

September 30th, 2009

Formal Submission by ESB to DCENR on Energy Demand Reduction Target (EDRT) Programme Consultation Paper (12 August 2009)

1.0 Introduction

The EDRT Programme is described in the National Energy Efficiency Action Plan published in May 2009 as one of the five actions of key importance in delivery of the national target of 20% reduction in energy consumption by 2020. The EDRT Programme Consultation paper, published on 12 August 2009 gives the Energy Policy context, outlines possible Programme design parameters and gives three options for delivery/financing of the Programme. The Consultation paper provides two Tables of questions for Respondents to complete with their comments so that responses are made in a consistent format.

ESB Group's Response to the Consultation paper is in two parts.

1. ESB Views on the Implementation of EDRT Programme
2. Completion of Tables provided

ESB welcomes the consultative approach adopted by DCENR in establishing a new framework formalising how energy sector participants will contribute to improving the efficiency with which energy is used in the economy in a transparent, equitable and economically optimal fashion. We hope that our comments will make a constructive contribution to the debate.

It is important firstly to recognise that much good work that has been done in recent years in promoting and developing and implementing energy efficiency solutions. That said, there is a deficit of data on final energy use within sectors and on consumer behaviours that complicates delivery of the overall policy objectives and that is required in order to set realistic targets. Implications arise in terms of the nature of the targets to be set, the policy tools to be used and the mechanisms for funding delivery. From an overall policy viewpoint, the EDRT will operate alongside National Energy Efficiency plan (NEEAP) activities and in a regulatory, legal and fiscal context. It is most important that these related activities work cohesively together and all of these areas need to be looked at to maximise the impact of the EDRT.

The consultation seeks to contribute to delivery of the projected quantified shortfall in delivering the national energy savings target. However, the cost in achieving this is effectively unknown. At the end of the day, EDRT costs regardless of whether in the form of a Levy or in the form of a Supplier Obligation will be borne by customers as higher energy prices. Consequently, policy-makers must determine in these circumstances whether it is more appropriate to apply an expenditure-related target (providing certainty of costs to consumers but uncertainty as to the delivery of the energy savings

objective) or an energy savings-related target (providing certainty of delivering the energy savings objective but uncertainty as to costs). Given the deficit in relevant data and taking cognisance of the current economic climate, ESB would recommend that the target should be based on placing an upper-bound on programme expenditures. The cost-based target can be moved progressively towards a quantified energy-savings target as information is progressively revealed through delivery of the programme.

ESB notes that the IIEA is preparing a report “Greenprint for a National Energy Efficiency Retrofit Programme” which approaches the question of energy efficiency from a different perspective to the EDRT. Their approach considers other funding sources besides imposing additional costs for energy users in particular, leveraging private capital, green loans and exchequer funding to achieve this goal. ESB believes that there is merit in considering further complementary funding from a number of sources including EDRT to achieve overall energy efficiency goals in the residential sector.

2.0 ESB View for the Implementation of EDRT Programme

Taking note of the points raised in the consultation paper, the financing options proposed, the relative costs for energy in Ireland, the deficit of relevant data and the current economic situation, ESB is of the view that the overall cost of any new subvention scheme should be the main consideration. As lessons are learned and more detailed data becomes available the measures can be tuned to maximise energy savings. Of the options proposed in this paper, ESB has a very strong preference for implementing the subvention funding mechanism of the EDRT as a Levy Scheme.

2.1 Guiding Principles

In relation to the proposed EDRT scheme, ESB suggests the following Guiding Principles :

- All funds raised through the Levy should be ring-fenced for energy efficiency / carbon abatement measures only.
- The Energy Efficiency Levy should be clearly quantified in advance and consistently and transparently applied across all fuel types.
- The programme uses to which Levy receipts are to be put should be clearly defined in advance.
- Each sector (Residential, Business, Transport, Public) must make its contribution to solving what is a national problem of excessive CO₂ emissions.
- That the targets set for EDRT are consistent not only with the 2020 National target for energy efficiency but also the 2020 National targets for renewables and carbon abatement.

2.2 Design of EDRT Levy Scheme

The contribution from energy supply companies should be via a levy rather than an obligation for the following reasons.

- Cost certainty: The funding provided by a levy will be similar to the costs incurred by an obligation that requires the same energy saving. Both effectively pass the cost onto their customers through higher energy prices. However, with a Levy there is certainty regarding the final cost to customers whereas, due to data deficits, there no such certainty applies in relation to an Obligation.
- Risk minimisation: The risk to suppliers (and associated cost) due to lack of data in relation to the market and consumer behaviour is much less.
- Administrative ease: Monitoring, reporting and verification requirements would be reduced significantly with a Levy. The need to consider penalties for non-compliance would be avoided.
- Equitable contributions: A Levy will avoid artificial economic distortion across suppliers of different energy sources when applied uniformly to cover all such sources: electricity, gas, oil and solid fuel. This is provided for in the Energy Services Directive.
- Planned progression: The levy could be ramped up over 2-3 years as the scale of work being carried out ramps up.
- Business opportunities and innovation: A levy ensures all providers of domestic energy efficiency upgrades have the opportunity to access funds. This opens up funding to a wide range of commercial and voluntary groups such as residents associations, environmental groups etc. The effect of this is to encourage both competition and innovation. This will make it easier to achieve the stretching energy efficiency and CO₂ targets within the available funding envelope.
- Consistency with Northern Ireland: It is consistent with the approach in Northern Ireland. Thus a single approach would apply across the whole island rather than having two different approaches in a single market.
- Ease of integration: A levy would be easier to integrate with other policy funding mechanisms

2.3 Collection of Levy

Charge of levy on a per kWh basis rather than a per customer basis would make sense as it would further incentivise energy use reduction by sending a clear price signal. However, while the guiding principle should be that the levy be collected “equitably” from all energy suppliers in covered sectors, in practice there may be a need for differentiated charges for different types of customers. For example if the levy were collected on a per kWh basis there could be excessive cross-subsidisation by business customers of residential customers (who consume a large number of kWh but may not get proportionally the same support for efficiency measures as residential customers). A differentiated charge mechanism such as the Public Service Obligation “band” system should be considered.

2.4 Administration of Fund

There should be a single competent and professional Fund Administrator which would collect the levies (via Energy Suppliers) and which would design the tender competitions according to guiding principles such as those proposed above. Any incentivisation scheme e.g. for innovation, exceeding targets, targeting vulnerable groups needs to be carefully designed so as to avoid if possible distortion of the intention laid out under the Scheme's guiding principles. The board of the Fund Administrator should include representatives of the main beneficiaries as well as supply companies and service providers. There should be clarity regarding identity, role, guiding principles, governance etc. of the Fund Administrator.

3.0 Supplier Obligation

ESB would not favour a Supplier Obligation. This position is based on our concerns regarding:

- The open-ended cost risk associated with realising the scale of the indicative energy saving target (which is unprecedented in scale in Irish terms).
- The absence of detail around what would constitute allowable intervention measures (which would need to be additional to the National Energy Efficiency Action Plan (NEEAP)) to deliver this target and
- The lack of clarity around how a Supplier Obligation would be administered and audited.

ESB believes the Supplier Obligation approach could impose very high financial risk on energy suppliers if they could not meet the target set and/or that the cost would be so high that it could not pass it on to its customers nor absorb it. This is the case because the target is based on a shortfall in the NEEAP rather than based on identified measures which can be costed in advance. It is also difficult for suppliers to predict the take-up of measures by customers.

In the event the Supplier Obligation option is chosen as the preferred mechanism to deliver the EDRT, the following issues in particular would require very careful consideration:

- Equality of treatment of all Suppliers
- Setting of Realistic targets based on pre-agreed, costed measures
- Capping the expenditure so that customers energy prices do not escalate and so that Supply companies can remain financially viable
- Management of the overall costs to consumers
- The detailed design of the Scheme in relation to auditing of results

4.0 Voluntary Agreement Programmes

ESB considers that Voluntary agreement programmes are not sufficiently dependable to reliably deliver the required scale of effort sought in the EDRT programme. However, there may be some scope for Voluntary agreement programmes especially for suppliers to business (as in the example of the Business Energy Efficiency Agreement in Great Britain and Northern Ireland) to supplement energy efficiencies delivered through a Levy Scheme.

5.0 Further Observations on EDRT

5.1 Target Sectors:

The Consultation paper identifies four sectors; Residential, Business, Transport and Public Sector where potential energy savings of 17,520 GWh are noted over and above those in the NEEAP. The Consultation paper asserts based on the NEEAP analysis that these have the potential to deliver the 8,000GWh required to meet the 2020 target. While each sector needs to play its full part in delivering the necessary targets, ESB is of the view that the Residential sector and the Business sectors only should be the key sectors for delivery of the EDRT programme. Separate measures should be applied to the transport and public sectors to deliver their contribution.

ESB does not believe that it is appropriate the EDRT funding be used to incentivise public sector energy efficiency which is required to be an exemplar under the Directive. With regard to the transport sector, numerous measures regarding transport energy efficiency are already in the NEEAP, notably including the introduction of electric vehicles. While we can see value in promoting new positive consumer switching behaviour e.g. changing transport modes, switching to low carbon electric vehicles or move to bio-diesel, we do not believe that use of the EDRT for infrastructure financing is appropriate as it is simply displacing exchequer funding.

If Residential and Business sectors only are included in EDRT, the indicative target of 8,000GWh by 2020 should be revised downwards by a pro-rata amount to 4850 GWh based on the data provided in Figure 2 of the Consultation Paper.

5.2 Additionality of Intervention Measures

The target is based on a shortfall in the NEEAP rather than based on identified measures raising doubts as to how it is intended to be met. The same type of measures listed in NEEAP (e.g. under HES) should also be allowable under EDRT as long as the savings are additional. This can be achieved provided a particular project cannot attract both HES and EDRT funding. Initial analysis indicates that there is some scope for additional home energy efficiency measures (insulation, high efficiency boilers etc.) over and above HES and the Warmer Homes scheme.

In this context, there needs to be absolute clarity as to the measures that are included and the measures that are excluded from contributing to the EDRT programme.

The lifetime savings attributable to each measure should be agreed ex-ante. There should be some flexibility to encourage innovation particularly in the business sector but, even here, the savings should be agreed in advance as far as possible to avoid the high overheads of ex-post monitoring.

5.3 Leveraging Private Funding

While not explicitly mentioned in the Consultation paper, leveraging the input of private capital is a critical element of the programme that needs further detailed consideration so as to maximise funding for measures (e.g. home energy grants similar to the existing SEI HES scheme).

5.4 Phased Implementation of EDRT Scheme

It is appropriate that the scheme be ramped up / profiled over time for two reasons:

- a) Delivery capability will not exist immediately and will need to be built up, although this impact may be minimised due to the availability of resources due to economic climate e.g. current availability of skilled resources may bring forward some elements of EDRT
- b) Energy Efficiency gains are likely to become progressively more difficult (costly / kWh) over time

There will be a period of time required from the start of the EDRT programme to create the necessary awareness among customers. Also to build on experience to maximise programme effectiveness and value for money, the EDRT will need to evolve over time. It would be appropriate to review the effectiveness of the EDRT every 3 years.

6.0 Conclusion

ESB sees the design of the EDRT programme as a key priority to meet National energy efficiency and carbon abatement targets and to determine the role of energy supply and energy service companies until 2020. Of those options proposed in the Consultation paper, ESB has a very strong preference for implementing the subvention funding mechanism of the EDRT as a levy scheme. Should a Supplier Obligation scheme be introduced, careful consideration would need to be given to the setting of realistic and achievable targets, the cost of delivering those targets and their impact on energy prices. Whichever scheme is finally introduced, the guiding principles of fairness and transparency should be paramount. We hope our response to the consultation will be found to be constructive and of value to DCENR. We appreciate the opportunity to provide our comments at this stage and would welcome any opportunities to contribute further to the development of the EDRT Scheme.