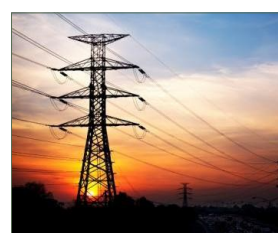


Northern Ireland Sustainable Energy Programme

Information Notice

April 2014



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 senior management team 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 Northern Ireland Sustainable Energy Programme (NISEP), formerly the Energy Efficiency Levy, has provided funding for energy efficiency schemes on an annual basis since 1997/98. The purpose of this information notice is to clarify the future of NISEP so that stakeholders and participants can plan accordingly. The paper gives some background to the NISEP and summarises its main achievements as well as discussing similar initiatives which already exist or are in planning that will carry out work similar to that currently undertaken by the NISEP.

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, the renewables industry, energy efficiency, fuel poverty and advice giving agencies, consumers and consumer representative groups, government and other statutory bodies.

Consumer impact

From April 2016 the annual NISEP fund, which is currently £7.94m, will no longer be available for energy efficiency/fuel poverty schemes, however as explained in the text, this potential negative impact should be mitigated by other proposed energy efficiency initiatives being planned by government which may offer similar benefits to NISEP and target similar households/properties.

A positive impact is that the £7.94m will no longer be collected from electricity customers – the average cost to customers is approximately £9.07 per year.

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1. Introduction

The former Energy Efficiency Levy (EEL) Programme was set up in 1997/98 by the Utility Regulator (UR). The EEL was reviewed in 2008 and from 2010/11 was re-branded as the Northern Ireland Sustainable Energy Programme (NISEP). The decision paper following the 2008 review stated that the NISEP would continue for three years and the next review of the Programme would be completed by 2012.

In 2012 a full 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. With the agreement of UR, the DETI consultation asked consultees if NISEP should continue in its present form until a new measure could be agreed upon². The majority of responses to the consultation felt that the NISEP should continue in order to ensure continuity in energy efficiency provision. The Utility Regulator agreed to keep the NISEP open until the earlier of March 2016 or the introduction of alternative energy efficiency provision. The purpose of this information notice is to clarify the situation for stakeholders and confirm the process for the 2015-16 final year of the NISEP.

2. Background to NISEP

The NISEP is a voluntary incentivised programme of energy efficiency schemes, funded by customers through the electricity system in the form of a Public Service

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

² Question 2.5 DETI Energy Bill Consultation June 2012

Obligation. 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. The Programme was set up by the Utility Regulator in 1997/8, as the Energy Efficiency Levy (EEL), and is operated on an annual cycle with schemes running from April to March. Eligible organisations (Primary Bidders), which include licensed energy companies and other organisations who can meet set criteria within the NISEP Framework Document, submit bids in the autumn of each year for schemes to begin the following April. The most cost-effective schemes within a number of ring-fenced categories are awarded funding. Therefore, the types of schemes provided each year will vary according to the schemes brought forward by Primary Bidders and their relative cost-effectiveness. Primary Bidders have total responsibility for undertaking the schemes that they are awarded funding for and must ensure that they abide by the NISEP Framework Document which provides all the rules and procedures for submitting and undertaking schemes.

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

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

Since 2002 the majority of the funding (80%) has been targeted at vulnerable (Priority) households in Northern Ireland. The other 20% of funding is available for schemes that target Non-priority domestic households and the non-domestic sector e.g. businesses, commercial and industrial premises, schools and hospitals.

In the Priority sector, some schemes provide fully funded measures whilst other schemes provide a substantial grant towards the energy efficiency measures. Measures typically provided include: heating systems, fabric (cavity wall or loft) insulation; low energy lighting and hot water cylinder jackets. Household eligibility criteria for Priority schemes can vary between schemes but are based first and foremost on low-income thresholds.

In the Non-priority domestic sector, schemes have typically provided cash-back offers for measures such as cavity wall, solid wall and loft insulation and small-scale renewables. Non-domestic schemes typically provide a grant of around 20% towards the installation of technology such as variable speed drives, variable speed compressors and LED lighting systems.

The Utility Regulator works within a legislative framework and its statutory duties are set out in the Energy (Northern Ireland) Order 2003 (the Energy Order) and the Water and Sewerage Services (Northern Ireland) Order 2006. The EEL Programme was introduced as an important element of the Utility Regulator'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. 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.

The basic format of the EEL/NISEP has remained the same since its inception in 1997. The last major review was undertaken in 2008 and whilst a number of changes were made to the programme following this review, including rebranding as the NISEP to better reflect the strategic objectives and the opening up of the scheme to organisations other than licensed electricity suppliers, the overall design remained the same.

3. Schemes offering similar benefits to NISEP

There are now a wide range of energy efficiency schemes, both currently available, and being planned and considered. The NISEP framework document makes it clear that NISEP funding should only be used where the energy efficiency measure would not be installed by the beneficiary without assistance from the particular NISEP scheme. 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.

A recent report³ published by the Consumer Council pointed out that the number of energy efficiency initiatives currently operating in NI was not an ideal situation:

“A wide range of government departments and agencies have responsibility for energy efficiency in Northern Ireland causing confusion and a disjointed approach to addressing energy efficiency.”

³ Saving Energy A report into domestic energy efficiency government schemes in Northern Ireland and consumers' views in the context of fuel poverty policy; published by the Consumer Council, December 2013

The report concluded:

“The evidence suggests that there are too many disparate grants and schemes without a single focus.”

The NISEP tries to target households, and other premises, that do not qualify for grant assistance for energy efficiency measures from any other government source. This is becoming more difficult as criteria for existing energy efficiency/fuel poverty/renewables schemes change and new initiatives are introduced. Other schemes, either existing or planned, that cover similar energy efficiency measures to the NISEP include:

(i) Warm Homes Scheme

A consultation paper⁴ on a review of the Domestic Energy Efficiency Improvement Programme for vulnerable households, currently delivered through the Warm Homes Scheme, has recently been published by the Department of Social Development (DSD). Eligibility for the Warm Homes Scheme was based on receipt of one of a list of ‘passport’ benefits. The NISEP Priority schemes have in most cases targeted households that fell outside the eligibility criteria for Warm Homes i.e. low income households that are not in receipt of any of the qualifying benefits. DSD’s consultation paper proposes an end to the Warm Homes Scheme and the introduction of a new ‘Affordable Warmth Scheme’ which will target low-income households, using income thresholds rather than qualifying benefits, on an area-based approach. Therefore in the future there is potential for overlap between those vulnerable households currently targeted by NISEP and those to be targeted by the Affordable Warmth Scheme as proposed.

⁴ From Fuel Poverty to Achieving Affordable Warmth, Department of Social Development February 2014

(ii) Boiler Replacement Scheme

A grant of up to £1,000, dependant on total gross income, is available through DSD's Boiler Replacement Scheme to replace an inefficient boiler that is at least 15 years old. This scheme is open to owner occupiers with a household income of less than £40,000. This scheme may overlap with some NISEP schemes so the householder, or their adviser, will have to establish which scheme is most suited to the individual circumstances and provides the greatest benefits.

(iii) Support for Renewables

The Renewable Heat Premium Payment (RHPP) scheme was launched by DETI in May 2012 to encourage householders to install a renewable energy heating system in their home. Grant support, of varying levels, is available for installing air source heat pumps, biomass boilers, ground source or water source heat pumps and solar thermal water heaters.

When the EEL was rebranded as the NISEP in 2010-11, one of the changes made was the introduction of a ring-fenced funding category for innovative schemes which would include schemes promoting small-scale renewables. This was further refined in 2011-12 when the category was split into separate categories for innovative schemes and renewable schemes. A number of successful renewable schemes were undertaken using NISEP funding including measures such as: solar PV, solar water heating and biomass boilers.

The Renewable Heat Incentive has now also been introduced for non-domestic properties and there is further financial support for renewable installations from the

NI Renewables Obligation. In light of the Government support now available, the funding ring-fence for renewables has been removed and the Framework Document amended to stipulate that funding for renewable schemes will only be considered if the measures are not eligible for financial support from any other source. No renewable schemes were submitted for funding from the NISEP in 2014-15.

(iv) Social Housing Schemes

The Northern Ireland Housing Executive runs various programmes to improve the energy efficiency of its housing stock.

(v) HEaT Programme

The Office of the First Minister and Deputy First Minister has set up a project team to bring forward proposals on the design of a new domestic energy saving retrofit programme. Whilst there is little detail yet in the public domain regarding the development of the Household Efficiency and Thermal Improvement Programme (HEaT), there is the potential in the future that this Programme will deliver benefits currently delivered by the NISEP and it could therefore replace some of the need for the NISEP.

(vi) Energy Efficiency Obligation

Article 7 of the Energy Efficiency Directive⁵ (EED) requires Member States to set up an energy efficiency obligation scheme, or an alternative policy measure, to achieve a cumulative end-use energy savings target (1.5% of annual energy sales) over a seven year period from 1 January 2014 to 31 December 2020⁶. As the target applies at member state level it is for the UK as a whole, rather than a separate target for Northern Ireland. The Directive required Member States to report by 5 December 2013 on the methodology of the policy measures to be used to achieve the required energy savings. Energy efficiency savings deriving from NISEP are forecast to count towards the UK energy savings target until 2016, no additional NISEP measures are forecast to be delivered beyond 2016.

An energy efficiency obligation, similar to that consulted upon as part of the Energy Bill consultation, could contribute to the UK's overall Energy Efficiency Directive targets post 2016. Further information on the consultation is available on DETI's web site at the following link:

http://www.detini.gov.uk/government_response_to_public_consultation_on_the_energy_bill_-_february_2013_2_.pdf

Based on the information contained within the consultation document, there appears to be a potential for overlap with the NISEP.

⁵ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

⁶ Note Member States is taken to mean the UK as a whole. Therefore Northern Ireland does not have an individual obligation to deliver 1.5% per annum energy savings.

4. NISEP costs

Every electricity customer pays a small charge per kilowatt hour of electricity used towards funding the NISEP. The average cost to customers for the NISEP is approximately £9.07 per year. However as the charge depends on the amount of energy used, large energy users contribute more than smaller and in reality domestic customers contribute much less than £9.07 per year and a large proportion of the fund is paid for by industrial and commercial (I&C) customers. The Committee for Enterprise Trade and Investment has recently published a report on electricity pricing⁷. The report refers to the NISEP as one of a number of factors contributing to the fact that I&C electricity consumers in NI are paying among the highest prices in Europe for electricity. The report recommends that:

“Before the NI Sustainable Energy Programme comes to an end, the Executive should plan a further programme to promote and improve energy efficiency for vulnerable customers. In doing so, the Executive should explore how such a scheme can be funded through means other than the electricity tariff.”

From April 2016, the NISEP will no longer be in place and therefore there will be no ongoing requirement to raise the funding for the Programme from customers.

5. Targeting properties

In the Priority domestic sector, increasingly schemes are finding it difficult to achieve the energy savings forecast in the scheme submission as it becomes

⁷ Report on the Committee’s Review into Electricity Policy Part 2: Electricity Pricing, published by the Committee for Enterprise, Trade and investment March 2014

more difficult to find households that need the type of measures that achieve the greatest energy savings. It is not possible to know at the scheme development stage exactly what mix of measures will be required by households on the ground or who will seek help from the scheme and there is a general trend that the measures actually being installed are delivering lower energy savings e.g. there are more top-up rather than full loft insulation jobs and fewer cavity wall measures being installed in the schemes providing 'whole house solutions'. There are also fewer houses with no existing central heating systems and more heating replacements are from old or broken oil to new gas or oil.

The most recent Northern Ireland Housing Condition Survey, undertaken by the Housing Executive in 2011, indicates that:

- 99% of homes have full central heating (oil 67.8%, gas 16.7%, other 14.1%);
- 71% have full wall insulation and 6% partial;
- 96% have some loft insulation, although over half could be topped up.

Although a few of the NISEP schemes have people on the ground pro-actively seeking out households that would be eligible for measures, in general NISEP schemes rely on self-referrals from householders. The DSD consultation paper on a scheme to replace 'Warm Homes' points to fuel poverty research that suggests those households most in need of assistance do not self refer to schemes and that area-based approaches are more effective in targeting resources where they are most needed. Therefore, the new 'Affordable Warmth' scheme that DSD are proposing takes a predominantly area-based approach where all homes within a targeted area will be surveyed and the householder encouraged to participate in the scheme. The NISEP is unlikely to facilitate schemes that deliver this type of

area-based approach.

Although 20% of the funding is ring-fenced for Non-priority schemes (both Non-priority domestic and non-domestic), over recent years since the start of the recession, commercial schemes have struggled to spend all the funding allocated to them. Typically non-domestic schemes provide 20% of the cost of installing a particular measure and, despite the best efforts of Primary Bidders to market their schemes, businesses and commercial enterprises have not had the capital available to fund the remaining 80% of the cost of the measure. Therefore in the last few years, less than 20% of the overall funding spent has been on Non-priority schemes. (Note: any under-spend is added to the funding available in the next year and for the final year any under-spend will be returned to customers.)

6. Achievements of the EEL/NISEP

Since 1997-98 the EEL/NISEP has made a significant contribution to energy efficiency in homes and commercial premises across NI. The table in Appendix 1 shows the lifetime energy savings, carbon savings and gross customer financial benefits achieved each year up to 2012-13 from the measures installed. The summary statistics for 1997-98 to 2012-13 are:

EEL/NISEP funding spent:	£64,583,073
Lifetime energy savings	6,973 GWh
Lifetime carbon savings:	1,510,003 tonnes
Gross Customer Benefits:	£562,037,696

As the EEL/NISEP is an energy efficiency initiative, the main performance indicators to measure the success of the programme are those above i.e. energy and carbon savings and customer benefits. However as already stated, 80% of the funding since 2002/03 has been directed to schemes that target Priority/vulnerable households at risk of fuel poverty. Due to the number of enquiries received regarding the number and type of measures being installed in vulnerable homes, the NISEP Programme Administrator was asked to collate and report on this type of information from 2010-11 onwards. The number and type of installations per year, 2010-11 to 2012-13, are set out in the table in Appendix 2. The summary statistics for the main types of measure are:

Loft insulation	18,460
Cavity wall insulation	5,375
Hot water cylinder jackets	5,179
Heating systems/boiler replacement	5,339
Energy efficient light bulbs	70,479

7. Future of the NISEP

The UR's original commitment to the NISEP was to operate the programme until 2012. However, since 2012 the Programme has been rolled forward on a yearly basis until March 2016 at the latest, to avoid a gap in energy efficiency provision in Northern Ireland while the Energy Bill provisions on energy efficiency are being considered.

The EEL/NISEP has, since its inception in 1997, made a valuable contribution to energy efficiency and the reduction of carbon emissions in Northern Ireland as well as assisting vulnerable customers.

The UR notes the range of schemes already in place or in the process of being planned. The benefits of these schemes are of a similar nature to the benefits of the NISEP and they have the potential to target those benefits to similar households and other premises. Therefore, UR considers that continuing the NISEP in its current format beyond 2016 would have limited advantages and would potentially create confusion with the alternative schemes.

The UR notes Recommendation 11 in the Committee for Enterprise, Trade and Investment's "Report on the Committee's Review into Electricity" which, as quoted in Section 4, said that the Executive should plan a further programme to promote and improve energy efficiency for vulnerable customers before the NISEP comes to an end. It was recommended that the Executive should explore how such a scheme could be funded through means other than the electricity tariff

Given the potential level for overlap with alternative schemes and sources of funding, the UR has not put in place any of the processes necessary to extend the NISEP in its current form beyond its end date in March 2016. The work required for such an extension would require significant time (indeed it would need to be already underway). The work would also require significant resources and would include a fundamental review of the NISEP overall objectives, structure and format, and an extension of administration and funding arrangements.

In September 2014 the UR will issue a final call for schemes to allow bids for

NISEP funding for the year 2015-16. Bids for funding for the year 2015-16 must be received by 30 November 2015 and schemes which are allocated funding will run between 1 April 2015 and 30 March 2016. Following this the UR will begin the process of post implementation review, auditing and reporting.

The 2015-16 year will be the last year in which NISEP funding will be made available for energy efficiency schemes.

Appendix 1: Savings and Benefits from the EEL/NISEP

Year	Funding Spent	Lifetime Energy Savings (GWh)	Lifetime Carbon Savings (tonnes)	Gross Customer Benefits
<u>EEL</u>				
1997/98	£ 664,351.00	54.04	13,417	£ 3,675,450.00
1998/99	£ 669,491.00	78.19	20,755	£ 4,892,333.00
1999/00	£ 1,003,068.00	122.98	31,080	£ 7,480,531.00
2000/01	£ 1,365,227.00	187.86	57,272	£ 11,437,024.00
2001/02	£ 1,433,495.00	188.90	57,335	£ 13,264,634.00
2002/03	£ 3,037,186.00	450.78	92,228	£ 25,433,246.00
2003/04	£ 3,938,905.00	449.11	84,614	£ 17,221,109.00
2004/05	£ 3,771,339.00	382.44	98,557	£ 20,999,203.00
2005/06	£ 4,802,853.00	481.03	132,010	£ 30,109,726.00
2006/07	£ 5,006,756.00	615.36	132,087	£ 38,811,902.00
2007/08	£ 5,629,739.00	576.65	122,368	£ 55,222,786.00
2008/09	£ 5,754,873.00	717.66	149,037	£ 58,501,419.00
2009/10	£ 5,589,748.00	708.92	142,855	£ 61,760,474.00
<u>NISEP</u>				
2010/11	£ 6,197,318.00	607.77	123,457	£ 56,345,455.00
2011/12	£ 7,882,252.00	707.40	135,819	£ 72,410,175.00
2012/13	£ 7,836,472.00	644.38	117,112	£ 84,472,229.00
Total EEL/NISEP	£ 64,583,073.00	6,973.46	1,510,003	£ 562,037,696.00

Appendix 2: Measures Installed by the NISEP

	2010/11	2011/12	2012/13	Total
<u>Priority Domestic Schemes</u>				
Heating systems/boiler replacement	1,389	1,704	2,246	5,339
Loft Insulation	7,383	5,734	5,343	18,460
Cavity Wall Insulation	2,654	1,534	1,187	5,375
Solid Wall Insulation		60		60
Hot Water Cylinder Jacket	2,135	1,625	1,419	5,179
Energy Efficient Light Bulbs	22,928	23,643	23,908	70,479
Energy Monitors		665	1,061	1,726
Standby Controls	1,000			1,000
Standby Meters		67		67
Water Widgets	76		25,000	25,076
				0
				0
				0
<u>Non-priority Domestic Schemes</u>				
Heating systems/boiler replacement		17		17
Loft Insulation	129	565	199	893
Cavity Wall Insulation	317	1,243	516	2076
Solid Wall Insulation		7		7
Hot Water Cylinder Jacket		2		2
Solar Water Heating		348		348
Solar PV		265	328	593
				0
				0
<u>Non-priority Commercial Schemes</u>				
Heating systems/boiler replacement	50	48		98
Energy Monitors			4	4
Variable Speed Drives	34	47	37	118
Variable Speed Compressors	9	20	18	47
Energy Efficient Lighting	9,524	17,747	17,951	45,222
Hysave Liquid Pump Amplification	1	4		5
Refridgeration Package		1		1
Heat Recovery			2	2
Sonic Leak Detection Surveys	65			65
Timeswitches			8	8
Solar Water Heating			2	2