Alison Farr
Social and Environmental Sustainability
The Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

83-85 Great Victoria Street
Belfast, BT2 7AF

Connor Powell
Telephone: +44(0)2890 436864
Email: connor.powell@sserenewables.com

Dear Alison

Consultation on revised Framework Document for 2013-14

September 2012

Thank you for the opportunity to comment on the revised Framework Document which will apply to the Northern Ireland Sustainable Energy Programme (NISEP) for 2013-2014.

SSE is the parent company of Airtricity, the second largest energy supplier in Northern Ireland with more than 250,000 customers. We have already successfully delivered a number of NISEP schemes, including the Energy Saver Plus partnership with the Northern Ireland Housing Executive and an innovative Water Widget scheme as a primary bidder. We hope to participate in any future bidding rounds for funds for the NISEP.

Our response contains detailed answers to most of the questions set out in the consultation paper, but we would like to outline some general views on the existing bidding process at the outset, and some suggestions as to how we feel they could be adapted for a potential transition between the NISEP framework and an Energy Efficiency obligation policy measure.

The existing approval and award process is not really geared toward transparency, with bidders and contractors receiving no information until final announcements are made. We would suggest that dialogue between NIAUR and primary bidders during the approval process would mean a move away from a winner take all approach, which would be a positive thing during a transition from NISEP to a new energy efficiency measure. Similar schemes, with minor differences in grant amount could be adjusted and taken forward by multiple bidders with split budgets, ensuring greater market exposure for NISEP through multiple sales and marketing channels.

This would also help build experience for any energy suppliers likely to be obligated parties in advance of a new energy efficiency measure being taken forward by DETI, and help ensure that the Utility Regulator has better information on outturn costs across suppliers. While opacity of bidding and award has helped keep bids competitive, a transition NISEP might be better geared toward capacity building and cooperation.

I hope you find SSE’s comments on the Utility Regulator’s consultation paper helpful. If you wish to discuss any aspect of our response in more detail, please do not hesitate to contact me.

Detailed responses to consultation questions

Q1: Respondents are asked to provide any comments or evidence they have in relation to the equality impact of the proposed changes.

SSE has no comments in relation to the overall equality impact of the proposed changes.

Q2: Do you agree that the final date for schemes bids to be submitted to the Programme Administrator should be put back to 31st December 2012 to allow for more time for schemes to be developed following this consultation?

With a potential delay of 1 month or more in issuing the 2013-2014 call for schemes, it would make sense to extend the cut-off date for scheme bids. While the changes to the NISEP Framework Document are relatively minor, bidders will most likely have to revise some of their existing submissions, or develop new schemes to fit proposed changes.

We think that a 2 month window for changes, alterations and development of new bids is the minimum required, so assuming that the final Framework Document is published by the 31st October, the final date for scheme bids to be submitted to the Programme Administrator should be put back to 31st December 2012. If the final document is released later than this, the final date for scheme bids should be further extended to the 31st January to compensate for the holiday period. This would still allow for evaluation, approval and preparation before the NISEP year commences in April.

Q3: Do you agree that the NISEP funding should remain static at the 2012-13 level until the NISEP is reviewed or a new energy efficiency measure is introduced?

We did not comment on whether NISEP funding should be uprated or frozen in our response to the Department for Enterprise, Trade and Investment's consultation on an Energy Bill (2012), just that we believe the NISEP scheme should be continued in its present form until a new energy efficiency measure can be agreed upon and put in place.

SSE believes that the answer to this question is dependent on the time taken to introduce a new energy efficiency measure. While a static level of funding might not be a major issue for the 2013-14 scheme, a continued freeze on funding in 2014-15 and 2015-16 could see the scheme have a diminishing positive impact for energy customers across Northern Ireland.

SSE also believes that the current ratio of funding in relation to vulnerable and commercial customers might prove to be an issue in the first years of any energy efficiency obligation, with primary bidders having relatively little experience of delivering commercial schemes at scale, and businesses having relatively little knowledge of funding available. If an obligation covers domestic and commercial sectors, this might mean delivery in non-domestic sectors is less cost-effective than it could be.

We would suggest that NISEP funding should be index linked to RPI until a new energy efficiency measure is introduced, which would allow the scheme to deliver a similar level of energy savings year on year and help build capacity for energy suppliers likely to be obligated parties under a new energy efficiency measure.

Q4: Do you agree that Solar PV should be the only type of renewable energy measure approved for NISEP schemes? (Bearing in mind that, as per Section 2.1 of the Framework Document, measures promoted must be in customer's financial interest i.e. the present value of the lifetime customer benefits should exceed the cost of the measures)

There are a number of microgeneration and renewable heat support schemes now functioning including the Renewable Heat Incentive, Renewable Heat Premium Payment and Northern Ireland Renewables Obligation. We understand the Utility Regulator's concerns about policy overlap but it isn't clear why there is a need to restrict technology choice (and competition) to Solar PV only. We would also question the reliability of cost data that shows Solar PV as being the only renewable energy measure having a positive standalone net present value.

Q5: Do you agree that a 10% ring-fence of funding for innovative and renewable energy measures (Solar PV), is more appropriate than a 5% ring-fence for renewable (Solar PV) and a 5% ring fence for innovative?

Although NISEP was adapted in 2010-11 to give it a broader focus, it is still primarily focused on the demand-side of sustainable energy. There are already a number of supply-side policies for microgeneration technologies that can be adapted by providers to have no capital cost for households

Therefore, a 10% ring-fence of funding for innovative and renewable energy measures seems more appropriate than a 5% split ring-fence for renewable and innovative measures. However, we would still question the decision to include Solar PV as the only eligible renewable energy measure under Section 2.1 of the framework document.

Q6: Respondents are asked to comment on what the appropriate level of incentives should be for delivery of NISEP schemes.

Incentives for exceeding targets set under the programme already saw a revision in the March 2009 decision paper. This revision was on the basis that the retention of a £1000/GWh incentive rate, transparency and controls on management costs coupled with more realistic targets struck a good balance between delivery and value[1]:

"Setting management costs and incentives at too low a rate (or targets which are unattainable) and the risk is that no schemes come forward. On the other hand, setting incentives too high or setting targets which are unrealistically low risks delivering poor value for money."

With participants already required to commit to recycle any incentive above the threshold of 8% of total project funds into fuel poverty or energy efficiency schemes which are additional to work already planned, it seems unnecessary to introduce a £470,000 cap on the total amount of incentives earned by primary bidders.

The benefit of trying to capture a small (hypothetical) cost of in order to keep NISEP funding entirely static seems to be relatively marginal compared to the benefits of maintaining an attractive scheme (with no ex-post revision to outperformance) which could see a larger number of bidders come forward with a variety of competitive proposals. As previously stated, if NISEP is intended to function as a transition scheme, it should focus on building capacity – making participation attractive is an important part of that.

Q7: Do you have any comments on or issues with the revised Accedence Document contained in Appendix 8 of Annex 1?

SSE have no comments to make on the revised Accedence Document issued alongside the consultation.

Q8: Do you think that the guidance regarding compliance with State Aid, now contained within the Framework Document, is clear and adequate?

The guidance regarding compliance with State Aid rules is clear, adequate and welcome. We appreciate the Utility Regulator providing this as part of proposed revisions to the Framework Document.

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[1] Utility Regulator (2009), *The Northern Ireland Energy Efficiency Levy Conclusions*

Q9: Do you have any comments on the additional clarification in the Framework Document regarding procurement arrangements, sub-contracting arrangements and partners?

SSE welcomes the additional clarification on procurement arrangements, sub-contracting arrangements and partners.

Q10: Do you have any comments on the revised Section 2.5, Payment of NISEP Funding, in the Framework Document?

We are pleased to see a move to monthly grant funding claims, this will be better for contractors delivering schemes. The previous quarterly claim process posed issues for cash flow, particularly for smaller contractors, so the change should mean they can submit more competitive tenders during the procurement process.

Also, while we understand that primary bidders have to account for VAT, the inclusion of an example invoice showing how the Utility Regulator would like VAT to be presented on claims could potentially be a useful addition to section 2.5, or as an appendix to the Framework Document.