Energy Bill Report Stage, Energy Demand Reduction Payments, Amendments 34–41 and New Clauses 11–12

We urge Hon. Members to support amendments 34-41 to the Bill, which provide for the introduction of energy demand reduction payments within one year of the Bill being enacted. Such payments could immediately start to drive reductions in energy use across the economy, reducing the need for new power stations. We would also ask Hon. Members to support the Government's New Clause 12.

Background

Energy Bill currently fails to capture the full potential for Energy Demand Reduction

In February, the Prime Minister set out his ambition to "make Britain the most energy efficient country in Europe".[1] As he recognised, reducing energy demand is much cheaper than building new generating capacity. It is the quickest and cheapest way to protect households from rising bills, cut carbon emissions and improve security of supply by avoiding the need to build expensive new power stations. The Government's own analysis shows that the UK could reduce its demand for electricity by 36% by 2030, but that current policies will reduce demand by only 13%.[2]

When the draft Energy Bill was published in May last year, there was widespread criticism that it contained no provisions for reducing electricity demand. For example, during its pre-legislative scrutiny of the Bill, the Energy & Climate Change Select Committee said that "permanent end-use reduction in electricity demand should feature much more prominently in the Bill".[3]

When the Bill was published in November, it still contained nothing on electricity demand reduction. However, in a welcome move the Government simultaneously launched a consultation to explore options for permanently reducing electricity demand. During the Bill's Committee Stage, MPs from all

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[1] Speech at Royal Society, February 4 2013. Full transcript here: http://www.ukace.org/2013/02/david-camerons-speech-at-the-launch-of-deccs-energy-efficiency-mission/

[2] DECC, 2012. *Electricity Demand Reduction: Consultation on options to encourage permanent reductions in electricity use.*

[3] Energy & Climate Change Select Committee, July 2012. *1st Report – Draft Energy Bill: Pre-Legislative Scrutiny*, HC 275-I

parties spoke in favour of an amendment requiring the Government to introduce a demand reduction incentive within a year of the passing of the Act.[4]

On 21 May DECC published their response to the consultation, in which they stated that their preferred route to delivering permanent reductions in electricity demand is via a Capacity Market.[5] On the same day Secretary of State Ed Davey tabled New Clauses 11 and 12 for debate at Report Stage. New Clause 11 is a technical amendment, allowing the Government to confer functions in relation to a Capacity Market on bodies other than the National Grid. More importantly, New Clause 12 gives the Government powers to run a pilot scheme for electricity demand reduction. While New Clause 12 does not specify that this pilot scheme should take the form of a pilot Capacity Auction, it is clear from the consultation response that this is what DECC are considering.

This is a welcome step in the right direction – and we urge Hon. Members to support New Clause 12. However, major concerns remain and there are few clear commitments as to how the Prime Minister's pledge will be delivered.

Why a Capacity Market is of limited use in rewarding energy saving

- Directly comparable experience in the USA shows that, even with careful design, energy efficiency projects have received no more than 3% of total Capacity Payments, with 70% going to existing fossil fuel generation. In the USA, the money from Capacity Markets is only used to top up funding from other sources – in Massachusetts, for example, the Capacity Market is only responsible for 7% of the state's energy efficiency programme, with the vast majority coming from a regional carbon trading scheme and a supplier obligation.

- Payments from Capacity Markets are uncertain as it is not yet clear when, if at all, a Capacity Auction will be triggered; and even if an auction is triggered, Capacity Payments may be too small if significant capacity shortages fail to materialise. Energy efficiency and demand reduction will reduce the risk of capacity shortages: it is therefore perverse to make support for them dependent on those shortages occurring.

- The Government itself admits that Capacity Markets are unsuitable for delivering energy savings for households or small businesses. The complex design of the Capacity Market means that only large energy suppliers and other specialist companies are likely to participate. To achieve the full electricity saving potential identified by the Government, it is vital that we capture savings from SMEs and homes as well.

- A Capacity Market is primarily designed to ensure capacity during troughs in supply. It will therefore only reward demand reduction projects that reduce the amount of generating capacity that is needed at such times, and *not* those that reduce demand at other times. A Capacity Market therefore rewards energy efficiency only for its security benefits, not its other, much larger benefits in terms of emissions reductions and affordability.

It is clear that relying on a Capacity Market alone will not deliver the Prime Minister's ambition or achieve the huge potential for electricity saving that the Government has identified.

[4] Energy Public Bill Committee, 29 January 2013; C.337
[5] DECC, 2013. *Consultation on options to reduce electricity demand - Government Response*

Why we still need a scheme of Energy Demand Reduction Payments, as provided for in amendments 34-41

For the reasons outlined, we need an additional policy to enable small businesses and households – and not just large infrastructure projects – to be rewarded for saving energy. A cross-party group of MPs led by Alan Whitehead has tabled amendments 34-41, which introduce simple, transparent payments for households and businesses that save energy. Crucially, these payments would start within a year of the Act being passed, rather than being reliant on the triggering of a Capacity Auction. A scheme of demand reduction payments would also provide certainty and visibility, with prices clearly set out in advance for the various energy-saving project types. This would give clarity to investors, particularly new entrants for whom the unpredictability of a Capacity Market would be off-putting.

This scheme would also be far simpler than the Capacity Market auctions. Payments could be provided in two different ways:

- up front payments for domestic customers or SMEs; and/or
- a market wide efficiency Feed-in Tariff for the commercial and industrial sectors to be paid regularly, based on how much energy is saved. This would enable on-going savings to be monitored and would not limit measures to a set of prescribed technologies, ensuring that the Feed-in Tariff drives innovation.

Funding for the payments would also be decoupled from Capacity Auctions – there would be a separate fund, which should sit outside the Levy Control Framework. Rewarding early demand reduction would reduce the level of the Capacity Payments that need to be made to secure sufficient generating capacity, and the measures installed would cut bills for those consumers and businesses.

Finally, it is important that both policies should form part of a coherent demand reduction strategy that includes both regulation where appropriate and behavioural change policies.

What a pilot scheme might look like

New Clause 12 allows (but does not require) the Government to introduce a pilot scheme for electricity demand reduction. It is clear from the consultation response that DECC envisages this to take the form of a pilot Capacity Market.

Given that many consultation respondents raised concerns about delivering permanent demand reduction through a Capacity Market, DECC is perhaps right to be cautious and run a pilot to evaluate its success. However, for the reasons already outlined, we believe that it will fail to deliver significant savings – as the US experience shows.

We do not believe that a pilot scheme for demand reduction payments (which were supported by a majority of consultation respondents) is necessary and that it would cause considerable delays in reducing electricity demand. However, if the Government is determined to run a pilot before taking any further action, then we believe that DECC should bring forward multiple pilot schemes, to include demand reduction payments, a Capacity Market and perhaps other forms of incentive too. This will demonstrate which scheme or schemes are most effective in delivering permanent demand reduction in practice.

New Clause 12 does not limit the Government to a single pilot of specify a mechanism. We therefore encourage Hon. Members to support both amendments 34-41 and New Clause 12, and to press the Government to give a commitment that any pilot scheme should not be confined to a Capacity Market alone. We also ask Hon. Members to press the Government as to when it anticipates running its pilot(s), how long they will last, when the results will be reported, and how large the pilots will be.

The text of the amendments can be found at:
http://www.publications.parliament.uk/pa/bills/cbill/2012-2013/0135/amend/pbc1351403a.1009-1011.html

For further information, please contact: Jenny Holland, Head of Parliamentary Team, Association for the Conservation of Energy, on 020 7359 8000 or 07875 629781 or at jenny@ukace.org