Northern Ireland Energy Agency

A Member of the Bryson Charitable Group

Response by the

Northern Ireland Energy Agency

to the Utility Regulator

on the

Strategic and Operational Review of the Northern Ireland Energy Efficiency Levy

Submitted: 24 November 2008

Northern Ireland Energy Agency

Background

The Northern Ireland Energy Agency was formed in 2007 and is part of the Bryson Charitable Group. Our aim is "to secure the support and active engagement of Northern Ireland's energy users, particularly households, in implementing strategies, programmes and measures to combat climate change."

The Agency plays a central role in changing attitudes and behaviors and promotes action by householders and not-for-profit organisations on

- Energy efficiency
- Renewable energy
- Low carbon transport
- Water
- Waste
- Affordable warmth

The Agency employs 39 staff across its three offices in Belfast, L'Derry and Enniskillen. The single Agency was formed by brining together three local energy agencies (Belfast Energy Agency, Foyle Regional Energy Agency & Western Regional Energy Agency & Network) which were set up in the 1990s in partnership with DETI's predecessor DED with the financial support of the European Commission under its PERU, SAVE and SAVE II programmes.

If you would like to discuss these comments please contact:

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Introduction

The Northern Ireland Energy Agency welcomes the **Strategic and Operational Review of the Northern Ireland Energy Efficiency Levy** by the Regulator and we are pleased to be able to provide a response to the questions posed. We have drawn on our experience of managing a wide range of Levy projects over the years and hope this submission informs your debate.

We would also like to take this opportunity to highlight our ongoing support for the Levy programme. As an organisation who has been pro-active in brining forward a large number of successful schemes e.g. Cosy Homes, Brighter Homes, CFL giveaways etc. we are committed to working with the Regulator, energy suppliers and other stakeholders as it goes forward.

Executive Summary

The Northern Ireland Energy Agency believe it is time to provide a comprehensive statement on the Levy programme aim and objectives and serious consideration should be given to the development of a new name and brand to give transparency to the customer and stakeholders. It is important to decide if the primary aim is to reduce fuel poverty or is it to reduce energy use or reduce carbon emissions? If the Levy is there to reduce fuel poverty the ring-fencing of ‘priority groups’ is appropriate and should continue around the current levels given the prevalence of fuel poverty in Northern Ireland. If the aim of the Levy is to reduce energy use and capture the resulting carbon savings, a number of cost effective options are available including greater priority on cavity wall and loft insulation. Regardless of the aim we believe there are many benefits to be gained from having a small number of larger schemes.

The Regulator should periodically undertake a review of the Northern Ireland market for prices on the most commonly used measures; this will help to ensure that schemes are compared on a level playing field.

The Review document fails to provide clarity around how much money is actually being raised annually through the Levy. Greater transparency is needed at this overarching level.

While we would support the proposal to open the Programme to other organisations a number of restrictions would need to be put in place. Allowing other organisations (apart from licensed suppliers) to bid for funds will lead to duplication of schemes and dilution of funds across more schemes. Ultimately this means less money being spent on measures and more going towards evaluation and administration. The proposed minimum level of £10,000 seems extremely low – given that the Levy fund will be around £6 million in 2009/10 that could lead to 600 schemes. This would create a very confusing marketplace. Regardless of who manages the fund there will need to be some incentive for doing so.

It would be wise to revisit the targets given that companies such as NIE Energy have year on year surpassed these targets. The outcome of this review may lead to incentives remaining in or around the current levels if the 'revised' targets are taking all the current issues such as assumed generation mix and measures mix into account. The information presented in the Review would suggest that the targets have been set on out-dated information therefore a complete review is necessary. Once again setting out the true aim of the Levy will help when targets are being set. If the aim is to reduce fuel poverty energy savings will be lower.

It will be a lost opportunity if this review does not consider the options for increasing the Levy fund in the near future. Declining wholesale prices should give some margin for an increase in the Levy in the next twelve months. This would need to be factored in now.

The Northern Ireland Energy Agency is completely opposed to assisting customers with the purchase of home heating oil.

The NI Energy Agency have run a large range of Levy schemes and have found the 5% cap a very crude and unrealistic approach to costing the management of schemes. We have often run schemes at a cost to the Agency which is perverse given that this results in healthy incentive payments to private energy companies.

All schemes should be required to use the same fund name and branding in association with their own branding to make it completely clear to the customer where funds are coming from. No divergence from the fund branding should be acceptable regardless of which sector the organisation is from.

Introduction

The following sections set out a number of overarching issues not addressed specifically under the 'Specific Proposals' section of the Review. The document then goes on to address many of the 'Specific Proposals' in the document.

Levy Fund - Name

The Levy is referred to as both the NI Customer EE Levy and the NIE Energy Customer EE levy. This obviously leads to confusion with stakeholders and customers who could perceive the latter to mean the funds are coming from NIE Energy profits rather than being raised from customer bills. This review presents an excellent opportunity to re-brand the Levy and as a result this could encourage other suppliers to come in and bid for funds. In due course it will start to address some of the perceived issues around transparency.

Programme Aim

Clearly the Levy has evolved over the years and the Assembly Motion to encourage the Regulator to create a pot of funding to help eradicate fuel poverty has set the current direction of the fund. At this point we believe it is time to provide a comprehensive statement on the programme aim and objectives and serious consideration should be given to the development of a new name and brand to give transparency to the customer and stakeholders.

Is the primary aim to reduce fuel poverty or is it to reduce energy use or reduce carbon emissions? If the Levy is there to reduce fuel poverty the ring-fencing of 'priority groups' is appropriate and should continue around the current levels given the prevalence of fuel poverty in Northern Ireland. Our experience of running Levy schemes and targeting priority customers for whole house solutions has shown that it is becoming increasingly difficult in recent years. We believe there are a number of reasons for this including:

- The traditional customer referred for whole house solutions is one with Economy 7, no heating or solid fuel and this group has declined significantly due to the Levy and other schemes. The latest House Condition Survey (2006) indicates that only 5% of homes have Economy 7, 1.8% have no heating and 4.7% have solid fuel. Targeting such a small group requires significant resources

- Some properties for example flats, have no options apart from Economy 7

- Not all customers want to have their heating changed

- Not every house needs a heating system and insulation, i.e. a whole house solution – therefore greater flexibility is required when a scheme manager identifies a customer who needs only one measure or a combination of loft and cavity wall insulation only.

If the aim of the Levy is to reduce energy use and capture the resulting carbon savings, a number of cost effective options are available including greater priority on cavity wall and loft insulation. Taking this route would mean every customer contributing to the Levy could stand to benefit within a relatively short timeframe as the measures being funded would be at a much lower cost.

We believe there would be significant benefits to be gained from a small number of larger schemes. Promotion to the customer is much easier and more cost effective than lots of schemes trying to spread different messages. We already have cases of customers on waiting lists of more than one scheme potentially preventing others from getting on the list.

Measures Costs

The Regulator should periodically undertake a review of the Northern Ireland market for prices on the most commonly used measures in the Levy, e.g. cavity wall insulation of a 3 bed property, loft insulation, CFLs etc to ensure schemes are being compared on a level playing field. Measure costs from GB are not equivalent to those in Northern Ireland and like every other sector in the economy prices rise year on year and this should be factored into the evaluation of schemes.

Levy Funds

The diagram presented on page 7 of the document indicates that in 2008/09 the Levy equates to £5.9 million which presumably equals £7.175 per customer or £2.70 in the case of the average domestic customer. However the Review document later points out that incentive payments for the previous year resulted in a further £1.4m and given that this was on a lower measures pot the figure for 08/09 will be higher, so added to the measures funding we then have a pot of over £7 million which raises the average cost per customer to around £9 or over £3.50 for the domestic customer. No mention is made in the Review of the costs to the Regulator or their managing agent (the EST). It is assumed that one or both parties have costs and they must be coming from the Programme. This begs the question as to how much is really being raised through the Levy and what is the true cost per customer? Perhaps the Review document should have set out this total budget and how it is being spent? Overall greater transparency is required at this over-arching level.

What would happen if the energy suppliers opted for a large number of very cost effective schemes in a year which resulted in them smashing their targets and potentially getting a very high incentive payment? Would it be the case that the customer would be asked to pay significantly more and if so how would the voluntary cap brought in by the Regulator in 2007 be a powerful enough tool to prevent this?

Community Groups

At present when a community/voluntary organisation wants to participate in a Levy scheme they are treated like a private business. Some consideration should be given to this to allow them to contribute less as they will not have the same resources available to match schemes as a business would.

Specific Proposals

1) Organisations other than licenced suppliers should be permitted to compete for levy funds.

We would support the proposal to open the Programme to other organisations. In saying this the Regulator needs to consider a number of restrictions being placed on bidders applying directly for Levy funds:

(1) Minimum scheme size – to maintain some of the economies of scale schemes should not fall under £75,000

(2) Management costs should be subject to a formula such as the DEFRA one suggested

(3) Measure providers such as CWI installers, CFL manufactures etc. should be excluded from bidding directly to the Levy

In addition opening the Levy up to other bidders will pose a number of risks probably the greatest of these will be duplication of schemes and dilution of funds across more schemes. Ultimately this means less money being spent on measures and more going towards evaluation and administration. If this approach is adopted the proposed minimum level of £10,000 seems extremely low – given that the Levy fund will be around £6 million in 2009/10 that could lead to 600 schemes. This would create a very confusing market place and could lead to customers shopping around for a substantial part of the year which would mean scheme managers can not complete schemes within the financial year. Alternatively customers could sign up for more than one scheme and opting with which ever one does the work first, this would lead to places being held unnecessarily on some schemes that would later struggle with short time scales to recruit referrals. In addition who would know when a customer has already benefited from a scheme that year and subsequently rule them out of another scheme or would it not just be in the interest of the scheme manager to take everyone they find so that their scheme is fully subscribed. Finally and probably most important of all we would lose all the economies of scale that we currently benefit from a small number of larger schemes. Therefore the Regulator needs to weigh up the benefits of more organisations bidding in versus the economies and lower administration burden from the current approach.

The Review also suggests that “bidders should be or use reputable contractors” (Pg. 46, Skyplex, 2008) this criteria would appear not to be viable or at the very least to be difficult to test. Furthermore how would the Regulator go about policing this once a scheme was up and running and would contractors’ schemes stop mid way through if they were deemed to have become disreputable?

The Skyplex Review states that *‘potentially, competition for Levy funding would also remove the need for incentive payments and also for rules on indirect costs’* (Pg. 29, Skyplex, 2008) this statement assumes that organisations other than the energy suppliers would manage the levy for no incentive payment. Regardless of who manages the fund there will need to be some incentive for doing so, as the document already points out the management fee for Levy schemes does not adequately cover costs and it would be unimaginable that organisations could further foot the bill.

(2) The incentive rate should be reduced

Since the introduction of the Levy the incentives paid to energy suppliers have contributed to its success. That said, the current incentive level seems high, it would be wise to revisit the targets given that companies such as NIE Energy have year on year surpassed these targets. The outcome of this review may lead to incentives remaining in or around the current levels if the 'revised' targets are taking all the current issues such as assumed generation mix and measures mix into account.

(6) More realistic targets should be set

The information presented in the Review would suggest that the targets have been set on out-dated information therefore a complete review is necessary and should go some way to resolving the question as to whether the incentive payment is too high – it may not be if the targets are suitably challenging as a high reward would be necessary.

Once again setting out the true aim of the fund will help when targets are being set. If the aim is to reduce fuel poverty energy savings will be lower.

(9) The size of the levy should be kept under review …

Given that further consultation and significant lead in times would be required to increase the Levy it would have been wise to use this consultation to scope out the size of the levy over the next 5 years. As we have recently had a significant increase in electricity prices it would not be a good time to put further pressure on customers by increasing the levy, indeed it would be ironic if the levy were increased to grow a pot of funding for fuel poverty schemes since it would be these very customers who could least afford an increase in electricity costs. Recent declines in the price of wholesale oil and gas should mean a reduction in electricity prices at the next review and this would be an opportune time to increase the levy. Unless this is factored into this review this opportunity could be lost.

(10) Focus on Priority Schemes

As already outlined if the aim of the Levy is to reduce fuel poverty then the current ring fencing of funds is justified – however we must then accept that much less can be achieved in terms of energy efficiency than would be possible if the Levy was merely there to fund the most cost effective energy efficiency measures.

(11) Emphasis on whole house solutions should be lessened

As already highlighted not every house needs a heating system and insulation, i.e. a whole house solution – so greater flexibility is required when a scheme manager identifies a customer who needs only one measure or a combination of loft and cavity wall insulation only. Overall this will result in more work being carried out if more of the less expensive measures are installed.

(12) Assisting with the purchase of heating oil

The Northern Ireland Energy Agency is completely opposed to assisting customers with the purchase of home heating oil. The levy does not currently fund the cost of providing behavioural advice to customers and this has proven savings, purely providing oil would place no incentive on the householder to reduce their energy consumption. If the issue Skyplex are trying to highlight is that customers can not budget for a one off purchase of oil then work should be undertaken by the relevant agencies to establish monthly or quarterly billing methods for oil.

(15) The 5% cap on indirect costs should be replaced …..

The NI Energy Agency have run a large range of Levy schemes and have found the 5% cap a very crude and unrealistic approach to costing the management of schemes. We have often run schemes at a cost to the Agency which is perverse given that this results in healthy incentive payments to private energy companies. This is a competitive arena and as such scheme managers know that costing schemes realistically and not excessively will result in their scheme going ahead. We agree with the DEFRA method set out in the consultation document for calculating indirect costs.

(16) The raising of levy funds should not be extended to gas unless it is also extended to oil

Given that we have had a levy on electricity for over 10 years serious consideration should now be given to extending it to gas, oil, LPG etc.

(18) Scheme sponsors should be required to explain to customers the origin of funds

All schemes should be required to use the same fund name and branding in association with their own branding to make it completely clear to the customer where funds are coming from. No divergence from the fund branding should be acceptable regardless of which sector the organisation is from.