



Submission by the National Insulation Association to 'The Northern Ireland Energy Efficiency Levy – A Review' Consultation

Introduction

This submission to the 2006 *'The Northern Ireland Energy Efficiency Levy - A Review'* Consultation is from the National Insulation Association (NIA). NIA represents the manufacturers and installers of cavity wall, loft insulation, draught proofing, and other innovative solutions for insulation. It is the definitive voice of the insulation industry with respect to household insulation.

This submission has been endorsed by the Council of the NIA on behalf of its members. We have no objection to its contents being made public.

We fully support the assertion by the Authority that the levy has been very successful in meeting its goals over the past 10 years. However, we feel that there is now an opportunity to re-evaluate those goals and ensure that this Scheme contributes effectively to lowering carbon emissions and reducing the fuel bills of as many customers as possible in Northern Ireland.

A real step change in the amount of insulation being installed in the NI housing stock is required if the admirable 17.2% overall energy efficiency improvement since 1996 is to continue. As was acknowledged by Brian Rowntree¹ this is largely due to the amount of fuel switching and the *"huge increases in all types of insulation."* There is a long way to go to meet the target of a 34% overall energy efficiency improvement, but we are now half way there and NIA believe that if the recommendations below are accepted then this target can soon be met.

We have answered all of the direct questions put in the consultation below with additional information and views which we hope will be considered. If the Authority would like any further information or a direct meeting to discuss any views or information provided in this submission in more detail then please contact either Neil Marshall or John Mason on 01525 383313 to arrange this.

¹ Ninth Annual Report of the Home Energy Conservation Strategy for Northern Ireland

NIA responses to the detailed questions as put forward in paragraph 25 of the consultation document:

(i) Is there a continuing justification for a levy on customers

There is a clear and undeniable justification for continuing the levy on customers. In a time of rising fuel prices it is essential that there is a funding mechanism to increase the energy efficiency of the housing stock to ensure that it is more efficient to heat ongoing.

Unlike most other products and measures there is no natural trigger, such as when a boiler is required to be replaced because it has broken down, and therefore it is vital to incentivise the public as much as possible. The Levy has done this very successfully to date and is required to continue to do so.

There are still far too many homes in Northern Ireland without effective insulation and the levy is required to overcome this. Whilst the improvements made to date have been impressive there is still a great deal to be done. Some of the figures outlined below from the 2004 Interim House Condition Survey highlight this:

- Some 85% of households have inadequate loft insulation compared the building regulation standard of at least 200mm. Some households have none at all, whilst over 20% have less than 100 mm and over 60% only have between 100-150mm of insulation;
- Wall Insulation; over 20% of households have no wall insulation according to the Interim Results although the view of those working on the ground is that 20% is an incredibly conservative figure.
- Draught Proofing; the vast majority of households require this measure or require it to be updated.

(ii) Is there a case for a further annual increase in the levy to say, £10 per customer?

There seems to be a real lack of equity in that customers in Great Britain pay, according to Defra figures, an average of £17.20 per customer on dual fuel towards the Energy Efficiency Commitment. In The Government's Climate Change Programme Review it was announced that the size of EEC would be increased by between 50-100% from 2008, with all indications being that this would be at 100%. Therefore in the coming years it is expected that the average contribution per customer would be over £30.

Therefore it would be entirely justified and equitable if a similar scale of contribution were provided by Northern Ireland residents.

(iii) Should there be an equivalent levy on natural gas customers?

In Great Britain the vast majority of residents are dual fuel customers with electricity and gas and as there is a very competitive energy market with several companies involved. Most companies in GB offer both gas and electricity although with a different focus within their individual customer bases.

However, Northern Ireland is a very different market with far lower gas penetration and a more monopolistic supplier market. Therefore, it would be very difficult to achieve this in a transparent and fair system and therefore we would recommend that this did not happen unless such issues could be robustly overcome.

It would not be equitable or fair to have gas levied when it only accounts for 8% of households when oil accounts for 65%², and this should therefore not be considered unless oil could be included in the levy as well.

(iv) Are there alternative models for supporting energy efficiency and fuel poverty e.g. the GB EEC model?

The National Insulation Association is a United Kingdom association and therefore has a great deal of experience in working within the GB EEC model. However, this model was developed as a reaction to the individual market extant within GB and it is not our belief that this could be simply mirrored in Northern Ireland.

The EEL in NI is a very transparent and simple model which has a great number of advantages and is ideal for the NI market. Therefore, we would not recommend any major changes to this model. If the Authority were to consider such a change then we would appreciate the opportunity to have further discussions as a number of weaknesses in the EEC model have become apparent in the last 12 months and it would be vital that these were not replicated in NI.

(v) Given that the Government through the Department for Social Development has significantly upped its contribution to the eradication of fuel poverty in Northern Ireland (up from £3.4m in 2001/2 to £20.4m for 06/07 and £20.4m for 07/08), which was not the case when Ofreg committed levy money of £1.6m pa in 2001/2, should the emphasis of levy money not switch away from fuel poverty now and focus on energy efficiency and carbon savings?

EEL should have its focus on carbon reduction and the fact that there has been such significant levels of investment in fuel poverty programmes means that the levy should be refocused upon this goal. Given that in 2003, space heating accounted for 53% of carbon dioxide emissions in the residential sector in the UK it is essential that everything possible is done to reduce these emissions and help to achieve the Governments carbon reduction targets.³ The challenge therefore is to ensure that efficiently generated heat is not wasted by it simply escaping into the atmosphere through lack of adequate insulation in the existing housing stock. It would seem to be wasting resources if the EEL funds were continually competing with the fuel poverty programmes to find a limited number of vulnerable customers.

² Interim 2004 House Condition Survey

³ Data from Review of the UK Climate Change Programme 2006 (Defra)

Within GB there is now a growing understanding that the 50% devoted to lower income groups under EEC is too high and that this needs to be reduced. The latest *'UK Fuel Poverty Strategy; 4th Annual Progress Report'* details that the number in fuel poverty in NI has been reduced to 153,500 households (24% of all households) from 203,300 (33% of all households) in 2001. This indicates the success and this can be expected to continue with the welcome additional expenditure now being placed into the fuel poverty programmes.

However, such targeted assistance as provided under the fuel poverty programmes should be supplemented and supported with wider energy efficiency programmes installing the most cost effective measures in as many households as possible as cheaply as possible. This is indeed an issue of equity, as all households have to contribute to the levy then all households should have an equal opportunity of benefiting. At the moment 80% of the levy funding is focussed on benefiting only 24% of households (fuel poor). This does not represent equity for the vast majority of NI households and at a time when an increase in the levy is required this type of disparity could result in a negative reaction and lack of support for such an increase from the general public and consumer groups.

There is also an increased cost in identifying and targeting fuel poor households which means that far less measures will actually be installed for every £1 spent under the levy than if this 80% stricture were removed. Therefore we would propose that the proportion of funding targeted at fuel poor households be reduced to around 25% to reflect the proportion of fuel poor households within the NI housing stock. For the reasons outlined above NIA believe that the fuel poverty programmes tackle fuel poverty utilising the correct funding mechanism of general taxation.

It is now acknowledged that the majority of the housing stock owned by the Northern Ireland Housing Executive has received the most cost effective energy efficiency measure, Cavity Wall Insulation. Therefore, there now needs to be a far greater focus on the owner occupied (68% of total in 2004) and private rented sector (9.2%) with the increased marketing costs that this will require. It is vital that levy monies are used as cost effectively as possible rather than trying to identify a steadily reducing proportion of fuel poor households. There are still over 20% of properties (2004 survey) which require their walls to be insulated, a number which seems very conservative from our own experience, and it is vital that these are treated as quickly as possible.

(vi) Is the administration of the levy carried out in a sufficiently transparent manner that suppliers/ project coordinators are comfortable with?

At the moment there is a plethora of schemes being initiated under the levy which results in a number of problems for both customers and our members who actually install the measures in individual's households.

These include but are not limited to the following:

- Confusion as to the eligibility criteria and costs for each individual scheme

- Confusion from the public as to why there is such a large number of schemes
- Different marketing messages being used within different schemes
- Stop/start for installers in terms of different schemes dates and when monies are released for different schemes

To overcome these problems and reduce the administration costs we recommend that the highly successful Cash Back Scheme administered by the Energy Saving Trust is expanded and is the main focus of levy monies moving forward. This is a simple to administrate scheme which is popular with customers and marketed professionally and clearly to the public. However, this has suffered from intermittent funding which has often resulted in customers having to wait great lengths of time to have the measures they require. This scheme should be greatly expanded in terms of funding and is an excellent delivery route for the Energy Efficiency Levy. This has the advantage of being clear and simple to understand for the public, popular with installers who visit householders homes and easily auditable in terms of ensuring value for money for the Authority.

Added to this is a requirement for greater communication in the development and assessment of schemes from all those involved; manufacturers, installers and managing agents. As all these participants are working towards the same goal this would help to ensure that Schemes work smoothly.

In addition there should be further incentivisation for a whole house approach. At present there is not a sufficient incentive to ensure that loft insulation is topped up at the same time as Cavity Wall Insulation is installed. This means that in the future these households will have to be found once again and incentivised to have this work carried out which will result in additional costs. A slight change to make loft top-ups more attractive to installers and the public will overcome this. This represents a vast proportion of the housing stock with the Interim 2004 House Condition Survey estimating that only 8.1% of the housing stock has more than 150mm of loft insulation. Therefore over 90% of the housing stock requires their loft to be topped up or have none. It is essential that these households are assisted.

This is particularly wasteful if an opportunity to top up loft insulation from 100mm is not taken when that property is having Cavity Wall Insulation installed. NIA estimate that the additional costs of going back and rectifying the lost opportunity are in the range of £85-130 on top of the measure cost. These costs of lead generation and surveyor's time would ultimately be borne by the energy customers and furthermore there is a real risk that householders would not be able to be incentivised to have this done in the future. This is a spectacular own goal in terms of carbon savings being lost or delayed at greater cost in the long term.

Whilst the Authority may wish to retain the freedom to instigate other Schemes to test different routes or incentivise different demographic groups we recommend that the vast majority of the levy funds are focussed on the EST Cash Back

Scheme.

(vii) Given that the levy is well established, successful and accepted in its current format, *is* change required?

Wholesale change is not required, however in the past 10 years a number of lessons have been learned and the policy climate has evolved. Therefore, a vast reduction in the fuel poverty focus, simplification and reduction of the number of delivery schemes and an increased levy are straight forward and simple changes which need to be made to ensure that the levy is fit for purpose moving forward.

The Authority should be acclaimed for the success of the levy to date and with these simple changes the EEL will prove to be even more successful in the future.

For further information please contact John Mason or Neil Marshall on 01525 383313 or at john.masonnia@tiscali.co.uk.