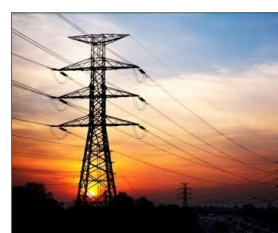


Northern Ireland Sustainable Energy Programme

Decision Paper on proposal to extend
programme and reallocate costs
between customer groups

June 2015



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted

Be a united team

Be collaborative and co-operative

Be professional

Listen and explain

Make a difference

Act with integrity

Abstract

The Utility Regulator (UR) recently consulted on a proposal to extend the Northern Ireland Sustainable Energy Programme (NISEP) until the earlier of 31 March 2017 or the introduction of an alternative energy efficiency scheme, on the basis that the way NISEP costs are allocated are changed so that 80% of costs are allocated to domestic customers and 20% are allocated to non-domestic customers.

Eighteen responses were received to the consultation, all supported the extension to the NISEP but none supported the reallocation of costs.

The UR has decided to extend the NISEP until the end of March 2017 but the allocation of costs will remain as before i.e. a fixed rate charge per kilowatt hour across all customer groups

Audience

This paper is most likely to be of interest to the regulated companies and other organisations that participate in the NISEP; energy services companies; energy efficiency, fuel poverty and advice giving agencies; consumers and consumer representative groups; government and other statutory bodies.

Consumer impact

The NISEP will continue to benefit consumers, for a further year, by providing energy efficiency measures to households and business/commercial premises.

There will be no impact on how much consumers contribute to the NISEP as there will be no change to how the costs are allocated. Consumers will continue to pay a small fixed charge per kilowatt of electricity used towards the funding of the NISEP.

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1. Background

- 1.1 The Utility Regulator (UR) is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries.
- 1.2 Our work is based on the duties we have in law. These include:
 - protecting the interests of electricity consumers with regard to price and quality of service by promoting effective competition where appropriate;
 - promoting the development and maintenance of an efficient, economic and co-ordinated gas industry while protecting the interests of gas consumers; and
 - a duty to protect the interests of water and sewerage consumers by promoting an efficient industry delivering high-quality services.
- 1.3 While the UR must protect all consumers, we must also have due regard for, among other things:
 - the ability of those we regulate to finance their activities;
 - promoting the efficient use of electricity, gas and water;
 - securing a diverse viable and environmentally sustainable long term energy supply;
 - sustainable energy supplies; and
 - specific groups of customers, in particular those who are:
 - disabled or chronically sick;
 - of pensionable age;
 - on low income; or
 - living in rural areas. (electricity and water)
- 1.4 The Northern Ireland Sustainable Energy Programme (NISEP), formerly known as the Energy Efficiency Levy (EEL), was set up in 1997/8 as an important element of the UR's response to the duty to protect customers, in particular vulnerable customers, and also to carry out its functions in a manner best calculated to secure a diverse, viable and environmentally sustainable long-term energy supply.
- 1.5 As initially conceived, the EEL was introduced to implement energy

efficiency schemes for domestic and non-domestic properties with the aim of reducing carbon emissions. Therefore, the EEL/NISEP is predominantly an energy efficiency programme although 80% of the funding has been directed to schemes targeted at vulnerable households since 2002-03.

- 1.6 The strategic objectives of the NISEP are to contribute to the achievement of:
- i. Efficiency in the use of energy;
 - ii. Socially and environmentally sustainable long-term energy supplies; and
 - iii. The above at best value to customers whilst also having due regard to vulnerable customers.
- 1.7 The NISEP is a voluntary incentivised programme of energy efficiency schemes, funded by customers through NIE's charges to electricity suppliers. This means that a small charge is applied per kilowatt hour of electricity used by all electricity customers. The current amount collected for the fund on an annual basis is £7,941,946 and the programme is operated on an annual cycle with schemes running from April to March.
- 1.8 The NISEP was due to undergo a full review in 2012 but in 2012 this review was not considered necessary as the Department of Enterprise, Trade and Investment (DETI) published an intention in its Energy Bill policy consultation (June 2012)¹ to explore the introduction of an energy efficiency obligation that would potentially replace the NISEP. In the first instance the NISEP was rolled forward for another year and then the Utility Regulator agreed to keep the NISEP open until the earlier of March 2016 or the introduction of alternative energy efficiency provision.
- 1.9 In April 2014 the UR published a notification paper to inform stakeholders of the arrangements for the final year of NISEP i.e. 1 April 2015 – 31 March 2016. This notification paper set out a range of existing and proposed alternatives to the NISEP. However, in order to allow time for the further consideration of an alternative scheme, in January of this year DETI asked the UR to consider the further extension of NISEP. They also requested that this would be on the basis of only 20% of the costs being recovered from non domestic customers and other 80% being recovered from non-

¹ http://www.detini.gov.uk/energy_bill_consultation_document_-_11_june_2012__2_.pdf

domestic customers.

- 1.10 In March 2014 the UR published a consultation paper to seek stakeholder views on the proposal to:

“further extend the Northern Ireland Sustainable Energy Programme (NISEP) until the earlier of 30 March 2017 or the introduction of an alternative energy efficiency scheme on the basis that the way NISEP costs are allocated is changed so that 80% of costs are allocated to domestic customers and the remaining 20% are allocated to non-domestic customers.”

- 1.11 The purpose of this paper is to present the decisions made following analysis of the responses to the consultation and taking into account the results of the equality/Section 75 screening of the proposals.

- 1.12 The decision paper is structured as follows:

- i. Section 2 summarises the key points made by respondents to the consultation;
- ii. Section 3 gives details of the results of the equality screening of the proposals;
- iii. Section 4 presents the overall decisions and the next steps;
- iv. Appendix 1 lists the respondents to the consultation.

2. Summary of Responses to the Consultation

2.1 Eighteen responses were received to the consultation on extension of the programme and reallocation of costs between customer groups from a wide range of organisations. 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 . The key points raised by respondents to the consultation questions are summarized below.

2.2 Equality Impacts

- 1 Respondents are asked to provide any evidence that they have in relation to the impact that the proposals in this paper will have on the groups listed above in relation to Section 75 of the Northern Ireland Act.**
- 2 Respondents are asked to provide any further comments on the impact that the proposals in this paper are likely to have in relation to the promotion of equality of opportunity and the promotion of good relations.**

2.3 Seven of the respondents thought that the proposal to reallocate costs so that 80% of the funding is paid by domestic customers would have equality impacts. Two respondents also thought that there would be equality impacts if the NISEP was not extended without a suitable alternative in place. The other nine respondents did not comment on the equality questions.

2.4 The seven responses regarding the reallocation of costs were very similar. It was thought that the proposal would disproportionately impact all fuel poor households but in particular those who require more intensive heating regimes, and therefore likely to use greater amounts of electricity, due to their vulnerability including disability or age. It was also pointed out that the

fuel poor are more likely to live in homes that have poor energy efficiency and therefore may use supplementary electrical heating to keep themselves warm.

2.5 The two respondents that commented that the ending of the NISEP without a suitable alternative would be detrimental to equality of opportunity did not specify the particular groups that would be affected.

2.6 Consultation Proposals

3 Respondents are asked to comment on the proposal to extend NISEP on the basis that costs associated with the scheme will be allocated on the basis of 80% to domestic customers and 20% to non domestic customers. Respondents are asked where possible to include any evidence that they might have to support their responses.

2.7 All eighteen respondents were supportive of the proposal to extend the NISEP but there was no support for the proposal to reallocate costs on the basis of 80% to domestic customers and 20% to non domestic customers.

Extension of the NISEP

2.8 The proposed extension to the NISEP was welcomed with the majority of respondents saying that it should remain in place until a suitable alternative scheme has been introduced that specifically targets low income households in fuel poverty. A small number of respondents, whilst supporting the extension, thought that the NISEP needed reviewed or restructured, particularly if it was extended for more than one year, to ensure the best use of funds.

2.9 The consultation paper, and previously the Information Notice published in April 2014, referred to alternative schemes that could replace the need for the NISEP. In general, respondents felt that the ending of the NISEP would leave a gap in the provision of energy efficiency measures to low income households and, due to the lack of substantive information in the public

domain, were not confident that the alternative schemes would address this gap. Therefore many respondents said that the NISEP should remain in place, if need be beyond March 2017, until an equivalent scheme had been introduced.

2.10 Apart from targeting low income households, other benefits of the NISEP that were noted by respondents were that:

- it helps in connecting households to the gas network;
- it helps reduce carbon emissions; and
- it supports jobs in the insulation industry.

Reallocation of NISEP Costs

2.11 Eleven of the respondents stated that they did not support the proposal to reallocate the costs of the NISEP so that domestic customers would be paying 80% of costs and non domestic 20%. Of the other seven respondents, four did not comment on the proposal at all and three commented but did not give an opinion either way, two of these saying that further information/analysis was needed.

2.12 The reasons given for not supporting the proposal were that:

- it represented an almost three-fold increase for domestic customers which could exacerbate fuel poverty in NI especially for low income families;
- putting more pressure on low income families could lead to increasing self-disconnection, debt and ill health;
- larger domestic users will pay more, particularly those using electric heating, many of whom are social housing tenants;
- fuel poor households have a tendency to use more electricity than the average domestic customer due to the need for secondary heating sources such as electric fires and therefore will pay more than the average domestic user;
- the impact is likely to be greatest for the most vulnerable groups e.g. people with a disability, that are chronically sick and/or that are of pensionable age, who need to use higher volumes of electricity due to their circumstances;
- any levy applied to consumers' bills towards a sustainable programme like NISEP should adhere to the principles of fairness and the 'polluter pays';
- breaking of the 'polluter pays' principle sets a dangerous precedent for

- energy policy;
- should take into account that NISEP helps to promote local businesses who carry out the measures;
 - changing the amount levied on business customers will do little to change the problem of business customers paying the highest prices in Europe as these are due to a number of other factors including generation and transmission costs.

2.13 None of the respondents made any comment in favour of the proposal to allocate costs so the overwhelming view was that the current allocation of NISEP costs should be maintained i.e. a fixed charge per kilowatt hour of electricity used across all customer groups.

Further Comments

- 2.14 A number of comments were made by respondents that did not directly relate to the consultation questions but are still worthy of note. Many of these comments were in relation to energy policy in NI and therefore outside the remit/control of Utility Regulator. However, the full responses will be published on our website and, where appropriate, comments will be passed on to the relevant government department.
- 2.15 Several comments were made in relation to an alternative scheme to replace the NISEP. In general respondents were skeptical, largely due to lack of information, that any of the current or proposed initiatives referred to in the consultation document would provide a suitable replacement. They said that any replacement scheme must maintain a high percentage of ring-fenced activity deliberately targeted at low income households in fuel poverty. A few of the respondents said that work should continue on an Energy Efficiency Obligation, as discussed in the Energy Bill consultation paper published in June 2012, as the most likely successor to the NISEP.
- 2.16 Despite the support for the continuation of the NISEP a number of respondents said that it needed to be reviewed and/or restructured and some suggestions were made as to how it could be improved to ensure best value in the future. A few respondents referred to how they thought that the NISEP underspend could be put to good use but it should be noted that the underspend for one year is always reallocated to schemes in the following year and therefore the overall amount of NISEP underspend is

only as much as in the current year i.e. it is not a cumulative year-on-year total. (For the 2014-15 NISEP there will be some underspend but the exact amount will not be determined until all the post-implementation reports for all the schemes have been checked and analysed.)

2.17 There was a call for better collaboration between government, suppliers and the advice sector to ensure that those who need support are dealt with quickly and seamlessly. There was agreement that the current proliferation of energy efficiency schemes in NI was confusing and one respondent suggested that there was an opportunity to review the interaction between schemes and what future form best meets the needs of the most vulnerable. It was suggested that a Fuel Poverty Tsar or Commissioner should be appointed to act as a fulcrum for co-ordination of energy efficiency measures for the fuel poor.

2.18 Other suggestions for energy efficiency policy made by individual respondents included:

- Carbon Tax revenue could be directed towards a major programme to improve energy efficiency of homes;
- An independent expert technical panel could be set up for energy efficiency along with a research and development hub;
- NISEP could be the model used to fund a properly resourced energy efficiency strategy which would reduce carbon emissions, tackle fuel poverty, create jobs and economic growth, reduce pressure on health services and improve energy security;
- Redesign of schemes should be considered against wider government ambitions such as those expressed by the 'Gas to the West' project.
- Government must now revisit the whole issue of energy efficiency and the impact it has on fuel poverty and climate change.

3. Equality Screening

3.1 As a public authority, the UR has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

- i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- ii. men and women generally;
- iii. persons with disability and persons without; and
- iv. persons with dependants and persons without.

The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial group.

3.2 The consultation proposal was subjected to equality screening to assess the impact, if any, on equality of opportunity and good relations. Responses to the first two questions within the consultation paper were considered along with other information on the needs/circumstances of Section 75/equality groups. For the purposes of the equality screening the proposal within the consultation paper was considered as two separate policy decisions i.e.

- i. Extension to NISEP
- ii. Reallocation of costs

Extension to NISEP

3.3 Extension of the NISEP will benefit all customers in terms of reduction in carbon emissions and increased energy security due to greater energy efficiency. Potentially all households can benefit from the NISEP except those that are eligible for Affordable Warmth and those whose home is already energy efficient or unsuitable for a NISEP scheme. 80% of funds is directed to low-income households, so these households in particular benefit from the NISEP and may include a greater proportion of people with disabilities, older people, people with dependents and minority ethnic groups. Extension of the NISEP will have positive impact on these groups.

3.4 A small number of responses pointed out that not extending the NISEP would have negative impact on fuel poor households, however, this negative impact could be mitigated by other schemes replacing the NISEP.

There would also be a positive impact on all households of the NISEP ending, particularly for high users of electricity, as the cost of the NISEP would no longer be included in electricity bills.

Reallocation of Costs

- 3.5 As several of the responses pointed out, reallocating the NISEP costs so that domestic customers pay 80% of the costs would have a negative impact on all households. The impact would be even greater for households that, because of their circumstances, use more than average amounts of electricity – in particular people with disabilities and older people who are often housebound or spend longer in the house and have a greater requirement to keep warm. In addition, households who have electricity as their primary source of heating would have a much higher than average requirement for electricity – particularly people living in private rented or social housing. Therefore, other equality groups that this proposal could potentially have a greater negative impact on would include people with dependents (especially those with children) and minority ethnic groups.

Conclusion

- 3.6 Equality screening shows that there are no significant equality impacts of extending the NISEP but the proposal to reallocate costs would potentially have a disproportionate negative impact on people with disabilities, older people, people with dependents and people from minority ethnic groups.
- 3.7 There would be no significant equality impacts of ending the NISEP if other schemes are in place to target the vulnerable/low-income households that the NISEP priority schemes cover.

4. Utility Regulator's Decisions and Next Steps

- 4.1 The Utility Regulator has considered the responses to the consultation and taken into account the results of the equality screening and the decisions are:
- i. The NISEP will be extended for another year and will now operate until 31 March 2017.
 - ii. There will be no change to the way NISEP costs are allocated between customers. Therefore, the NISEP will continue to be funded as a small fixed charge per kilowatt hour of electricity used across all customer groups.
- 4.2 A call for schemes for the NISEP 2016-17 will be issued to all organisations eligible to bid for NISEP funding in September 2015. Schemes which are successful in obtaining funding will commence in April 2016.
- 4.3 Any organisation, that is not already registered as a Primary Bidder, that wishes to bid for funds from the 2016-17 NISEP and thinks that they can meet the eligibility criteria listed in the Framework Document, should contact the Programme Administrator (Energy Saving Trust) as soon as possible to start the registration process.

Appendix 1

Respondents to the Consultation

Advice NI

Ards and North Down Borough Council

Bryson Energy

Carillion Energy Services

Causeway Cost and Glens Borough Council

Citizens Advice Northern Ireland

Consumer Council

Energia

Energy Justice Campaign

firmus energy

Mount Eagles Drive Action Group

Mount Eagles Ratepayers Association

National Energy Action Northern Ireland

National Insulation Association (Northern Ireland Branch)

NI Housing Executive

Power NI

Rachel Bevan Architects

SGN Natural Gas Ltd