, so that their registration can be processed well in advance of the final scheme submission date. Existing Primary Bidders who wish to participate in the 2013-14 scheme year should sign and return the Accedence Agreement, attached to the 'Call for Schemes' notification, before 1 December 2012.

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

- 3.1 Nine responses were received to the consultation on a revised Framework Document for 2013-14. The list of respondents is included as Appendix 1 to this decision paper. All of the responses have been posted on our website in full and can be viewed at: www.uregni.gov.uk . A summary of the key points raised and the UR's response to them is contained in Table 1 below.

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

Question 1: Respondents are asked to provide any comments or evidence they have in relation to the equality impact of the proposed changes.
<u>Key Points Raised</u> There were no comments with regards to the equality impact of the proposed changes.
Question 2: Do you agree that the final date for schemes bids to be submitted to the Programme Administrator should be put back to 31st December 2012 to allow more time for schemes to be developed following this consultation?
<u>Key Points Raised</u> All the respondents agreed that the submission date for scheme bids should be put back to 31 st December 2012 to allow adequate time for scheme bids to be developed following the publication of the revised Framework Document. One respondent said that they agreed provided that the approval timetable was not affected.
<u>Utility Regulator's Response</u> The final submission date for scheme bids for funding from the NISEP 2013-14 will be 31 st December 2012. Every effort will be made to ensure that Primary Bidders will be informed of scheme approvals by end of February/early March 2013 but as always this will depend on the timely provision of any further information requested on scheme bids and the resolution of any queries.
Question 3: Do you agree that the NISEP funding should remain static at the 2012-13 level until the NISEP is reviewed or a new energy efficiency measure is introduced?
<u>Key Points Raised</u> Opinion was divided on this issue. 5 respondents were in agreement that the NISEP funds should remain static given that it was a temporary measure until a new energy efficiency measure was introduced. One of these respondents said, however, that it would be dependent on the time taken to introduce a new measure i.e. it was not a major issue for 2013-14 but a continued freeze in subsequent

years would reduce the positive impact of the NISEP. The other 4 respondents were of the opinion that the size of the fund should continue to uprate at least by inflation/RPI. One of these respondents stated that the increase should not be paid for by electricity customers.

Utility Regulator's Response

We consider that NISEP costs passed on to electricity consumers should not be increased at this time. Therefore, the funding for the 2013-14 NISEP will remain static at the 2012-13 level. If the NISEP is to continue beyond 2013-14 (dependent on decisions arising from DETI's consultation on an Energy Bill and the time taken to introduce any new energy efficiency measure), we will review this issue again. The NISEP is funded by a levy on all electricity consumers and there is no other source of funding available to the UR to supplement this.

Question 4: Do you agree that Solar PV should be the only type of renewable energy measure approved for NISEP schemes? (Bearing in mind that, as per Section 2.1 of the Framework Document, measures promoted must be in customer's financial interest i.e. the present value of the lifetime customer benefits should exceed the cost of the measures.)

Key Points Raised

Whilst the majority of respondents appreciated the need to avoid overlap with other schemes, such as the Renewable Heat Premium Payment and the Renewable Heat Incentive, some of the respondents queried why it was necessary to restrict renewable energy measures to Solar PV.

Utility Regulator's Response

The wording within the Framework Document has been amended to clarify that other renewable technologies may be considered for inclusion in NISEP schemes as long as they are a proven technology, approved by the Programme Administrator, there is no overlap with other government schemes and the measures promoted are in the customer's financial interest.

Question 5: Do you agree that a 10% ring-fence of funding for innovative and renewable energy measures (Solar PV), is more appropriate than a 5% ring-fence for renewable (Solar PV) and a 5% ring fence for innovative?

Key Points Raised

Five respondents agreed with this proposal and two had no views on the issue. One respondent was against the proposal because they thought it '*could result in the crowding out of innovative schemes by established Solar PV technology*'. The other respondent said that the proposal was unlikely to change the current situation because innovative schemes were rarely brought forward. They stated that the reason so few innovative schemes were submitted was that the cost-effectiveness target (used in the calculation of incentives) for innovative schemes was much too challenging.

Utility Regulator's Response

10% of the Non-Priority funding will be ring-fenced for innovative and renewable energy schemes to compete together for funding. The 5% split has been removed.

The Programme Administrator has reviewed the cost-effectiveness targets for all the categories of measures and the revised targets can be seen in Table 3.5 of the Framework Document. The target for innovative schemes has been relaxed which may encourage Primary Bidders to bring such schemes forward. To ensure all schemes competing in the innovative category have an equal chance, there will now be one cost-effectiveness target to cover all types of schemes in the category. However, it should be borne in mind that the cost-effectiveness target is independently set and its purpose is to facilitate the development of scheme proposals (by giving an indication of level of cost-effectiveness schemes should be aiming for) and also to enable the calculation of incentives earned. Schemes compete against each other for funding on the basis of cost-effectiveness so the better the cost-effectiveness of a proposal is, the more likely it is to receive funding. Where a scheme does not reach the target it may still be approved if it is more cost effective than others submitted, however, it would be unlikely to earn incentives unless efficiencies could be found in year.

Question 6: Respondents are asked to comment on what the appropriate level of incentives should be for delivery of NISEP schemes.

Key Points Raised

Four of the respondents stated that they did not agree with the proposal to cap the level of funding that is available for incentives. Their arguments against the proposal were that it was unnecessary, given that it was already a requirement that any incentives earned over 8% (of total funding for schemes) be recycled into additional energy efficiency schemes, the incentives earned had already reduced (compared to the EEL) since 2010-11 when the NISEP was introduced, and the proposal would undermine and dilute the incentive mechanism. It was argued that this could discourage Primary Bidders from bringing competitive and innovative bids forward. Two respondents were supportive of the concept of a cap and thought that the 6% level (of NISEP funding) was reasonable. The other three respondents commented on the issue but were not clear on whether they supported the proposal or not. The comments included: i) the overall incentive could be reduced if there is an under-spend and this would encourage promotion of schemes; ii) incentives should be withheld until checks were carried out to verify work; and iii) additional efficiencies could be introduced by putting a limit on schemes i.e. fewer schemes would reduce administration costs and require less money to be ring-fenced for incentive purposes.

Utility Regulator's Response

The UR has carefully considered all the points made by respondents on this issue, along with relevant external factors such as the cost to electricity consumers and the continuing high rates of fuel poverty in Northern Ireland, and has decided to impose a cap of £470,000 on the overall level of funding available for incentives. This will provide a level of certainty on the amount of funding required to pay incentives at the end of the year and help ensure that it does not become an unacceptable burden on electricity consumers. Ensuring that incentive payments to Primary Bidders are not too high will also help avoid any State Aid issues. Regarding the other points made: i) the amount of incentives earned will be low if the spend on schemes is low and therefore the incentive mechanism already discourages under-spend and encourages Primary Bidders to promote their

schemes. ii) Chapter 6 of the Framework Document already outlines the customer and quality monitoring that must be undertaken for all schemes as well as the auditing process carried out by the Programme Administrator on a random selection of the schemes. The Framework Document, in Section 3.6, already stipulates that incentives may be withheld until any outstanding quality issues have been addressed and any customer complaints resolved. iii) fewer schemes would perhaps reduce the overall administration costs spent on schemes, if so, the likely outcome is that the cost-effectiveness of the schemes would increase. This would actually increase the amount of incentives earned by a smaller number of Primary Bidders.

Question 7: Do you have any comments on or issues with the revised Accedence Document contained in Appendix 8 of Annex 1?

Key Points Raised

Most of the respondents (7) had no comment to make on the revised Accedence Document. One respondent said that they could not comment as it had not been considered by their legal department. They noted that the new requirement to sign every year would mean additional legal and administration costs which would not be welcomed. One other respondent had a number of points to raise regarding the content of the Accedence Agreement. Both of these respondents that provided comments thought that it would be beneficial to include a programme timetable containing key dates within the Accedence Agreement.

Utility Regulator's Response

The requirement to sign an Accedence Agreement every year is not a new requirement on Primary Bidders. It was introduced for the 2011-12 programme year as the UR felt it was necessary to put such an agreement in place to help ensure the proper governance of the NISEP and the appropriate use of funds. Now that the Accedence Document has been revised, UR would not at this stage envisage any significant changes on an annual basis. Any future changes, if they occur, will be individually identified for Primary Bidders, before the call for schemes for the year in which any changes will take effect. This will help limit any legal input required. The Framework Document includes a programme timetable and the UR does not, therefore, see the necessity to replicate it within the Accedence Agreement. As requested by one respondent, Section 4.5 in the Framework Document now includes turnaround times for scheme variations and queries from Primary Bidders. To ensure consistency, the number of years that information on schemes should be retained by the Primary Bidder has been changed to twelve in Section 6.3 of the Framework Document to match the requirement in the Accedence Agreement. With regard to the query on Section 12.1 of the Accedence Agreement, UR does not at the moment envisage publishing any other information on scheme submissions than it does already within the list of approved schemes and the annual report.

Question 8: Do you think that the guidance regarding compliance with State Aid, now contained within the Framework Document, is clear and adequate?

Key Points Raised

Most of the respondents welcomed the additional information regarding

compliance with State Aid and said that the guidance given was clear. One respondent asked for clarification regarding the payments of incentives and whether they would be considered as State Aid or de minimus. Only one respondent asked for further clarity on State Aid as they said that the requirements put in place earlier this year had been causing customer confusion.

Utility Regulator's Response

UR believes that the incentive payments, in their current size and format, would not be considered as State Aid. UR can only give guidance to Primary Bidders on the issue of State Aid and it remains up to Primary Bidders themselves to ensure they comply with the relevant requirements when providing grants for installations within commercial premises. However, UR will endeavour to continue to advise Primary Bidders if they require further clarification on compliance with State Aid on a case-by-case basis.

Question 9: Do you have any comments on the additional clarification in the Framework Document regarding procurement arrangements, sub-contracting arrangements and partners?

Key Points Raised

Three of the respondents said that they welcomed the additional clarification on procurement arrangements, three respondents did not comment on this issue and the other three respondents asked for further clarification on a number of issues. These issues included: how to avoid distortion of competition but at the same time ensure quality and customer service standards; the potential for one organisation to carry out multiple roles (i.e. scheme manager, installer, inspector) given that this could amount to a perceived advantage over other companies; and more specific clarification on what UR considers to be good practice in procurement processes.

Utility Regulator's Response

The UR has reviewed Section 1.6 of the Framework Document, regarding Scheme Partnerships and Sub-contractors, and has included further clarification on the issues raised by respondents. The Utility Regulator has given a number of examples of what it believes represents good practice.

Question 10: Do you have any comments on the revised Section 2.5, Payment of NISEP Funding, in the Framework Document?

Key Points Raised

The seven respondents that replied to this question welcomed the introduction of monthly payments. Additional comments were that the 25 working days were acceptable provided that this period included receiving funds into the Primary Bidders bank account and that it would be useful to include a sample invoice in the Framework Document to show how VAT should be presented.

Utility Regulator's Response

The Framework Document for 2013-14 has retained the system of monthly claims for the payment of funding. The 25-day processing period includes the instruction to the bank to make the payment. If Primary Bidders need further guidance on what is required to be submitted for the monthly claims they should seek advice

from the Programme Administrator.

Additional Comments from Respondents

Key Points Raised

- i. Some of the cost-effectiveness targets are very challenging;
- ii. Primary Bidders should be supported through the bidding process and given the opportunity to resubmit after the final date if only a small amount of improvements are needed;
- iii. Electricity bills should inform customers of the contribution to the levy;
- iv. Experiencing more requests to replace old/broken natural gas boilers – would these be eligible for inclusion in schemes?
- v. similar schemes should not be allowed to help avoid potential double claiming;
- vi. Existing approval and award process is not geared toward transparency. Better communication during approval process could facilitate similar schemes being adjusted and taken forward by multiple bidders with split budgets ensuring greater market exposure for NISEP.

Utility Regulator's Response

- i. The cost-effectiveness targets have been reviewed and some categories have been relaxed for the coming year;
- ii. The Programme Administrator already provides support to Primary Bidders during the bidding process. Whilst there is a final cut-off date for scheme submissions, the approvals process always includes asking Primary Bidders for clarification on various elements of their scheme submissions;
- iii. The NISEP levy is only one element of the Public Service Obligation cost to consumers. It would be difficult to isolate and explain the various costs to consumers within the limited confines of an electricity bill;
- iv. We will keep under review the issue of whether old (over 15 years)/broken gas boilers should be included in the Framework Document as eligible for replacement;
- v. Primary Bidders must use their best endeavours to ensure that beneficiaries of schemes do not have the opportunity to claim more than one grant for the same measure.
- vi. The Programme Administrator is available to discuss scheme submissions and how unsuccessful bids could improve their chances of being awarded funding for the following year. As soon as the distribution of funding for a year is agreed, the UR publishes the list of approved schemes. Whilst there may be some merit in exploring this approach to awarding funding for one scheme across multiple bidders, this would represent a major change in the approvals process which UR feels would be inappropriate at this time.

Respondents to Consultation

Bryson Energy

Carillion Energy Services

Consumer Council

Energia

Energystore Ltd

NEA NI

NI Natural Gas Association

Power NI

SSE Ireland

Appendix 2

Framework Document for the NISEP 2013-14

This appendix is published as a separate document.