NEA
Campaigning for Warm Homes

NEA NI's response to NI Energy Efficiency Levy Strategic and Operational Review 2008

NEA NI is the fuel poverty charity for Northern Ireland. The charity has had an interest in the Energy Efficiency Levy (EEL) for a number of years and worked with the NI Assembly to secure an increase in the levy and to have 80% of the levy focused on the fuel poor.

We welcome the opportunity to comment on the range of proposed reforms. At no other time has fuel poverty been so prominent with the 2006 House Condition Survey (HCS) recording 34% of households in Northern Ireland experiencing the problem made worse by the massive hikes in fuel prices in the past few years. It is crucial that all the fiscal instruments available to tackle the issue are doing so with rigour and effectiveness.

Over the past 6 years NEA Northern Ireland has successfully bid into the levy pot to provide measures for fuel poor households alongside a programme of activity on training and awareness and community development. Armed with this extensive knowledge we feel that we have the expertise and experience to comment not only on the strategic issues but on the operational issues associated with the EEL.

The Consultation

NEA's response broadly follows the specific issues for consideration outline on page 46.

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

NEA NI believes that widening the ability to other agencies to compete for funding is in principle a welcome move.

The fact that this would remove the need for incentive payments, rules on indirect costs and open the levy for competition seems to make good sense, alongside the fail safe measures discussed in the paper to protect any such scheme.

That said we understand the role of incentives and controls and would be mindful that it would indeed "be prudent to keep features of the existing scheme" until we can ascertain the interest and perhaps assistance required in terms of capacity to open the levy to competition.

NEA NI would like to highlight that the current systems and processes with NIE delivery is working well operationally, nevertheless the incentive earning element is a key issue of concern for us.

(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.**

Yes, we feel that with the appropriate checks and balances in place measures providers should be allowed to bid for levy funding. Systems and processes will need to be extremely robust in terms of this and this may help assist with the issue of transparency and maintain competitive costing.

(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 a minimum size, say, £10,000 of Levy funding. Bidders should be or use reputable contractors.**

In order to assist with the roll out of competition we agree with the above.

(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.**

While incentive payments have to be challenged it is important to note that although NIE supply has been the only players in the field they have been delivering a successful scheme. Obviously there has been value in one sole manager of the scheme with expertise therefore it would be remiss of us to 'throw the baby out with the bath water'. Any alternative should be able to demonstrate improvements.

(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:**

NEA NI agrees that the incentives should be reduced to £1000/GWh. To date these incentives have been earned by the licensed electricity supplier yet organisations such as NEA NI are required to fund an "enabler" on the ground to find those eligible for schemes. These people are normally 'hard to reach' and while we appreciate that electricity suppliers are profit making organisations, we believe this to be an inequitable position. In understanding the difficulty that the sector experiences in finding funding for and sustaining this work, we believe that incentive payments or any such replacement should be used to fund these posts and help provide a sustainable network of enablers throughout Northern Ireland to install both hard and soft measures.

(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.**

It seems that a number of factors including assumed generation mix and discount rate have inflated the incentives since the original target was set giving a combined increase of around 98%. It is therefore necessary that this be reviewed and overhauled.

(7) **Additional clarity should be introduced into the Framework Document, specifically for situations where, thus far, rules have not been needed.**

The framework document should be clear and transparent, this can only lead to better governance. NEA NI fully endorses this proposal.

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

We feel that this proposal requires further examination. If an issue presents re: under performance this should be highlighted via the appropriate controls and systems established under monitoring and flagged early into the scheme delivery.

(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 the reduction in incentive payments into account, the funding for measures costs should be increased in 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 acceptable low, consideration should be given to increasing the size of the fund in later years;**

The size of the levy should be kept under review especially in the light of the current energy prices, nevertheless NEA NI are mindful that with more transparency, more organisations will be likely to bid into the fund and hence more schemes submitted. If this was the case and with further consultation NEA NI would need to carefully consider the impact of any increase on the fuel poor as they tend to be the households who pay proportionately higher than others. We believe that a fuller impact assessment would need to examine the cost benefit of any such increase.

(10) **The relative focus of the scheme on priority schemes – current 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.**

NEA NI campaigned with our local assembly for the 80% ring-fencing of the levy scheme. Fuel poverty is pervasive and moving into other key groups in society. At the very minimum the 80% ring fencing should remain. We should nevertheless be looking at the framework document and the other influencing factors of fuel poverty such as income and energy prices to weave through any solutions.

(11) **The emphasis of 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.**

Our enablers on the ground looking to fund whole house solutions are finding it more and more difficult to find those who require whole house solutions and perhaps less of an emphasis on whole house solutions would be prudent. That said with fuel poverty affecting many other sections of our community it is still a much more effective process to fuel poverty proof the homes and include income and energy advice into the overall solution.
We would not advocate solutions being selected on their cost effectiveness as this would encourage cherry picking. Other approaches need to be examined such as local area based approaches such as a 'Warm Zoned Approach'. This is a systematic door by door approach to fuel poverty proofing homes and was first trialled in Northern Ireland yet adopted throughout England and Wales.

(12) **Views should be sought as to whether schemes should be permitted to assist with the purchase cost 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.**

Even when we provide the measures to ensure an energy efficient heating system, we know that many cannot afford the fill of oil or to feed their meter – this has encouraged many to avail of oil drums at exorbitant costs. We therefore welcome this assistance and would suggest that organisations such as St Vincent de Paul could advise on identifying those in real difficulty. Acknowledging that such a scheme would be difficult to manage and sustain, we suggest looking at the Charis Model to seek ways to manage this. The longer term solution to this problem will be the introduction of a social tariff model.

(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.**

In the light of the fact that all consumers in Northern Ireland contribute to the levy, NEA NI feel it only fair that non-priority domestic customers receive some measures. While we appreciate that 80% is ring-fenced for the fuel poor we still feel this position can be socially justified in the light of high energy costs.

(14) **The 20% additionality criterion should be augmented by a requirement for scheme proposals to justify why measures are additional. (no comment)**

(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 indirect costs are recouped for management and administration costs associated with overseeing the programme but not to the organisations such as NEA who have to find the funding for enablers. Provision for workers to assist in identifying the households should be included and a more sophisticated criterion developed to reflect this.

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

NEA NI agrees with this proposal. We feel that unless a levy is placed on oil and coal then gas should remain as it is.

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

NEA agree with this proposal

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

Throughout the document the issue of transparency has been highlighted and as such we feel that the customer has a right to know the origin of funds used to pay for measures.

In conclusion the EEL programme has to date delivered successfully for Northern Ireland despite some issues as highlighted. NEA NI believes that a more strategic approach to deliver programmes should be adopted and would advocate for a 3 year approach to biding into the pot. This enables organisations to embed energy efficiency measures information and advice in a more sustainable manner to local communities and make long lasting changes. We also believe that the 80% ring-fencing should be maintained and that any proposed changes should be carried only following a cost benefit analysis with emphasis of its impact on the fuel poor.