

**From:** [McIlwrath, Linda](#)  
**To:** [Cairns, Timothy](#); [Private Office DETI](#)  
**Cc:** [Kerr, Sean](#); [Mills, John \(DETI\)](#); [Rooney, Eugene](#); [Cooper, Trevor](#); [Murphy, Shane](#); [Wightman, Stuart](#); [McCay, Davina](#); [McCrea, Ian](#); [McBride, Dean](#); [DG DETI Press Office](#); [Johnston, Iris](#); [McCoy, Laura](#)  
**Subject:** SUBMISSION - EnergyWise Scheme - Update on Progress and Funding Streams  
**Date:** 05 February 2016 14:37:41  
**Attachments:** [image001.gif](#)  
[SUBMISSION - Energywise Scheme - Update on Progress and Funding Streams.DOCX](#)

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Tim,  
Please find attached submission from Chris Stewart.  
Many thanks  
Linda

**Linda McIlwrath**

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## Submission

**From:** Chris Stewart  
Deputy Secretary  
**Date:** 5<sup>th</sup> February 2016

**Tel No:** 29203

**cc:** Copy distribution list below

**To:** 1. Timothy Cairns  
2. Jonathan Bell MLA

## ENERGYWISE SCHEME – UPDATE ON PROGRESS AND FUNDING STREAMS.

<b>Issue:</b>	Progress on EnergyWise Scheme and potential funding streams.
<b>Timing:</b>	Routine
<b>Executive Committee Referral:</b>	N/A
<b>PFG Implications:</b>	None
<b>Presentational Issues:</b>	None
<b>FOI Implications:</b>	Section 35 exemption: Policy Development.
<b>Financial Implications:</b>	Northern Ireland Sustainable Energy Project (NISEP) is funded annually through an £8m Public Service Obligation (PSO) on electricity consumers. Consideration is being given to raising a similar level of funding for the EnergyWise from energy consumers after NISEP ends.
<b>Legislation Implications:</b>	A licence modification will need to be completed by NIAUR before funding for EnergyWise can be collected from energy consumers.
<b>Statutory Equality Obligations:</b>	N/A
<b>Recommendation:</b>	That you agree to officials commencing work with NIAUR and regulated bodies to consider introducing a new Network Charge to provide a funding stream for the EnergyWise Scheme.

**BACKGROUND**

1. In July last year you formally agreed for DETI to become the lead Department in taking forward development of the EnergyWise Scheme, a new energy efficiency retrofit grant/loan scheme. This project has evolved from OFMDFM's 'HEaT' proposals. The project is now in the final stages of development. A summary of the EnergyWise proposals is attached at **Annex A** for your information.
2. It is hoped that EnergyWise will replace the Northern Ireland Sustainable Energy Programme (NISEP) from April 2017 onwards. NISEP is currently Northern Ireland's only contribution to UK energy savings required under the Energy Efficiency Directive. If the EnergyWise Scheme does not progress there will be a gap in energy efficiency provision for NI and a significant risk of non-compliance with the requirements of the Directive.

**PROJECT DEVELOPMENT**

3. Project development is being overseen by a cross-departmental Project Board with membership from OFMDFM, DSD, NIAUR and Strategic Investment Board. There is also a dedicated project team within DETI which is supported by Strategic Investment Board. Additionally, an EnergyWise Stakeholder group meets monthly to help ensure that the evolving project meets the expectations of the various energy efficiency stakeholders. Membership of this group includes representatives from consumer groups as well as NIAUR.

**FUNDING**

4. Funding of the project is a key issue. A working assumption within the draft business case is that a significant proportion of the project costs (up to £8 million) will be met through a Public Service Obligation or similar network charge. NISEP is currently funded by such a mechanism, with some £6 million of the £8 million paid by non-domestic consumers.
5. Minister Foster previously agreed that EnergyWise should be funded by a network charge. However, since then there has been a much greater focus on energy costs for large users, and manufacturing industry in particular. The Energy and Manufacturing Group (EMAG) is likely to look, inter alia, at those components of electricity bills that stem from 'policy' (rather than wholesale energy costs) and will probably recommend that these are minimised where possible. These are a small proportion of bills, and the NISEP PSO is only one such charge – it would represent only a very small percentage of a large user's bill. Nevertheless, it is unlikely that EMAG would react positively to the NISEP network charges being rolled forward to support EnergyWise.
6. It is unlikely that EnergyWise could proceed in the absence of a network charge. However the project is scalable, and options could be developed to reduce the total charge (£8 million) and/or the proportion paid by non-domestic users. Thus, EnergyWise could be rightly presented as making a marginal contribution to reducing (or at least containing) electricity bills for larger users.

7. I am therefore seeking your approval for energy officials to work with NIAUR to examine whether new network charge on electricity and gas consumers would be an appropriate mechanism to raise further funds from April 2017 onwards. The sculpting of an increased network charge to facilitate EnergyWise would need to be discussed with regulated bodies and NIAUR.

**TIMETABLE**

8. In order to allow sufficient time for the regulated companies to finalise network tariffs for the year 17/18, it is vital that work commences immediately to allow sufficient time for consultation with the regulated companies and development of a licence modification. It is essential that the EnergyWise scheme is in place by April 2017 to ensure both continuity of energy efficiency provision and most importantly, continued compliance with the Energy Efficiency Directive under which Northern Ireland is expected to deliver 200MW per year of energy savings. NISEP is currently the only NI scheme, therefore when it ends in March 2017 we must have an alternative measure in place.
9. The regulated bodies will provide options of structure and costs to be considered. I will ensure that you are updated as soon as these costs are available. Subject to OBC approval, we are aiming to launch a public consultation on the EnergyWise Scheme before the Assembly rises in March. It is hoped that NIAUR will consult on the proposed network charges at the same time. A further submission on this will follow in due course.

**RECOMMENDATION**

10. That you agree that officials should commence work with NIAUR and regulated bodies to consider introducing a new Network Charge to provide a funding stream for the EnergyWise Scheme.



**CHRIS STEWART**  
**Head of Policy Group**

**Distribution List:**

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## **SUMMARY OF ENERGYWISE PROPOSALS**

### **BACKGROUND**

1. DETI'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 NI contribution is set out in the UK's Energy Efficiency Action Plan and equates to energy savings of 200 GWh per year. DETI is the NI Department charged with implementation of the EED and ensuring the Article 7 energy efficiency requirements are met.
2. The Northern Ireland Sustainable Energy Programme (NISEP) is currently the only NI policy measure contributing energy savings to the UK under the Directive. However NISEP is scheduled to end in March 2017. This not only creates a non compliance issue with the EED but also removes much needed financial support towards energy efficiency improvements for lower income households. It is estimated that as much as 40% of the NI population are currently in fuel poverty. This is by far the worst in the UK. The ending of NISEP will also have an adverse impact on employment in the energy services industry which relies heavily on the investment the scheme currently brings.
3. The proposed EnergyWise scheme will replace NISEP and ensure the continued delivery of energy savings in line with the EED whilst providing much needed investment in the energy services sector and targeted support for low income households not eligible for DSD's Affordable Warmth Scheme.

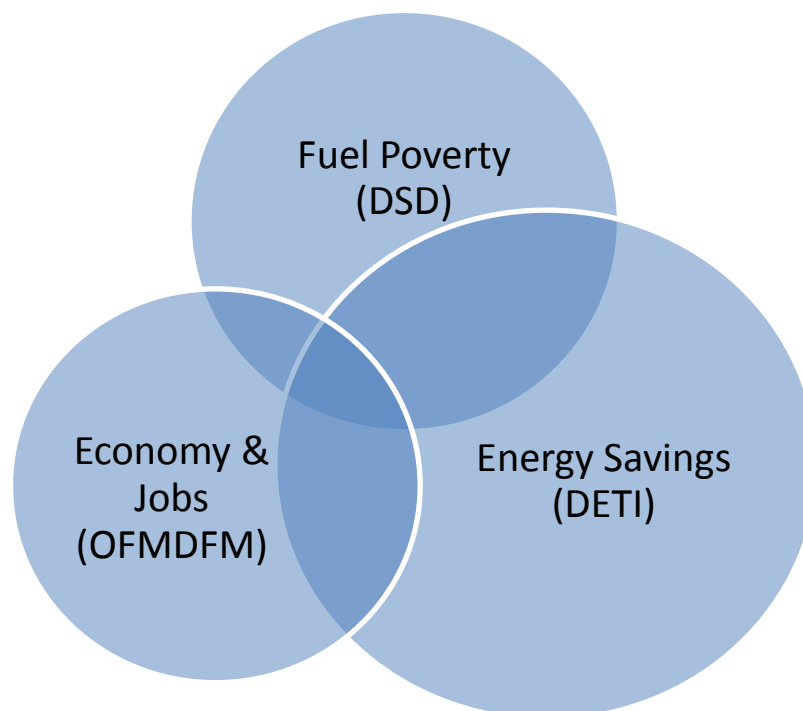
### **CURRENT ENERGY EFFICIENCY PROVISION**

4. Currently there are a number of energy efficiency support mechanisms in Northern Ireland. Measures include:
  - Affordable Warmth (DSD) – targeted 100% support for the lowest income households (<£20k);
  - Boiler Replacement Scheme (DSD) – targeted grant support (of up to 50%) for lower income households;
  - NISEP (Northern Ireland Authority for Utility Regulation) – grant support for priority households not covered by Affordable Warmth, higher income households and some businesses; and

- Invest NI 0% interest loan scheme (Invest NI) – loans of up to £400k for eligible businesses to invest in energy efficiency improvements.
5. From April 2017 both the NISEP and Boiler Replacement schemes will no longer be in place. This will leave a significant gap in energy efficiency provision in Northern Ireland, with support only available through DSD's Affordable Warmth Scheme for households earning less than £20k per annum and some businesses. There will be no support for households earning over £20k (many of which are in fuel poverty) and no support for the voluntary and community sector.
  6. This reduction in energy efficiency provision also puts Northern Ireland's contribution to the UK Member State EED energy saving target at severe risk. Work is being taken forward to ensure energy savings from existing schemes such as DSD's Affordable Warmth and Invest NI's loan scheme are captured and reported for EED purposes. It is estimated that these schemes together could deliver up to 160GWh of annual energy savings. A replacement scheme for NISEP and BRS is therefore needed to deliver the remaining 40GWh needed for EED compliance.

### KEY ENERGYWISE DRIVERS

7. The Executive's 2012 Economy and Jobs Initiative includes a commitment that OFMDFM would bring forward proposals to boost economic activity through the retrofitting of energy saving measures to domestic properties – the EnergyWise scheme originally derives from this commitment. The key drivers for the EnergyWise proposals are summarised below.



8. As the lead NI Department for implementation of the EED, DETI has agreed to take forward development of the EnergyWise proposals with the support of OFMDFM and DSD through an Interdepartmental Project Board.
9. In the current economic climate, it is essential that these objectives can be delivered with minimal financial support from Government. This effectively rules out EnergyWise being developed as a traditional grant scheme which tends to require large amounts of capital DEL funding. To attract households and businesses without large amounts of grant support, the EnergyWise scheme needs to deliver other key customer benefits. The focus of the EnergyWise proposals have therefore been on making the application and installation process hassle free for customers by effectively providing a concierge service from start to finish. This includes providing customers with:
  - **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 the industry;
  - **Delivery of Work**; sourcing suppliers/installers and overseeing the work;
  - **Quality Assurance** / contractor payments: quality assuring the work and looking after all the payments; securing Building Control Approval; and
  - **Aftercare / Warranty**: managing warranty issues on behalf of the customer.
10. With traditional grant schemes, there is always a risk that the prices charged to customers will be inflated because of the availability of the financial support. EnergyWise addresses this by constantly engaging with the industry to procure energy efficiency services and products at the lowest possible price.
11. The grant elements of the EnergyWise proposals are to be funded through a new PSO when NISEP ends. This therefore has no public expenditure impact. Government funding is needed for loans, however opportunities exist to use Financial Transactions Capital (FTC) rather than traditional capital DEL. Although FTC is still public expenditure it is additional to the NI Block grant and will bring additional monies and investment into NI.

## **PROJECT DEVELOPMENT**

12. A Gateway 1 Review was completed in September 2014 for the original OFMDFM proposals (known as 'HEaT'). The Review identified the lack of agreement on a delivery department and funding source for the scheme as serious risks to the project going forward. DFP raised similar concerns on the Strategic Outline Case (SOC) for the HEaT project which was submitted in late 2014. To address the issues raised by

the Gateway Review and DFP, an Inter-departmental Project Board was established to oversee development of the Outline Business Case (OBC). The Board was chaired by OFMDFM and included senior officials from DSD and DETI. A project working group was also established with officials from OFMDFM, SIB, DSD, DETI and NIAUR to develop the OBC. With the cross-cutting nature of the scheme, the Project Board agreed that the SIB project development costs would be shared equally between the three departments.

13. With a major change in emphasis from a household loan scheme to a much broader grant and loan scheme for all sectors, the Project Board recommended that DETI become the lead Department in May 2015 and it was renamed EnergyWise. In July 2015, the DETI Minister endorsed the Board's recommendation and agreed for DETI to lead the project and take the OBC forward to Casework and DFP for approval.
14. A Gateway 1/2 Review was carried out on the draft EnergyWise OBC and Procurement Strategy in October 2015. This business case is informed by the findings this Review. Further Gateway 2/3 reviews are planned in the spring 2016, subject to DETI Casework, DFP and Ministerial approval.

#### **CONSULTATION ON THE ENERGYWISE SCHEME**

15. A study was undertaken by Ove ARUP & Partners 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 (NEANI), Age NI and the Women's Institute) and desk-based research.
16. During business case development over the past 9 months, there has been ongoing discussion and engagement with relevant stakeholders including:
  - DEL, South Eastern Regional College (SERC), Belfast Metropolitan College (BMC);
  - DRD, NI Water, Consumer Council (CCNI);
  - Federation of Small Business (FSB), Invest NI;
  - DFP, BCC Building Control; and
  - DSD, NIHE, NIAUR, National Energy Action (NEA), National Insulation Association (NIA).



17. A formal EnergyWise Stakeholder Advisory Panel has been established to ensure that the project continues to deliver and is fit for purpose. Subject to Casework, DFP and DETI Ministerial approval to proceed with the Phase 1 Scheme, a full public consultation will be carried out on the draft EnergyWise proposals.
18. A detailed review of the performance of Phase 1 will be completed in the Autumn of 2018 to inform development of the full EnergyWise Scheme (Phase 2). The final proposals will be informed by the views of the public, business and industry through a public consultation in late 2017. Subject to outcome of this review and consultation, the Department will either:
  - (i) take the decision to end the scheme at the end of Phase 1 in March 2019 and submit a Business Case to DFP; or
  - (ii) submit a revised Business Case to DFP proceed with the full EnergyWise Scheme.

The decision to proceed or terminate the Scheme in March 2019 will have to be taken before the end of 2018 to provide the three contracted organisations with 3 months notice.

## **ENERGYWISE SCHEME PROPOSALS**

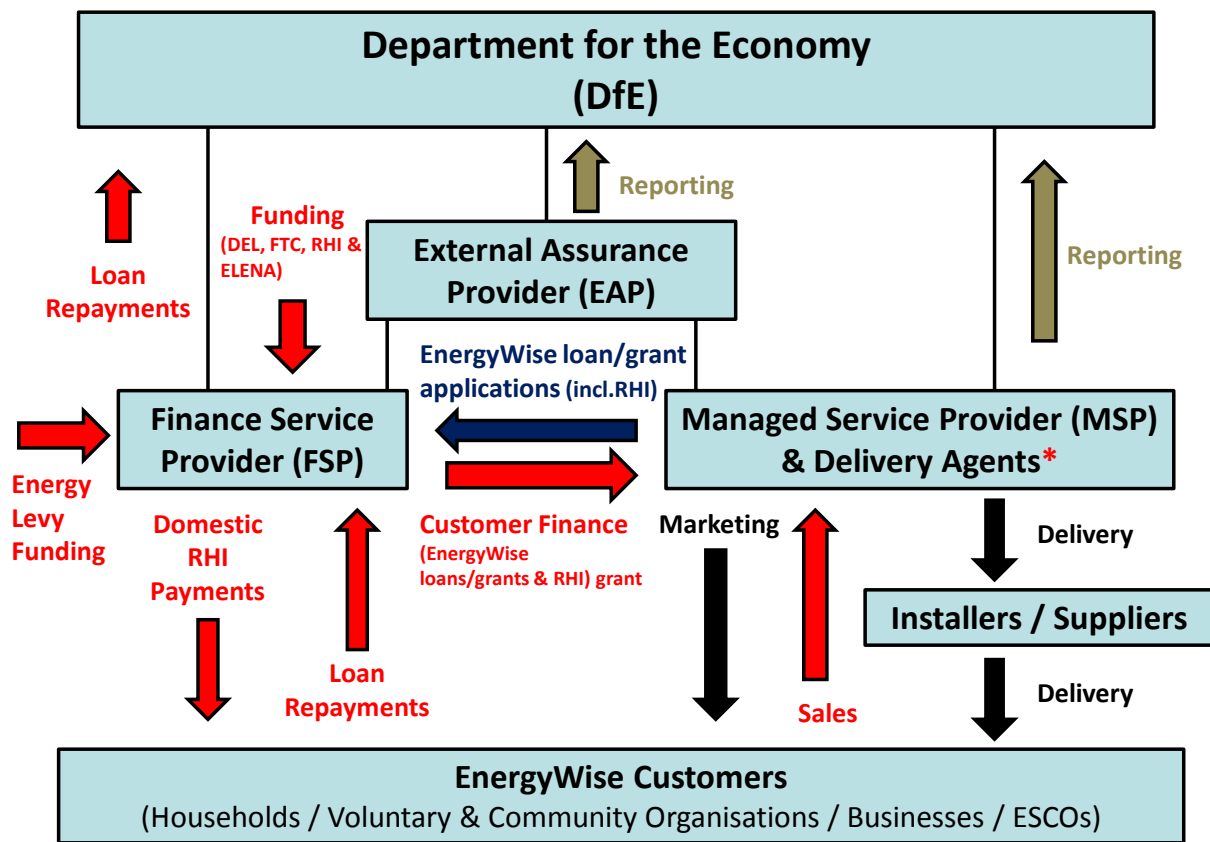
19. The preferred option, as identified in the OBC, consists of grant and loan provision for the domestic sector (for households not eligible for DSD's Affordable Warmth scheme) and the voluntary/community sector.
20. The grants/loans will be used to fund a range of energy efficiency measures including: cavity wall and loft insulation; draft exclusion, boiler replacements, heating controls and radiators, LED lighting. The actual measures installed will vary and will be determined by a technical energy performance assessment. It is anticipated that domestic installations will not be fully grant funded and would require some level of household investment. The loan element of the scheme should therefore help householders fund this investment. It is anticipated that up to 10,000 households will receive energy efficiency improvements through EnergyWise each year. The scheme will also include a pilot energy efficiency loan provision for small and medium businesses who do not qualify for Invest NI's current scheme.
21. The benefits of the proposed EnergyWise scheme include:
  - 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 and Boiler Replacement Scheme in March 2017;
  - Significant energy savings as required by Article 7 of the EED and reduced CO<sub>2</sub> emissions from buildings;

- Improvement of energy efficiency and SAP ratings of a large proportion of the housing stock in Northern Ireland.
  - Positive impact on fuel poverty in Northern Ireland with the associated health and well-being benefits;
  - Security for local energy services sector and retention and creation of employment opportunities (including apprenticeships), through a guaranteed 7 year programme of work.
  - High quality energy efficiency and heating measures provided at the lowest possible prices maximising the benefits for the funding provided;
  - 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 of up to £25m on energy efficiency measures when fully operational.
22. In addition, the proposals provide an opportunity for DETI to outsource Domestic RHI Administration to the delivery bodies procured to deliver EnergyWise scheme. DETI is currently experiencing staff resource pressures which are impacting on the administration of the Domestic RHI Scheme. Outsourcing some of the RHI administration functions will ensure effective administration and provide value for money due to the economies of scale that EnergyWise brings. This will free up DETI Energy staff resource to concentrate on RHI policy development, legislation, budgetary control and oversight of the schemes' administration.
23. Opportunity may also be taken to utilise the proposed EnergyWise External Assurance Provider (EAP) to carry out an annual programme of additional audits for DETI's Non Domestic RHI Scheme which has experienced an unprecedented increase in applications over the past 6 months.

## **ENERGYWISE SCHEME ADMINISTRATION**

24. A scheme of this complexity will require the procurement of specialist delivery bodies. Pre-market engagement confirmed that one organisation would be unlikely to have the necessary skills and experience to deliver the full scheme, therefore the decision has been taken to procure three separate organisations; a Managed Service Provider (MSP), a Finance Service Provider (FSP) and an External Assurance Provider (EAP).

25. The delivery structures are summarised below:



\*Delivery Agents includes existing NISEP/BRS providers (Bryson, Phoenix, Firmus, Energystore, etc).

26. The **Managed Service Provider (MSP)** will market, develop and deliver the EnergyWise scheme including:

- Delivery of an effective regional marketing strategy to maximise scheme uptake and provide cost-effective marketing services for other parts of Government;
- Recruiting, training and maintaining a team of competent staff to effectively deliver sales, energy efficiency advice, technical assessments, procure and arrange energy services/products and quality assure new installations;
- Innovative procurement of energy efficiency services (installation, technical advice) and products (measures/technologies) to promote economies of scale and drive down unit costs;
- Completing energy performance assessments, producing EPCs, and arranging specialist technical assessments for business where required;

- Provision of advice to customers on the level of support available through grants and loans, process relevant grant/loan applications and secure grant/loan monies from FSP;
  - Organise and oversee the delivery of energy efficiency measures/technologies to the domestic and non-domestic sectors;
  - Quality assure all installations, secure building control approval and vouch for FSP loans/grants to ensure there is no misuse of funds; and
  - Long-term aftercare service to consumers including resolving warranty issues relating to installed measures/technologies.
27. The **Finance Service Provider (FSP)** will be responsible for managing the funding received from the Department and for administering loans to business, households and ESCOs. The FSP will also administer individual Domestic RHI payments on behalf of the Department.
28. The **External Assurance Provider (EAP)** will be expected to audit the financial activities of both the MSP and the FSP and to quality inspect a proportion of installed measures. The EAP will provide regular Assurance Reports to DETI.

## **PROPOSED FUNDING STREAMS**

29. **Capital DEL for Loans** - In order to deliver the EnergyWise scheme at the level proposed it is estimated that just under £13m of capital funding will be required for loans during the 7 year period. The actual capital requirement will reduce if the loans are recycled. In light of the current pressures on the NI Block funding, the EnergyWise scheme offers an effective vehicle for using Financial Transaction Capital (FTC) funding. If FTC is utilised to fund the £13m capital requirement, 80% of this must be repaid to HMT. However, 20% could be retained by DFP or reinvested within the EnergyWise scheme to help fund grants.
30. **New Network Charge** (on NI energy consumers) – A PSO collected from electricity consumers is currently used to fund the grant-led NISEP scheme which is administered by the Northern Ireland Authority for Utility Regulation (NIAUR). In 2013-14 the total amount of funds devoted to the NISEP scheme was £8m. The NISEP scheme is due to end in March 2017, at which point the existing levy would end. A new network charge collected from energy customers may be introduced to fund the EnergyWise scheme from 2017/18 onwards once NISEP ends. This could raise a similar level of funding (up to £8m) towards the grant element of the EnergyWise scheme.
31. **EU ELENA funding** –ELENA<sup>1</sup> funds can be used for structuring programmes, business plans and additionally needed energy audits, preparing tendering

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<sup>1</sup> More information on ELENA can be found at [www.eib.org/elena](http://www.eib.org/elena).

procedures and contracts, and paying for project implementation units. The EU contribution can cover up to 90% of eligible costs. Investment programmes can involve the improvement of energy efficiency in buildings or street lighting, the integration of renewable energy sources in buildings or the renovation or installation of district heating systems using combined heat and power or renewable sources. A bid will be made for European Local Energy Assistance (ELENA) towards the EnergyWise project development costs during Phase 1. The ELENA bid will be finalised and submitted if this Outline Business Case is approved by DETI's internal Casework Committee.

## **PHASED IMPLEMENTATION**

32. The OBC identifies a number of key financial risks to the EnergyWise proposals including future availability of funding. There is also a risk that the ELENA bid is not successful. In addition, poor levels of uptake (particularly loans) could impact on the revenue income of the scheme (from loan interest and management fees, etc) and increase the annual administration costs. To mitigate these risks, the OBC recommends that the EnergyWise scheme should be implemented in two phases. Approval is currently being sought to proceed with an initial 2½ year Phase 1 commencing in the autumn of 2016. Subject to scheme performance, the Department will submit a revised Final Business in 2018 to proceed to Phase 2 (full 5 year scheme).

## **PROCUREMENT**

33. The **Managed Service Provider (MSP)** will be procured for a period of 7½ years (plus a possible 2 year extension) with an exit clause included after Phase 1 (2½ years) in case the project doesn't proceed to Phase 2.
34. Unlike the MSP, if a decision is taken not to proceed to Phase 2, the **Finance Service Provider (FSP)** will still need to be retained for a further 5 years (after Phase 1) to collect loan payments for loans given out during the first 2½ years. No new loans would be issued after 2½ years. The FSP therefore initially needs to be procured for 7½ years. However, if a decision is taken to proceed to Phase 2, the FSP contract would need to be extended for up to 7 years to accommodate a 2 year scheme (Phase 2) extension and facilitate a 5 year business loan repayment period after the scheme closes. The FSP will therefore be procured for 7½ years (+7 years).
35. The **External Assurance Provider (EAP)** will need to continue to be in place after the scheme ends to continue to audit the FSP. So like the FSP, the EAP will be procured for 7½ years (+7 years).

## **NEXT STEPS**

36. Once the appropriate approvals are in place DETI, in conjunction with SIB will commence procurement of the three delivery bodies required to deliver the programme. The SIB advisor on procurement is overseeing the process to ensure that

the contracts are awarded in line with CPD requirements. The decision to proceed with the procurement exercise will be subject to a further Gateway 2 Review. It is DETI's intention to have the delivery bodies in place to commence Phase 1 of the project in October 2016. Procurement and appointment of the External Assurance Provider may however be brought forward to enable DETI's annual audit programme for the Non Domestic RHI scheme to commence in April 2016.