MANUFACTURING
NORTHERN IRELAND

Response to the DfE "EnergyWise Scheme" Proposals

Manufacturing NI represents some 550 manufacturing companies across NI – from micro-manufacturers to the largest employers and exporters. Manufacturing currently represents some 14% of NI's GVA with our ambition to grow to the EU target of 20% of GDP. We recently commissioned Oxford Economics to unveil manufacturing full contribution to the economy. The full report is available here – http://goo.gl/m4UlwQ – with the summary being:

- 214,300 direct and supported jobs, 1 in 4 of all jobs in the economy.
- A £9.9bn total GVA contribution, around 30% of the economy.
- £4.2bn in wages, with £2bn directly paid and £2.2bn in supported jobs.
- Productivity at £55,700 is 38% higher than the NI average with advanced manufacturing contribution 27% more.
- Exports at £6bn, almost two-thirds of all export sales.
- 99% of firms are SMEs but that 1% of large companies employ half of all the jobs and turnover.
- £254 million in R&D in 2014, accounting for over 60 percent of total business investment
- Attracting £900 million in FDI Between 2010 and 2014.

The Department should pay special consideration in the report to the gap in cost competitiveness which exists for manufacturers here versus competitors. We are aware that the Department previously undertook a "Cost of Doing Business" study but this is largely irrelevant for our manufacturing sector as it specifically excluded additional costs endured in a Northern Ireland manufacturing business including the impact of currency on cost of raw materials, its delivery (including freight and ferry costs) and the journey from production to the market or customers. These and other additional costs create a gap disadvantage of c15% which will widen with the introduction of cost such as the Apprenticeship Levy and National Living Wage.

As some context to our response, the DfE should consider outcomes from reports it commissioned, outcomes from in-depth inquiries from the ETI Scrutiny Committee from the last Assembly and the current competitive position of different customer group in NI versus the rest of the EU:

1. Our OE report highlights the challenge which high energy costs bring particularly for manufacturers. This was recently further explored by the Energy for Manufacturers Advisory Group established by the former Enterprise Minister, Jonathan Bell. There is a clear call from this Ministerial Panel that there should be an end to the cross subsidy of energy efficiency measure. Report available here: https://www.economy-ni.gov.uk/sites/default/files/consultations/economy/EnergyWise-consultation-may-16.pdf

2. The Enterprise Trade and Investment Committee held an extensive inquiry into Electricity Prices in 2013. The Committee clearly signal their desire that a replacement for NISEP should be funded by a route other than through the electricity tariff - http://www.niassembly.gov.uk/assembly-business/committees/archive/enterprise-trade-and-investment/reports/report-on-the-committees-review-into-electricity-policy-part-2-electricity-pricing/

3. The Utility Regulators latest comparison report shows that all bar the very small I&C consumer now endures the 2nd or 3rd most expensive energy in the EU (report here http://www.uregni.gov.uk/uploads/publications/2016-06-02_Transparency_Report_2016_Q1_Final_Updated.pdf) – this is almost 24,000 businesses. The electricity market is not working for business consumers. Is it a problem? The words of Wayne Culbertson, CEO Michelin UK on the day they announced the closure of their Ballymena plant summarises it best… "*Our energy bill in Northern Ireland last year was £9m – it has been an Achilles heel for us*".

The response from policymakers and the energy industry point to long-term projects to 'potentially' create a better environment for consumers through the 2nd inter-connector, a redesign of the wholesale market etc. However, whilst of course very important, it is critical that actions are continually taken and not simply waiting for potential long term solutions to emerge.

For us, a model which leads to better prices needs established. One such model could be:

Reducing	Generation, grid and market operator costs (includes demand side peaks through appropriate price and response mechanisms which business could respond to, thus reducing overall costs)
Avoiding	Unnecessary policy and incentive costs
Allocating	Cost equitably between customers
Supporting	Demand reductions for large customers

For the Department to provide an environment which allows business to create wealth and work, for more and better jobs, it must move to reduce energy costs for business rather than add policy costs.

Energy Policy Direction

To assist the Economy Department and new Minister and offer policy direction for other participants in the energy area, a simple to understand target would provide great clarity and signal the direction of travel.

The target should be set that ALL consumers enjoy prices at an EU average by the end of the Programme for Government period.

There are targets for decarbonisation and security of supply – in the review of the SEF, price and affordability must have equal policy protection and should be locked in through the new Programme for Government and its Action Plan, the refreshed Economic Strategy. This will direct actions.

The target should be set that ALL consumers enjoy prices at an EU average by the end of the Programme for Government period – a full PfG will be drafted and will be agreed by the new Executive in the autumn.

Legislative Requirement

The EU Energy Efficiency Directive 2012 (EED) is a requirement of the UK Government only. Energy is a devolved matter and is not a requirement for the NI Executive, Assembly or it Departments and Regulators. There is no legal compulsion for the Department of the Economy to have a scheme in place. **Your consultation document confirms this.**

Regulatory Impact Assessment

No RIA has been published. We would strongly contend that a finding of "overall there should be no negative impact on businesses in Northern Ireland" is flawed. The RIA should be published as a matter of urgency.

Departmental Responsibility

We fail to understand why this proposal is being pursued by the Department of the Economy. Your proposals are singularly focused on the domestic side and specifically through energy efficiency which you hope to achieve in housing including social housing. This proposal should be led **and funded** through the Department of the Communities and its own budget.

Target

Even if that were accepted that there is a requirement on the Department to run an Energy Efficiency scheme, your stated aim is that 200gwh of electricity consumption should be achieved. As the latest (2014) Annual Utility Regulator report confirms, the total electricity consumption from domestic consumers (who you propose will be exclusively supported in your proposal) was 3,105gwh. 200gwh would mean a saving of 6.4% per year and growing as consumption fell. This in our view is not achievable from the domestic market.

<u>If</u> the policy intention is to produce energy savings of some 200gwh per annum, it is doomed to failure from the start by simply focusing on domestic consumers for support.

Impact on Bills

The proposals will increase bills for consumers and cannot be justified on a number of levels:

1. The Utility Regulator had already confirmed that NISEP would not be collected from the PSO in 2015/16 until, wrongly in our view, they agreed to a request from DETI to prolong NISEP for an additional year. This Energywise proposal adds cost to bills which were already confirmed as to be removed – a reversal of this policy and decision is unjustified.

2. Non-domestic consumers will not benefit from any of the funding collected.

3. As energy efficiency savings are achieved, the cost of the network still needs to be collected thus non-domestic consumers will pick up a larger responsibility for these costs.

Other work from the Utility Regulator confirms that most of the price differential between North and South is due to how network costs are allocated and levies (such as NISEP). This Energywise proposal would widen this gap, reduce competitiveness and thwart ambitions to grow the economy.

From a regulatory perspective, we fail to see how exposing consumers to larger bills, supporting the collection of a levy from which the consumer cannot benefit, protects consumers now and in the future. In our view, the Utility Regulator cannot offer its support for the Department's proposal and should be pushing back the Department's proposals as unfair and unwarranted.

Collection Options

It is our view that none of the 3 options provided are appropriate. Option 1 does at least remove the issue of cross subsidy and removes the problem of creating a Tariff which is not cost reflective but would add to domestic bills.

The Department too easily excluded other options including taxing fuels notably oil and coal, as was the express wish of the ETI Committee. Whilst it is accepted that there are numerous, commercial and non-regulated suppliers, there are a very small number of importers which would mean collection was easy, transparent, more cost effective and hard to avoid.

Additionally, there is no analysis nor explanation of why it is proposed to charge per Kwh as opposed to per Kw. Has this been analysed and considered?

However, fundamentally, we do not believe that this tax on energy should be applied. The funding for domestic home energy efficiency should come from government sources; through borrowing (repaid through rents from social housing) and/or those who directly benefit from it themselves. These remove the cross subsidy problem.

Delivery

There is no detail in the proposal about how the money would be spent to achieve the stated outcomes. The suggestion of ‘Loans’ being offered to domestic consumer does not consider the lessons from “Green New Deal” which was a monumental failure and now scrapped nor indeed lessons from NISEP which would increase participation. Those on low or no income do not have the resources to fund repayment let alone any additional capital needed to make the desired energy efficiency investments.

NISEP

In the document, it is quickly passed over that the NISEP levy will continue to be collected from 1 October 2016 until April 2017. However, after consultation, the Utility Regulator in June 2015 only provided for collecting the money in the tariff year ending October 2016 – the output, the schemes supported are funded out to April 2017 from the money collected. There has been no Regulatory consultation on this extension of an extension. **This is not acceptable and in our view would require agreement from the Utility Regulator, proposals developed and meaningful consultation with consumers**.

Consultation

We are disappointed that there was no opportunity provided for consultation in the drafting of these proposals other than cosmetic considerations for those customer groups who will be most impacted by some of the funding options being considered. Indeed the only business representative group consulted appears to be the FSB who have confirmed to us that their involvement centred on the supply, contractor side of potentially spending any funding gathered. We do not believe they support the taxing of non-domestic consumers to collect money for a scheme in which their members cannot participate.

This lack of consultation has resulted in an unsatisfactory and in our view **unworkable and unwelcome** proposals which will further damage ambitions to grow the economy – a primary objective of the Programme for Government and the DfE.

Conclusion

It is our view that rather than design a scheme with the genuine aim of promoting energy efficiency to meet a 200gwh saving instead this has been an exercise in trying to find a way to continue to collect money but this time excluding those who pick up the bulk of this bill and without any consultation with them. **It is ill-conceived, illogical and does not meet the tests required to proceed**.

As proposed, the programme is destined to fail its reported objective of achieving 200gwh of energy efficiency and does not meet the ambitions or take consideration of the ETI Committee and the Ministerial EMAG group. NISEP is ending, again, and **should not return under its current funding model**. The Department must provide consumers who it wishes to tax with deeper engagement, demonstrate better understanding and be clear and honest about its objectives.

The Department need to have a radical rethink, engage and come back with a proposal which is affordable, workable and achieve an energy efficiency objective.

We are happy for this response to be published.

Manufacturing NI
10 June, 2016