Executive Summary

Throughout the developed world a shift has taken placed towards to market-based environmental policy encouraging organisations to find the lowest cost CO2 emissions reductions.

Rather than the existing system of incentive payment and targets, we suggest that the applications be ranked in order of lifetime cost per tonne carbon dioxide saved i.e. £/tCO2 lifetime. The EELP would then fund the top projects working down the list until the fund is spent.

We strongly oppose using an Energy Efficiency Levy for the purchase of fossil fuels.

Annex A - Consultation Proposals

(1) Organisations other than licensed electricity suppliers should be permitted to compete for Levy funding.
No response.

(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.
No response.

(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 of a minimum size, say, £10,000 of Levy funding. Bidders should be or use reputable contractors.
No response.

(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.
o incentive payments to encourage schemes to maximise the energy savings measures obtained for Levy funding;
o the requirement to provide transparency of the costs of measures
o controls on the level of management and administrative expenses.
No response.

(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;

Rather than the existing system of incentive payment and targets, we suggest there be an open competition for the funds and that the applications be ranked in order of increasing lifetime cost per tonne carbon dioxide saved i.e. £/tCO2 *lifetime. The EELP would then fund the top projects working down the list until the fund is spent.*

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

See (5) above.

(7) Additional clarity should be introduced into the Framework Document, specifically for situations where, thus far, rules have not been needed.
No response.

(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.
No response.

(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 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;
No response.

(10) 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.
No response.

(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 selected on the grounds of their cost-effectiveness.

No response.

(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.
We strongly oppose using an Energy Efficiency Levy for the purchase of fossil fuels.

(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.
We believe the funding should be allocated purely on lowest-cost lifetime CO2 emissions reduction. Schemes should only be supported if they delivery additional, verifiable savings over and above those mandated and resourced for through other policy instruments/interventions.

(14) The 20% additionality criterion should be augmented by a requirement for scheme proposals to justify why measures are additional.
We believe the funding should be allocated on a lowest-cost lifetime CO2 emissions reduction basis to delivery additional, verifiable savings over and above those mandated and resourced for through other policy instruments/interventions.

(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.
No response.

(16) The raising of Levy funds should not be extended to gas unless it is also extended to oil.
No response.

(17) 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.
No response.

(18) 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.
No response.