Northern Ireland Energy Efficiency Levy Strategic and Operational Review 2008

Comments by

Northern Ireland Environment Link

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Northern Ireland Environment Link is the networking and forum body for non-statutory organisations concerned with the environment of Northern Ireland. Its 51 Full Members represent over 85,000 individuals, 262 subsidiary groups, have an annual turnover of £100 million and manage over 314,000 acres of land. Members are involved in environmental issues of all types and at all levels from the local community to the global environment.

These comments are agreed by Members, but some members may be providing independent comments as well. If you would like to discuss these comments we would be delighted to do so.

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Welcome to the Levy Review

Northern Ireland Environment Link (NIEL) welcomes the review of the Northern Ireland Energy Efficiency Levy. NIEL believes that the consultation process should be an important component of policy development and that investment in the consultation process will ultimately improve the final policy.

The figures presented on the performance of the levy (4000GWh energy, one million tonnes carbon and £250 million customers' financial savings) suggest that the £35 million funding has been well spent and that the programme should continue and be expanded; albeit with a number of reforms. The customer savings demonstrate that the Levy represents good value for money. NIEL believes that the level of funding should be increased to enable more customers to benefit from the programme, and thus the savings. Increasing customer contributions to the Levy must be handled sensitively: customers in Northern Ireland have been burdened with increased energy costs since the oil price spike but electricity, gas and oil prices are expected to be reduced, at least temporarily, soon. Any increased money generated from customer input should be matched by supplier contributions (NIE has benefited hugely in positive public relations by being seen as 'providing' levy funding) and government support.

NIEL believes that energy efficiency measures (quantified to reflect the relative carbon content of fuels) should remain the priority for levy funding, but that renewable energy technologies should also receive funding in some specific instances: for example, in instances when they have been shown to be a cost effective solution to fuel poverty in a house where no further energy efficient measures are appropriate. Technologies such as solid wall insulation should be implemented on a wider scale; however, a cost effective installation process must be utilised, thus increasing its suitability as a widespread application. Priority customers, i.e. those who are experiencing fuel poverty, should continue to receive significant funding but the levy should also provide funding for customers that can significantly improve the efficiency of their properties but who do not necessarily qualify as a priority customer.

In August 2007, WWF Northern Ireland presented a proposal to the then Finance Minister, Peter Robinson, for an energy efficiency rate rebate scheme to incentivise householders to undertake home energy efficiency measures, along the lines of Council Tax rebate schemes already successfully operating in England and Wales, and part-funded by the Energy Efficiency Levy. This proposal was subsequently taken forward and has since been the subject of a 'Green Rebates' consultation by the Department of Finance and Personnel. NIEL believes that such a scheme represents an important first step by Government towards encouraging a major and much needed improvement in the energy efficiency of the wider Northern Ireland housing stock. By providing an incentive to improve home energy efficiency that is available to all and not just to those on benefits as with the current Warm Homes scheme, the scheme proposed in this consultation also has the potential to benefit the working fuel poor (i.e. those not on benefits) estimated in 2004 to number 43,000. The Energy Efficiency Levy could have an important role to play in supporting and making schemes like the above a success.

Response to Specific Proposals

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

NIEL agrees that organisations other than electricity suppliers should be permitted to bid for levy funding.

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.***

NIEL agrees that measures providers should be able to apply directly for funding. The bidders should be reputable organisations and should not be seeking to return a profit from the exercise: NIEL believes that it would be inappropriate for contractors or trade groups to bid for funding directly. In particular, we feel NGOs and the community and voluntary sector should be able to apply directly for funding. These sectors have been consistently shown to provide value for money in such schemes if appropriately supported.

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.***

This proposal appears sensible: however, administrative assistance should be provided to allow smaller community and housing associations to bid collectively for funding if necessary. Measures providers and contractors should be able to prove their suitability for the job. Schemes such as the Renewable Energy Installer Academy (REIA) should be recognised as providing reputable contractors for the levy programmes.

The REIA pilot project was funded under the INTERREG programme as a joint initiative of Action Renewables in Northern Ireland and Sustainable Energy Ireland in Republic of Ireland. It was developed in response to the recognition that the lack of trained installers and specifiers is one of the critical barriers to the development of a sustainable renewable energy market. It is now planned to build upon the success of the pilot project and to develop REIA into a sustainable association for renewable energy installers to promote and ensure quality renewable energy installations. A key function of REIA will be the accreditation of training facilities to deliver the required competence in renewable energy installers and the registration of installers. The establishment of sufficient capacity in training institutes to deliver training will be essential to meeting the training needs and ensuring the competence of renewable installers. The scheme could be extended to include suppliers providing energy saving measures.

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.***

NIEL agrees in principle with these recommendations.

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.***

An incentive rate should be retained but the argument to reduce the level of payment is well made: especially if it is assumed the new levy bidding process will result in more competition for funding and thus greater pressure on bidders to deliver measures in a cost efficient fashion (energy savings per unit cost). The incentive rate must be set at a level which promotes additional and cost effective savings but must also provide inducement to bidders to seek this payment.

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.***

NIEL agrees that the assumptions made must be more realistic. Payments should achieve the maximum carbon saving but programmes should be structured to ensure that these payments are mostly sourced from the main pool of the fund rather than through the incentive scheme. Only schemes of an innovative or exceptional nature, in terms of carbon savings, should receive incentive payments.

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

NIEL agrees in principle with this recommendation.

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.***

NIEL agrees in principle with these recommendations.

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.***

There is now a real argument for the Levy to be increased (the Energy Efficiency Commitment in England and Wales has resulted in a higher per customer spend than the Levy in Northern Ireland) or that funding from other areas should be ring-fenced to enhance the levy fund. The rate of fuel poverty and fuel stress in Northern Ireland is increasing due to rising fossil fuel prices: prices have partially rebounded in recent weeks after record increases but most commentators accept that the era of cheap fossil fuels is over. In addition, too many properties in Northern Ireland are inefficient: the overall quality of the housing stock must be improved and the reliance on expensive and polluting fossil fuels should be reduced. The levy could and should have an important role in addressing this.

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.***

We believe that it is appropriate to review the focus, currently 80%, on priority schemes. As stated previously we believe that the Levy and match funding should be increased and that the scheme should become more accessible to more people. It has been suggested that as all customers pay the Levy an equal split between priority and non-priority schemes would be more appropriate.

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.***

A strategy to achieve reduced fuel poverty that is cognisant of the increased price and the finite nature of fossil fuels should be developed. The Assembly should set a target for delivering zero carbon housing stock. The role of the levy in this strategy should be carefully assessed and applied in a way that will deliver the greatest long term benefits in the most effective way. For priority schemes, we believe that ‘low carbon’ whole house solutions may be the most appropriate strategy in a significant number of instances as this is the solution most likely to successfully alleviate fuel poverty in the longer term. We believe that where considerable works are required to bring a house to a reasonable standard it is likely to be more efficient to provide additional works (to achieve a higher energy rating and thus reduce ongoing energy costs for the customer) at the same time and thus not cause further disruption at a later date. Maximising energy efficiency gains across the Northern Ireland housing stock will ultimately require a whole house approach to all housing in Northern

Ireland and so it is important that some whole house approaches are supported to show the way all housing will need to go in the future. For non-priority schemes, lessening the focus on whole house schemes may deliver benefits to more people in the most efficient way: these schemes should be cheaper to administer and easier to find applicants for. In both instances it is essential that the physical improvements are accompanied by training for the householder in how to manage their equipment and modify their behaviour to ensure maximum energy savings (windows, ventilation, radiator controls, thermostat settings, etc.)

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.***

NIEL very strongly opposes levy funding being made available for the purchase of oil. The levy should assist households in reducing their fuel costs in the long term by improving energy efficiency and by supplying sustainable technologies that have reduced ongoing running costs. Subsidising oil purchase is a short term and non-cost effective solution to a problem which can be much better addressed through supporting energy efficiency.

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.***

NIEL agrees in principle with this recommendation.

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

NIEL agrees in principle with this recommendation.

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.***

NIEL does not have a comment on this recommendation at this stage.

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

NIEL agrees in principle with this recommendation. The application of the Levy to electricity but not to gas or oil could be regarded perverse. Therefore, we believe that the issue of extending the Levy to gas should be kept under review alongside consideration of measures to ensure oil suppliers also play a part in encouraging energy efficiency.

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.***

NIEL does not have a comment on this recommendation at this stage.

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.***

The origin of funding should be made known by all scheme sponsors.