



Department for the
Economy

Consultation Paper

EnergyWise Scheme Proposals

May 2016

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WHAT THIS CONSULTATION COVERS

1

Context

The Department for the Economy (DfE), formerly the Department of Enterprise, Trade and Investment, is considering implementation of a new energy efficiency scheme. Under the scheme DfE will provide assistance primarily in the form of grants and/or other funding which will be given to, or for the benefit of, eligible electricity consumers to enable those consumers to install certain energy efficiency measures.

This is a joint consultation between DfE and the Utility Regulator (UR). Where the document refers to “we”, this refers to both DfE and UR. This is a joint paper as DfE and UR have the same principle objectives and duties under the Energy (Northern Ireland) Order 2003 and therefore we are both interested in securing the benefits of energy efficiency for Northern Ireland consumers. DfE is responsible for the policy proposals and the design of the proposed energy efficiency scheme; the UR is responsible for the licence modifications proposal in Chapter 6 of this paper.

Energy efficiency is a priority matter for a number of reasons. It plays a major role in reducing consumer bills and improving affordability. Energy efficiency also assists with security of supply, by reducing the amount of energy Northern Ireland needs to consume for the same work and comfort. This reduces the amount of energy Northern Ireland needs to import, generate and transport. In addition by reducing the total amount of energy Northern Ireland needs to consume it becomes easier to reach a number of environmental targets around carbon reduction and renewable energy.

Legislative Requirement

The EU Energy Efficiency Directive 2012 (EED) requires Member States to achieve 1.5% year on year energy savings. The expected NI contribution is set out in the UK’s Energy Efficiency Action Plan and equates to energy savings of 200GWh per year. NI’s current contribution is via the Northern Ireland Sustainable Energy Programme (NISEP) however this scheme is due to end in March 2017. A replacement scheme must be in place by April 2017 to ensure continuity of energy efficiency support. This consultation document provides background on a new energy efficiency scheme to be known as EnergyWise along with information on proposed options to fund the grant element of the scheme. The

final policy options have not yet been selected. Full details on the EnergyWise proposals will be published as part of the procurement procedure. It is vital however that discussions can commence on the various funding options being considered so a funding mechanism can be agreed as soon as possible to allow the necessary time to put measures in place.

Equality Impact

The impacts of the proposals were analysed for equality of opportunity, and the need for an Equality Impact Assessment (EQIA) was screened out. The analysis concluded that while there may be a negative impact on some section 75 groups in terms of increased electricity costs, the benefits achieved by the installation of energy efficiency measures would mitigate this impact by reducing energy costs.

A copy of the screening form can be viewed on the Equality Section of the Department's website.

Other Regulatory Impacts

A Regulatory Impact Assessment (RIA) was carried out on the proposals and concluded that overall there should be no negative impact on businesses in Northern Ireland.

Respond by: 5pm on Friday 10 June 2016

How to respond: Online responses are preferred and can be submitted to DfE at Energywise@economy-ni.gov.uk Responses will be shared with the Utility Regulator.

Alternatively, hard copy replies should be sent to the address below.

EnergyWise Team
Department for the Economy
Room 44
Netherleigh House
Massey Avenue
Belfast BT1 4JP

Enquiries to: Energywise@economy-ni.gov.uk

Confidentiality & Data Protection

Your response may be made public by DfE and/or UR. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'. Any confidentiality disclaimer that may be generated by your organisations IT system or included as a general statement in your fax cover sheet will be taken to apply only to information in your response for which confidentiality has been specifically requested.

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA)). If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Copies of the consultation

This consultation document is being produced primarily in electronic form and may be accessed on the DfE Energy website: <https://www.economy-ni.gov.uk/consultations> or may be obtained in hard copy from the address above or by telephoning 028 9052 9279. If you require access to this consultation document in a different format – e.g. Braille, disk, audio cassette – or in a minority ethnic language please contact 028 9052 9279 and appropriate arrangements will be made as soon as possible.

A summary of all responses will be placed on the DfE website following the consultation. This summary will include a list of names and organisations that responded but not people's personal names, addresses or other contact details.

EXECUTIVE SUMMARY

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This consultation paper outlines why an EnergyWise scheme is required in Northern Ireland and opens discussions on the various funding options being considered so a funding mechanism can be agreed in time to put relevant measures in place.

The proposed EnergyWise scheme involves the development and launch of a new Government-led energy efficiency retrofit scheme. EnergyWise is a cross-cutting scheme with its origins in the Northern Ireland Executive's Delivering Social Change Programme and continues to benefit from support and input from across the Executive. EnergyWise has been developed in collaboration with the Department for Communities (formerly Department for Social Development) and The Executive Office (formerly OFMdfM) and with support from the Utility Regulator (UR).

The EnergyWise proposals include options for grant and loan funding. In the current financial climate it has been important to look for funding sources outside mainstream government funding.

Background

DfE's Strategic Energy Framework (2010) and Sustainable Energy Action Plan (2012) highlight the need to enhance the sustainability of energy use to meet energy efficiency and renewable energy targets. Energy efficiency is also a key priority at European level. Article 7 of the 2012 EU Energy Efficiency Directive (EED) requires Member States to introduce energy efficiency obligation schemes and/or other policy measures to achieve 1.5% year on year energy savings. The expected NI contribution is set out in the UK's Energy Efficiency Action Plan and equates to energy savings of 200 GWh per year. DfE is the NI Department charged with implementation of the EED and ensuring the Article 7 energy efficiency requirements are met.

The Northern Ireland Sustainable Energy Programme (NISEP), administered by the UR, is currently the only NI policy measure contributing energy savings to the UK under the EED. However, NISEP is scheduled to end in March 2017. This not only leaves NI with no contribution to EED requirements but also removes much needed financial support towards energy efficiency improvements for lower income households.

It is proposed that EnergyWise will replace NISEP and ensure the continued delivery of energy savings in line with the EED whilst providing support for households not eligible for the Department for Communities Affordable Warmth Scheme.

Joint Consultation

DfE invited UR to consider working with them on delivery of a funding stream for the grant element of EnergyWise. UR confirmed that it is satisfied that the EnergyWise scheme assists in delivery of its primary objectives as outlined in the Energy Order. DfE has consequently worked closely with UR and NIE Networks (NIEN) on the matter.

This joint consultation sets out options to recover EnergyWise funding from electricity customers through the Electricity Distribution Use of System (DUoS) charges. It should be noted that NISEP is currently funded through a PSO which recovers £7.9m per year from electricity consumers. This PSO will end following closure of the NISEP scheme.

If the decision is taken to proceed on the basis of a contribution from electricity consumers through the DUoS, a licence modification to facilitate this will be necessary. Subject to responses to this consultation UR will work with NIEN and DfE to develop such a modification. Any licence modification will be subject to the normal licence modification process. This includes a public notification period and the opportunity for those affected to make representations on the proposed modification.

Three options have been proposed and are summarised below. This table shows the forecast impact on consumer bills for the three options and are based on EnergyWise costs of £8m:

- **Option 1** – the cost of EnergyWise is recovered from domestic electricity customers only;
- **Option 2** – the cost of EnergyWise is spread across customers in the domestic and combined business and residential customer categories; and
- **Option 3** – the cost of EnergyWise is spread across all customers connected to the electricity distribution network.

Market Sector	Average Customer Numbers	Option 1	Option 2	Option 3
		Increase in Avg DUoS Bill £	Increase in Avg DUoS Bill £	Increase in Avg DUoS Bill £
Domestic	787,606	£ 10.16	£ 9.68	£ 3.78
Combined Resid/Bus	7,489		£ 50.51	£ 19.71
SME <70kVA	57,006			£ 19.91
SME >70kVA	4,918			£ 412.03
LEU >1MW	185			£ 8,594.89

It should be noted that under current EnergyWise proposals, only the domestic sector can avail of grant support from the EnergyWise scheme. This will include consumers on a combined residential/business tariff as long as the energy efficiency measures are for the domestic property.

Conclusion

DfE and UR are pleased to present this consultation on proposals for funding the EnergyWise scheme. This document is a first step in the development of the EnergyWise scheme, and signals a firm and long-term commitment to the continued promotion of energy efficiency in Northern Ireland.

BACKGROUND AND INTRODUCTION

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Key Policy and Legislative Linkages

DfE's Strategic Energy Framework (2010) and Sustainable Energy Action Plan (2012) highlight the need to enhance the sustainability of energy use to meet energy efficiency and renewable energy targets.

Energy efficiency is also a key priority at European level. Article 7 of the 2012 EU Energy Efficiency Directive (EED) requires Member States to introduce an obligation on energy distribution and/or retail supply companies to deliver energy efficiency measures that will meet a target of 1.5% year on year energy savings (an energy efficiency obligation scheme). As an alternative to setting up an energy efficiency obligation scheme, Member States may opt to take other policy measures to achieve energy savings among final consumers. DfE is the NI Department charged with implementation of the EED and ensuring the Article 7 energy efficiency requirements are met.

Policy Development

In GB, domestic energy efficiency support is largely delivered through the Energy Company Obligation (ECO). Compliance with Article 7(1) of the EED is met through ECO which puts an obligation on energy suppliers to deliver energy savings. ECO is funded through electricity and gas supply company charges on energy consumers bills. As supply companies compete to deliver the ECO at the lowest possible cost the exact cost on the customer bill is difficult to estimate. However based on the Ofgem Supply Market Indicator Methodology the cost is calculated to be approximately £16.40 on the average electricity bill and the same for the average gas bill which equates to around £32.79 per year to the average customer receiving both an electricity and a gas bill¹. In 2012 DfE sought feedback on whether an energy efficiency obligation on energy distribution or supply companies or an alternative policy option would be better in Northern Ireland². DfE noted at the time that whether energy efficiency was delivered via an energy efficiency obligation on energy distribution and/or energy retail supply companies or via some other policy

¹ Figures based on the Ofgem Supply Market Indicator input tables available at this link <https://www.ofgem.gov.uk/publications-and-updates/methodology-supply-market-indicator>

² https://www.DfEni.gov.uk/sites/default/files/consultations/DfE/energy_bill_consultation_document_-_11_june_2012__2_.pdf

option there would be cost implications for consumers. This cost should be as efficient as possible and should be weighed against the benefits to consumers that energy efficiency delivers. In 2012 an energy efficiency obligation scheme appeared to be the more appropriate option which would be introduced following the closure of the NISEP scheme.

However there are difficult policy issues to be addressed before an obligation could be introduced, not least the cost to energy consumers and extending it to the home heating oil industry which is currently unregulated. This requires primary legislation which would take considerable time to introduce and unlikely therefore that the obligation could be operational before April 2017, leaving a significant gap in energy efficiency support following the closure of NISEP in March 2017. It is also important to note that the requirement for an energy efficiency obligation stipulated in Article 7(1) of the Energy Efficiency Directive is at Member State level. With ECO in place there is no requirement for a further obligation within the UK; other programmes can fall under Article 7(9) which allows for other policy measures to deliver energy savings.

The NISEP scheme was extended by UR until March 2017 to ensure continuity of support while DfE considered alternative programmes. NISEP has been a successful scheme in terms of uptake and total measures delivered, and energy saved however anecdotal feedback from stakeholders indicates that the following issues should be addressed in relation to any scheme which may replace NISEP;

- the annual bidding round for NISEP funding can lead to uncertainty at year end for people who wish to apply for NISEP support. Under NISEP when a scheme runs out of funding it closes and can't open up again unless it is successful in the next bidding round. If successful the scheme could then reopen the following year; however there is no certainty until the bidding round is complete. Stakeholders suggest that a longer period of financial certainty for energy efficiency schemes may be helpful;
- the large number of competing schemes and lack of a central advice line to help those seeking to apply for support find out which scheme is best for them causes confusion for potential applicants. A central advice line and fewer/larger schemes may be helpful;
- potential overlap with other schemes; therefore there should be a coordinated approach to ensure that there are no overlaps or indeed gaps in provision; and
- commercial consumers contribute to the funding pot but there has been limited uptake of non-domestic schemes; any consultation on a replacement should address this in a transparent way.

Any scheme which may fulfil NI obligations under Article 7 of the EED will need to consider these issues.

EnergyWise proposals

DfE considers that the EnergyWise scheme has a number of potential benefits over an energy efficiency obligation on suppliers and/or distributors these include;

- 1) no requirement for detailed primary legislation;
- 2) lower cost to consumers;
- 3) economies of scale;
- 4) better opportunities for coordinated promotion and provision of information to consumers regarding the sources of energy efficiency help available;
- 5) avoiding consumer confusion, which could occur in the event that a large number of energy companies began to offer different levels of help and advice;
- 6) an opportunity to introduce one simple energy efficiency advice telephone line to provide consumers with advice on all the energy efficiency help available;
- 7) it is administratively easier to ensure quality standards are maintained, best available energy efficiency measures are installed and energy efficiency achieved is accurately counted with a centralised scheme; and
- 8) an opportunity to seek sources of funding from a number of places and use it to deliver energy efficiency in a coordinated way.

The EED envisaged that an energy efficiency obligation would apply to all fuel types however it is currently proposed that EnergyWise will be supported by funding from electricity consumers and by other sources of funding but not funded by contributions from gas, coal or oil consumers. This analysis is based on the following rationale:

- 1) given the large numbers of coal and oil suppliers in Northern Ireland it would be administratively costly and cumbersome to support EnergyWise via all fuel types; and
- 2) all households are electricity consumers, if both gas and electricity consumers contributed towards EnergyWise then gas consumers would be contributing twice.

The detail of what EnergyWise will deliver to consumers has not yet been finalised but all options being considered include a level of grant funding for energy efficiency retrofit measures. One option being considered includes the provision of low or interest-free loans to supplement the grant funding offered. This proposal has been introduced as it sits well with the direction of travel across Europe which is increasingly moving towards the use of loans to help remove financial barriers to the installation of energy efficiency measures. This is another good reason for choosing EnergyWise over an energy efficiency obligation³.

³ https://ec.europa.eu/energy/sites/ener/files/documents/2014_energy_efficiency_communication.pdf

HEaT Proposals

The primary aim of EnergyWise is to deliver energy savings as required by the EED. The project had its origins in the Northern Ireland Executive's 2012 Economy and Jobs Initiative and was initially developed as the Household Energy and Thermal Efficiency Programme (HEaT) with assistance from Strategic Investment Board (SIB). However through the policy development process the focus of the project is now directed towards energy savings and ensuring that proposals benefit consumers.

Through the policy development process, DfE was identified as the most suitable Department to lead on the implementation of the proposed initiative. The decision was then taken to remove the "HEaT" title and develop the project under the "EnergyWise" banner. Development of the EnergyWise scheme is being overseen by a cross-Departmental Project Board comprising senior officials from Department for Communities, The Executive Office, DfE, UR and SIB.

Potential sectors requiring support were identified as households, the voluntary and community sector, and businesses (not eligible for existing schemes⁴)

⁴ Existing schemes include Dept for Communities Affordable Warmth scheme, Invest NI's 0% energy efficiency loan scheme and Dept of Finance's proposed Community Finance Fund.

ENERGYWISE AT A GLANCE

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This section provides a brief overview of the proposed EnergyWise energy efficiency retrofit scheme.

What is EnergyWise?

The EnergyWise scheme involves the development and launch of a new Government-led energy efficiency retrofit scheme.

It is a cross-cutting scheme with its origins in the Northern Ireland Executive's Delivering Social Change Programme and continues to benefit from support and input from across the Executive. EnergyWise has been developed in collaboration with the Department for Communities, The Executive Office and with input from the Utility Regulator (UR).

The scheme aims to provide financial support (through grants and potentially loans) to households not eligible for the Department for the Communities Affordable Warmth Scheme.

Why become energy efficient?

Energy efficiency is one of the easiest and most cost effective ways to reduce energy costs for consumers and improve the competitiveness of our businesses.

Taking steps to be more energy efficient is about using less energy to do the things we need. Energy efficiency is also a key tool in the fight against climate change as it can reduce greenhouse gas emissions from fossil fuels.

Key benefits:

- **Lowering household energy bills** – Energy efficiency is the easiest, most affordable and most effective way for families to use energy more wisely and save money.

- **Increasing comfort** – Energy bills can make up a significant percentage of household expenditure. As a result, some households have difficulty paying to heat their homes to a comfortable level. Yet inadequately heated homes can make occupants more susceptible to a range of health problems. Energy efficiency offers an opportunity to reduce energy costs, while enhancing comfort.
- **Reducing local air pollutants** – Energy efficiency can reduce the amount of local air pollutants that can come from sources like oil or wood. These are separate from greenhouse gas emissions and include fine particulate matter in the air as well as other chemicals, such as sulphur dioxide, that are harmful to human health.
- **Security of Supply** – An energy supply system that is built on efficient use of energy as a prerequisite will influence future levels of generation required and will underpin security of supply issues going forward. Reduced demand helps to make the most of the resources we have.

What's currently available?

- **Domestic**
 - NISEP (UR) – currently provides grant funding for energy efficiency measures. 80% of the available funding is ring-fenced for priority households. NISEP will end in March 2017.
 - Boiler Replacement Scheme (Department for Communities) – provides grant funding towards the replacement of older less efficient boilers with new energy efficient models.
 - Affordable Warmth (Department for Communities) – targeted support for those in the worst fuel poverty. Affordable Warmth provides 100% grant funding for energy efficiency measures for households with incomes less than £20,000 per annum.
- **Voluntary & Community**
 - NISEP – voluntary and community organisations that are on a non-domestic tariff can avail of funding. NISEP will end in March 2017
 - Community Finance Fund (Department of Finance) – currently in development and will provide financial support to voluntary and community groups for a variety of activities, not excluding energy efficiency measures.
- **Non-domestic**
 - NISEP (UR) – non-domestic consumers can receive support through a number of NISEP programmes. NISEP will end in March 2017.
 - Invest NI 0% loan – loans from £3,000 to £400,000 available to businesses for energy efficiency measures.

Why do we need EnergyWise?

The EnergyWise Scheme will be designed to assist consumers to reduce their consumption of energy. Such a reduction in consumption will assist in ensuring security of supply as it makes it more likely that all reasonable demands for electricity in NI can be met. Reducing consumption is the equivalent of bringing on more generation of electricity. Reducing energy consumption will also reduce carbon emissions and help secure an environmentally sustainable long term energy supply in NI.

NISEP is due to end in March 2017. It is hoped that EnergyWise will deliver similar measures to NISEP from April 2017 onwards, subject to appropriate approvals being granted. NISEP is currently the only NI policy measure contributing energy savings to the UK under the EED. If an EnergyWise scheme does not progress there will be a gap in energy efficiency provision in NI. The ending of NISEP removes much needed financial support towards energy efficiency improvements for lower income households and could have an adverse impact on employment in the energy services industry.

There are a range of advantages of EnergyWise over NISEP. These include

- 1) the availability of funding from a number of potential sources (not just consumers) ;
- 2) the availability of loans to supplement the grant element, this will help maximise energy savings by increasing investment in energy efficiency measures;
- 3) reduction in customer confusion as there will be fewer schemes rather than a large number of very similar schemes with different availability;
- 4) a central advice line to guide customers; and
- 5) three years of funding security rather than a year by year agreement.

Every Home Matters Review

The recent UK-wide “Every Home Matters Review” was jointly commissioned by the Department of Energy and Climate Change (DECC) and the Department of Communities and Local Government (DCLG). This is an independent review of consumer protection, advice, standards and enforcement for existing UK housing energy efficiency and renewable technologies. This study found a need and desire for:

- Well advised and engaged consumers who have trust in and are protected during the process of installing energy technologies;
- A well-trained and skilled workforce carrying out safe, high quality and consumer focused work;
- A holistic property approach to ensure the correct measures are installed in the correct way, in the right properties and perform as expected;
- A robust and practical standards framework for products and installations;

- An effective enforcement mechanism that ensures excellence throughout the process;
- A simple, fair and focused redress process; and
- A strong, sustaining and innovative market.

EnergyWise has been designed to help deliver on these recommendations. The numerous benefits of the 'one stop shop' service have also been recognised by established energy organisations in GB ([see National Energy Foundation report](#)) and this approach is becoming widely recognised as best practice in the delivery of retrofit energy efficiency schemes.

What are we aiming to achieve?

The key aims of the scheme include:

Consumer:

- Creation of a "one-stop-shop" approach for the public for the majority of Government energy efficiency support and advice in NI;
- Continued provision of energy efficiency support following the closure of NISEP in March 2017;
- High quality energy efficiency and heating measures provided at the lowest possible prices maximising the benefits for the funding provided; and
- Mitigating against the effects of fuel poverty in Northern Ireland with the associated health and well-being benefits;

Government

- Fulfilment of obligations under EED Article 7;
- Reduction of electricity consumption and increase in security of supply;
- Reduction in carbon emissions;
- Energy savings for those households who avail of the scheme;
- Security of supply; and
- Improvement of energy efficiency and Standard Assessment Procedure (SAP) ratings of a large proportion of the housing stock in Northern Ireland.

Industry

- Retention of an efficient and effective energy services sector; Creation of a quality assurance framework for the energy services sector providing accredited installers with opportunities to register for work under the EnergyWise scheme; and
- Stimulating the economy through annual investment in energy efficiency measures.

Who is eligible?

- Households (not eligible for Dept for Communities Affordable Warmth Scheme); and
- Private landlords;

Support may also be provided for voluntary and community groups. This is likely to be via the Department of Finance's Community Finance Fund but we will work with the Department of Finance to ensure continuity of support for the voluntary and community sector.

What are the consumer benefits?

The focus of EnergyWise proposals have been on making the application and installation process hassle free for customers by effectively providing a concierge service from start to finish. The delivery options being considered include:

- **Individual Technical Assessments** to identify the actual energy efficiency needs for individual households;
- **Fast and Efficient Administration** of grant and loan applications;
- **Value for Money** through economies of scale and ongoing engagement with industry;
- **Delivery of Work:** sourcing suppliers/installers and overseeing the work;
- **Quality Assurance:** quality assuring the work and looking after payment of contractors, securing Building Control Approval; and
- **Aftercare/Warranty:** managing warranty issues on behalf of the customer.

PROPOSED FUNDING STREAMS

Various funding streams are being considered. Further information on these can be found in Chapter 6 of this document.

The EnergyWise proposals include options for grant and loan funding. In the current financial climate it has been important to look for funding sources outside mainstream government funding.

One funding option being examined is that the grant element of the scheme could be funded through a network charge on electricity bills, much the same way as NISEP is currently funded. The Department has been working closely with UR and NIE Networks (NIEN) on this matter as well as with key stakeholders such as Consumer Council NI and National Energy Action NI (NEA NI) to ensure that the proposals are fit for purpose and that the benefits will outweigh the costs. Further information on this funding stream can be found in Chapter 6 of this document.

There is potential for any loan element of the scheme to be funded through Financial Transactions Capital (FTC) which is outside the NI block grant.

The Department is also pursuing funding through European Local Energy Assistance (ELENA) towards project development costs in the early stages.

DEVELOPMENT OF ENERGYWISE

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Stakeholder engagement

A study was undertaken by Ove ARUP & Partners in May 2014 to estimate the predicted Social Return on Investment (SROI) of an EnergyWise scheme, covering the potential social, economic and environmental impacts of the project. The SROI used an economic (cost-benefit) assessment method to describe and quantify the likely societal, environmental and economic effects of an EnergyWise initiative on a range of defined stakeholders. It drew on primary data gathered directly from 626 households (market research completed by Bryson/University of Ulster), interviews with special interest organisations (including the Consumer Council, the Northern Ireland Council for Voluntary Action (NICVA), National Energy Action Northern Ireland (NEA NI), Age NI and the Women's Institute) and desk-based research.

During policy development there has been ongoing discussion and engagement with relevant stakeholders including:

- Department for Employment & Learning (DEL)⁵, South Eastern Regional College (SERC), Belfast Metropolitan College (BMC);
- Dept for Infrastructure, NI Water, Consumer Council (CCNI);
- Federation of Small Business (FSB), Invest NI;
- Dept of Finance, Belfast City Council Building Control; and
- Dept for Communities, NIHE, UR, National Energy Action (NEA), National Insulation Association (NIA).

In December 2015 a formal EnergyWise Stakeholder Advisory Panel was established which meets monthly to ensure that the evolving project meets the expectations of the

⁵ The functions and services delivered by the former Department for Employment and Learning (DEL) have been transferred to 2 new departments - Department for the Economy (DfE) and Department for Communities (DfC).

various energy efficiency stakeholders. Membership of this group includes representatives from consumer groups as well as UR.

Business case approval

Since DfE took on the project we have been developing a number of options ranging from grant only to more dynamic and complex loan and grants proposals. The Outline Business Case is currently going through the approval process.

Further information on the chosen option will be made available once approvals are in place as part of the procurement process.

Delivery

Responsibility for energy efficiency policy is split across a number of Departments and Arm's Length Bodies. As a result, delivery of existing Government-led self-referral energy efficiency support and advice across all sectors has tended to be uncoordinated leading to overlap between different schemes and more importantly confusion for the public.

To address this, the EnergyWise scheme will bring together existing Government-led self-referral energy efficiency support and advice schemes together under the umbrella "EnergyWise" brand and provide a 'one stop shop' for the domestic and non-domestic sectors using the Executive's existing 'NI Direct' Communications hub. DFE is also working with Department for Communities to ensure that EnergyWise is complementary to Affordable Warmth and that support will be available for those in need.

The Department may need to procure organisations to deliver the Scheme. Requirements will depend on the chosen option but it is likely that three separate organisations will be required; a Managed Service Provider (MSP), a Finance Service Provider (FSP) and an External Assurance Provider (EAP). To facilitate this significant procurement process a pre-market engagement event was held in April this year to provide the industry with some high level information on what the scheme is likely to look like.

UR CONSIDERATIONS IN RELATION TO THE ENERGYWISE PROPOSALS

6

Background to UR involvement

DfE has invited UR to consider working jointly with them on delivering a funding stream for the grant element of EnergyWise, with a small contribution towards running costs. Upon consideration of the objectives of the scheme and its legislative duties UR is satisfied that this Scheme assists in furthering its primary objectives as outlined in the Energy Order and other relevant strategy. The rationale for choosing EnergyWise as a suitable vehicle for delivering on Northern Ireland's Energy Efficiency Directive (EED) targets is set out in Chapters 2 and 3 of this paper.

While EnergyWise is not a replacement to NISEP it is important to place the development of EnergyWise in the context of the closure of the NISEP scheme.

The NISEP is a voluntary incentivised programme of energy efficiency schemes, funded by electricity consumers through NIEN's PSO charges to electricity suppliers. This means that a small charge is applied per kilowatt hour of electricity used by all electricity customers. The current amount collected for the fund on an annual basis is £7.9m and the programme is operated on an annual cycle with schemes running from 1 April to 31 March. In June 2015, following consultation, the UR agreed a final one year extension to the NISEP until 31 March 2017 to allow time for consultation on EnergyWise. There is no further scope for extending NISEP so there will be no new NISEP measures post 31 March 2017⁶. The impact of recovering £7.9m of NISEP costs in the PSO are estimated in table 1 below.

⁶ Note as NISEP costs are paid in arrears there will still be some payments made after the final measure is installed.

Table 1**NISEP Costs =** £ 7.9M

Market Sector	Customer Numbers	Average Impact on Electricity Bill £/annum
Domestic	787,606	£ 3.70
Combined Resid/Buss	7,489	£ 19.33
SME <70kVA	57,006	£ 19.54
SME >70kVA	4,918	£ 404.20
LEU >1MW	185	£ 8,431.45

The new EnergyWise scheme is targeted to commence on 1 April 2017 to ensure that there is no gap in energy efficiency provision in Northern Ireland and that Northern Ireland continues to deliver on its EED targets.

Proposal

The proposal is that NIEN will recover approximately £8m per annum for a limited period of time towards the costs of the EnergyWise scheme from electricity consumers through the Electricity Distribution Use of System Charges (DUOS). Currently in the region of £7.9m per annum of costs towards the NISEP are recovered from electricity consumers via the PSO charge. However as this is a new and different scheme the purpose of this chapter of the consultation is to seek views on whether and how electricity consumers should contribute towards the cost of EnergyWise.

The NIEN tariff year runs from 1 October each year, but the NISEP and the proposed EnergyWise schemes run from 1 April each year. Therefore in the tariff year commencing 1 October 2016, the NISEP will be in place for the first half of the year and EnergyWise will be in place for the second half of the year. In order to ensure that there are no step changes mid- year it is proposed that NIEN will recover the costs as follows:

- 1) The cost of keeping NISEP opened until 31 March 2017 will be recovered from the PSO as a flat rate per KWh, and smoothed across the entire tariff year until 30 September 2017.
- 2) The cost of EnergyWise will be recovered from DUOS charges and will also be recovered as a flat rate per KWh smoothed across the entire tariff year. It should be noted that the majority of the cost of the administration of the EnergyWise scheme will be met through other funding sources. DfE has estimated that of the £8m raised, 95% will be used directly for grants to assist with the cost of energy efficiency measures and the remaining 5% will contribute to indirect costs such as administration, promotion, quality assurance, running the phone line etc. It should be noted that DUOS charges are not normally flat per kWh rates; therefore it is proposed that the amount for EnergyWise should be shown separately. For clarity, due to the differences between the EnergyWise year and the NIEN tariff year, the recovery of funding will be as follows (based on EnergyWise running for 3 years commencing 1 April 2017):

Table 2

Period	Amount
1 October 2016 – 30 September 2017	£4m
1 October 2017 – 30 September 2018	£8m
1 October 2018 – 30 September 2019	£8m
1 October 2020 – 30 September 2020	£4m

If the decision is taken to proceed on the basis of a contribution from electricity consumers through DUOS a licence modification to facilitate this will be necessary. In this event the UR will follow the normal statutory licence modification process. This process includes a public notification period on any proposed modification and due consideration of all representations made during the notification period. This will give stakeholders a further opportunity to comment.

How should the funding be collected?

This paper has already set out (Chapter 3) why it is not proposed that gas consumers should support the EnergyWise scheme. The remainder of this chapter will first look at the reason the NIEN DUOS tariff is proposed, it will also examine the options under consideration regarding which customer groups should contribute.

Why is NIEN’s DUOS tariff proposed rather than recovering costs from electricity suppliers or electricity transmission tariffs?

Having due consideration to its legislative vires, UR considers that if electricity customers are to contribute towards the cost of energy savings through EnergyWise, then the most efficient way to do so is through the DUOS charge⁷.

Which consumer groups?

Table 3 on page 24 shows the impact on consumer bills for three separate options.

- **Option 1** the cost of EnergyWise is recovered from domestic electricity customers only;
- **Option 2** the cost of EnergyWise is spread across customers in the domestic and combined business and residential customer categories;

⁷ Article 11(3A) of the Electricity (NI) Order 1992 (the **Electricity Order**) provides that any electricity transmission, distribution or supply licence can include a condition to require the licence holder, in the circumstances specified, to

- increase its charges in connection with the transmission, distribution or supply of electricity so as to raise amounts as may be determined by or under the condition; and
- pay the amounts raised to such persons as may be determined.

- **Option 3** the cost of EnergyWise is spread across all customers connected to the electricity distribution network.

Table 3 below gives details of the forecast impact on the NIEN's DUOS of the three options noted above for a full tariff year of EnergyWise (i.e. a year in which the scheme is operational from 1 October – 31 September). It should be noted that the increase in DUOS element of NIEN's charge to suppliers noted below will be offset by a decrease in the PSO element of the charge to suppliers which will occur when NISEP costs are no longer recovered (see table 1). In addition this should be compared with the estimated annual cost of the ECO (Energy Company Obligation in England, Scotland and Wales) which is £32.79 for a household consuming both electricity and gas for information on the impact that the ECO has on business in England, Scotland and Wales see the link below to the DECC impact assessment.

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386115/2014-07-31 - RPC14-DECC-2105 - Future of the Energy Company Obligation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386115/2014-07-31_-_RPC14-DECC-2105_-_Future_of_the_Energy_Company_Obligation.pdf)

Table 3

Based on EnergyWise costs of £8M

Market Sector	Average Customer Numbers	Option 1	Option 2	Option 3
		Increase in Avg DUoS Bill	Increase in Avg DUoS Bill	Increase in Avg DUoS Bill
		£	£	£
Domestic	787,606	£ 10.16	£ 9.68	£ 3.78
Combined Resid/Bus	7,489		£ 50.51	£ 19.71
SME <70kVA	57,006			£ 19.91
SME >70kVA	4,918			£ 412.03
LEU >1MW	185			£ 8,594.89

Under Option 3 there is a significant impact on large energy users. While the average potential impact across this group is approximately £8k, the very large energy users may experience a much greater increase, in the region of £31k.

Please note, the average bill values in both table 1 and table 3 are based on the forecasts for the 2015/16 approved tariffs and therefore are subject to change due to changes in the forecast values.

While EnergyWise is not a continuation of NISEP, it is inevitable that respondents will wish to consider the differences between the recovery of NISEP costs and the recovery of EnergyWise costs.

However, as already stated, EnergyWise is a new and different scheme. One of the differences between the two schemes is the fact that the grant element of EnergyWise (which is the element that will be funded by electricity consumers) will only be available to assist with domestic energy efficiency measures (including those consumers on combined residential/business tariffs as long as energy efficiency measures are for domestic purposes). Under NISEP 80% of funding was ringfenced for vulnerable domestic consumers and the remaining 20% was available to both domestic and commercial

consumers. Therefore it is important for this consultation to consider which consumer groups could contribute to the costs.

As can be seen in table 3 on page 24 the impact on consumers under Option 3 is very similar to the impact on consumers of a full year of NISEP. Under option 3 there is a significant impact on large energy users. Option 1 has the biggest impact on domestic customers.

The UR and DfE seeks views on the following questions:

- 1) Do respondent's agree that the issues/questions set out in Chapter 6 should be addressed in the design of the EnergyWise scheme?**

- 2) Given the requirement in the EU Energy Efficiency Directive 2012 for an energy efficiency obligation or alternative; do respondents agree that a centralised coordinated approach is more appropriate than a number of different initiatives offered by a wide range of energy suppliers and/or distributors?**

- 3) Do respondents agree that the grant element of EnergyWise should be recovered only from electricity customers? Do respondents agree that it is appropriate not to collect funding from gas or other fuel types at this time?**

- 4) Respondents are asked to comment on whether they feel Option 1, 2 or 3 is the more appropriate split between customer groups given that proposals do not include provision of grant for the non-domestic sector.**

Glossary

	Definition
CCNI	Consumer Council for Northern Ireland
Combined Business/Residential Tariff	NIEN distribution tariff for supplier sites that include both domestic and business usage and have different VAT treatment for the domestic and business usage. This could include for example farms.
DfE	Department for the Economy
DUOS	Distribution Use of System Charges – the amount charged by NIEN to electricity suppliers for using the electricity network.
ECO	Energy Company Obligation. An obligation on all electricity and gas retail energy suppliers in England, Scotland and Wales to deliver energy savings
EED	Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on Energy efficiency
FSB	Federation of Small Businesses
HEaT	Household Energy and Thermal Efficiency Programme
kVA	Kilo Volt Amps
LEU	Large Energy User
MW	Mega Watt (Unit of Electricity)
NEA	National Energy Action
NIEN	NIE Networks
PSO	Public Service Obligation – an amount per unit charged to all electricity suppliers.
SIB	Strategic Investment Board
SME	Small to Medium Enterprise
SONI Limited	The transmission system operator for Northern Ireland. (Responsible for operating the transmission system)
UR	Utility Regulator - Northern Ireland Authority for Utility Regulation



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