THE NATIONAL TRUST

Northern Ireland Energy Efficiency Levy
Strategic and Operational Review 2008
A submission by the National Trust to the
Northern Ireland Utility Regulator's consultation
November 2008

Introduction and summary

1. As Northern Ireland's largest conservation charity, the National Trust is passionately committed to tackling the causes of climate change and managing and adapting to its impacts. As one of the leading defenders of our natural and historic environment, we work to inspire our members and others with positive and innovative ways to meet these challenges.
2. Increased energy efficiency is vital if we are to reduce greenhouse gas emissions to mitigate climate change. It is National Trust policy to actively promote energy efficiency to government, civil society, and business – as well as to our supporters and visitors by demonstrating it in our own activities.

Role of the National Trust

3. We welcome the benefits the NI Energy Efficiency Levy has shown over the last 10 years as described by the Review. Savings of one million tonnes of carbon and £250 million pounds of customer charges are a good start on the road to a more energy efficient Northern Ireland.
4. National Trust tenants and properties In Northern Ireland have themselves benefited thanks to a partnership with NIE Energy which was backed by Levy funding (from the "non-priorty, non-domestic" allocation) . NIE Energy provided 1,330 low energy light bulbs which have been installed as part of the Trust's National 'Big Switch' project. During 2007-8, NIE Energy also part-funded the installation of 8855 m2 of insulation in a variety of National Trust buildings throughout Northern Ireland. It is estimated that the total carbon saved as a result of the project is 956 tonnes (72 tonnes from lighting and 884 tonnes from insulation).

Future of the NI Energy Efficiency Levy

5. Northern Ireland must make maximum energy efficiency savings across its buildings as soon as possible, for the sake of our economy and our environment. Reform or replacement of the NI Energy Efficiency Levy can play an important part in achieving this goal.

6. There are clearly issues in the current Levy arrangements around participants, targets and incentives. We welcome the opportunity to comment on the Review's specific suggestions to ameliorate these problems. However, we believe the Review has missed the opportunity to fully consider alternative arrangements. Schemes in place in Great Britain and ROI are discussed, and largely set aside as unsuitable for implementation in NI because of the lack of competition in electricity supply and the presence of price control arrangements here. Notwithstanding this, it would have been helpful to compare in detail how schemes in GB and elsewhere perform when compared to the Levy. If arrangements in place elsewhere can be shown to deliver substantially larger efficiency savings then it may be worth re-assessing the obstacles to their implementation here: perhaps they can be adapted after all.

Response to individual proposals

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

The National Trust agrees in principle that organisations other than electricity suppliers should be able to apply for funding. However, we would urge that the situation is kept under close review. If substantial competition does not emerge and/or the scheme's overall performance drops significantly, the Regulator should consider alternative arrangements.

II. *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.*

We believe that measures providers should be able to apply for funding, provided this helps drive more measures to be undertaken at reasonable cost. Controls and monitoring should not be so onerous so as to deter NGOs and smaller organisations from taking part.

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

The National Trust recognises that it would not be appropriate or cost effective to open the scheme to applications from individual householders etc. and that bidders should use reputable contractors. Any limit needs to be set carefully though, to avoid discouraging smaller but worthwhile schemes. We welcome the fact that the Review upholds additionality by re-emphasising that bidders should not come to the Levy in order to help meet targets or statutory obligations that have been set and/or funded elsewhere. It would be highly undesirable for public bodies to apply for levy funding to help them meet targets they have a duty to achieve anyway.

IV. *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.*

The National Trust agrees that it is vital to maintain transparency and controls on administration costs in any updated Levy arrangement. Incentive payments are more complex. We share the Review's concerns on incentives, for example:

> "…it is questionable whether incentive payments of £1.4M are necessary in order to incentivise the effective expenditure of around £6M or even the raising of around £4M from third parties"

Incentives should be used only where they drive real innovation or overcome more serious market failures: properly set delivery targets and monitoring should be sufficient to ensure that 'average' measures are delivered effectively.

V. *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.*

The National Trust recognises that the current incentives are unnecessarily high and would welcome the proposal to reallocate monies to fund more measures instead. It is also clear that it is hard to identify the impact incentives are presently having; therefore a phased approach would seem sensible. However, incentives will not be the only, and perhaps not even the major, determinant of future competition levels -for example, the complexity of the scheme, capacity of potential applicants, the readiness of measures providers etc. could all prove more significant. Hence, decisions about how to apply incentives in future should not be based around stimulating competition or around rewarding basic delivery. Instead, as outlined above, incentives could be better targeted at identified 'gaps': for example, overcoming market failures by encouraging applications for micro-generation schemes or targeting harder to reach customers like smaller private landlords.

VI. *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. To prevent any distortion to incentives, schemes with such outlying costs could be excluded from the group average calculation.*

The review makes it clear how unrealistic targets have distorted incentives and other aspects of the Levy arrangements. This problem could be avoided by ensuring that the assumptions and calculations underpinning the targets are reviewed much more frequently. The method proposed for target setting seems reasonable in the interim, provided it is a prelude to a more root and branch re-think of the purpose and targets of incentives in the Levy arrangements.

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

The National Trust agrees that the Framework Document should be as clear and straightforward as possible, especially to help the Levy attract new applicants.

VIII. *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.*

The National Trust agrees with this proposal.

IX. *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 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 acceptably low, consideration should be given to increasing the size of the fund in later years.*

We agree with this proposal, however, should very large numbers of cost-effective and rapidly implementable schemes come forward, there may be an argument for increasing the Levy in the short to medium term - to help provide more measures for more people, and especially if it can help achieve a broader market/societal/cultural shift.

X. *The relative focus of the scheme on priority schemes - currently 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.*

The National Trust works hard to help our tenants – in future we hope to roll out a scheme trialled successfully in the North-East of England to help our tenants reduce their energy bills and improve their energy efficiency. However, we are not an agency primarily concerned with fuel poverty, so it would not be reasonable to comment on possible changes in this area. However, it would seem sensible to review the weighting to ensure the maximum efficiency savings are being made as quickly as possible.

XI. *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.*

See our comment on proposal 10, above.

XII. *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.*

The National Trust is strongly opposed to this proposal, as it amounts to use of the levy to subsidise the purchase of heating oil. While an argument can be made that this could lead to a marginal efficiency saving in some cases (for example where customers would otherwise use coal or storage heaters) it would on the whole be a strong signal in the wrong direction. In fact, Levy funded schemes should support a move towards the least carbon intensive solutions, like micro-renewables and zero carbon buildings and ideally not encourage the up-take of oil-based systems at all.

XIII. *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.*

The National Trust agrees with this proposal.

XIV. *The 20% additionality criterion should be augmented by a requirement for scheme proposals to justify why measures are additional.*

This seems reasonable, but again requirements should not be so onerous as to discourage new and smaller applicants.

XV. *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.*

We agree with this proposal in principle, but do not have a view on how any new arrangement would be best structured. Care should be taken that with any phasing out of incentives existing providers do not seek to inflate indirect costs to compensate.

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

The National Trust does not have a view on this at present: however, we believe that it should not be ruled out as an option in the future.

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

We agree with this proposal.

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

The National Trust believes transparency is important and useful; however the need to inform customers about the origin of scheme funds should not distract from delivering cost effective schemes quickly, especially in the case of smaller suppliers/measures providers.

Additional comments

The Review states that the prohibition on the funding of schemes of an ‘educational nature’ should remain. This is fair, as it is clearly not appropriate to fund purely demonstrational schemes from the Levy arrangements. However, this should not preclude schemes which have a strong educational element from being Levy funded e.g. a solar panel scheme should succeed in gaining funding mainly on its efficiency merits, but it could also have an important role in informally educating individuals and encouraging them to take their own steps towards greater efficiency.

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