



Association for the  
Conservation of  
Energy



GREENPEACE



## Energy Bill Report Stage, Energy Demand Reduction Payments

### Background

#### *Energy Bill currently fails to capture potential for Energy Demand Reduction*

In February, the Prime Minister set out his ambition to “make Britain the most energy efficient country in Europe”.<sup>1</sup> As he recognised, reducing energy demand is much cheaper than building new generating capacity. It is the quickest and cheapest way to protect consumers from rising bills, cut carbon emissions and improve security of supply without building expensive new power stations.

The Government’s own analysis shows that demand for electricity could be cut by 36% by 2030, but that current policies will only achieve just over a third of this demand reduction potential.<sup>2</sup> Despite this the Energy Bill contains no provisions for reducing demand.

We therefore 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 passing of the Bill. Such payments could immediately start to drive reductions in energy use across the economy, reducing the need for new power stations.

When the draft Energy Bill was published in May last year, there was widespread criticism that it contained no provisions for reducing electricity demand. During pre-legislative scrutiny, the Energy & Climate Change Select Committee said that “permanent end-use reduction in electricity demand should feature much more prominently in the Bill”. Green Alliance meanwhile stated that: “Without amendment, the Bill will reward the building of higher-cost power stations ahead of the pursuit of lower-cost efficiency, and consumers will pay over the odds for their electricity as a result.”<sup>3</sup>

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 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.<sup>4</sup> Climate Change Minister Greg Barker welcomed the intention behind the amendment, and suggested that the Government might bring forward its own amendments at a later stage. As yet, none has been tabled.

<sup>1</sup> 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/>

<sup>2</sup> DECC, 2012 *Electricity Demand Reduction Consultation on options to encourage permanent reductions in electricity use*.

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

<sup>4</sup> Energy Public Bill Committee, 29 January 2013; C.337

### *Amendments 34 – 41: Energy Demand Reduction Payments*

For the reasons outlined, it is vital that the Energy Bill be amended to introduce new financial support for energy efficiency so that we can invest in more efficient buildings, equipment and processes, rather than just the more expensive option of paying for new generating capacity.

Providing financial support for energy demand reduction to the very diverse group of energy users nevertheless requires different mechanisms from those for supporting new generation. Linking demand reduction support to new generation support in Chapter 2 of the Bill would therefore be difficult. Chapter 3, on the other hand, gives powers to the Secretary of State to “make provision for the purpose of providing capacity to meet the demands of consumers for the supply of electricity in Great Britain”. It states that “providing capacity” can mean providing electricity or reducing demand for it. Chapter 3 therefore presents an opportunity for the introduction of new mechanisms to reduce demand.

However, as currently proposed, the Capacity Mechanism is primarily designed to ensure capacity by giving payments to energy generators to remain on the system – and not to encourage a reduction in demand. And the demand-side measures that the proposed Capacity Mechanism will support will be largely “demand response”, i.e. reducing peak loads by load shifting, not permanent demand reduction.

Directly comparable experience in the USA shows that, even with careful design, energy efficiency projects have received no more than 3% of total Capacity Market payments – whereas previously existing fossil fuel generation received 70% of all payments.

As a means of bringing about permanent demand reduction, a Capacity Market is flawed in two key ways. First, 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. It is sensible to start permanently reducing demand now, rather than waiting for a capacity crunch. Second, participation may be limited to large electricity users or third-party traders, whereas schemes ought to include SMEs and homes to realise full saving potential across all users.

To ensure that payments for electricity savings can be introduced as soon as possible and to ensure the new mechanism is easy to understand for all users, amendments 34-41 therefore introduce stand-alone Demand Reduction Payments, which are quite separate from the Capacity Market. The Payments would be introduced within a year of the Bill being passed rather than being reliant on the triggering of the first Capacity Auction. Funding for them is also decoupled from Capacity Auctions – there would be a separate fund, which should sit outside the Levy Control Framework. This would not result in additional costs to the consumer as rewarding early demand reduction would reduce (or completely remove) the supply shortages which Capacity Payments are intended to offset.

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

- up front payments based on the lifetime expected savings 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.

The text of amendments 34–41 can be found at: <http://www.publications.parliament.uk/pa/bills/cbill/2012-2013/0135/amend/psc1351403a.1009-1011.html>

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