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PARLIAMENTARY BRIEFING

The Energy Bill: Electricity Demand Reduction

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Summary

- The Government has identified potential energy savings of 155 Terawatt hours by 2030, but has been slow to put any demand reduction measures in the Bill.
- The recent proposals to 'bolt on' demand reduction to the Capacity Market are a small step forward, but will not deliver substantial savings, especially for households and SMEs. The pilot will delay progress and may not succeed.
- The Government should pilot multiple schemes including an electricity feed-in tariff, which was favoured by the majority of responses to its consultation.
- Please see our separate briefing for further details on the Capacity Market.

Electricity Demand Reduction in the Energy Bill

Saving energy is a "no regrets" policy and presents the quickest and cheapest way to protect consumers from rising energy bills, as well as being one of the most cost-effective ways to reduce UK carbon emissions. Therefore, it is disappointing that the Government has taken a year to introduce any amendments to this Bill covering electricity demand reduction (EDR), and has only done so following criticism from the ECC Committee and cross-party calls in the Commons.

Following a consultation, the Government amended the Bill at Report Stage to allow for a pilot scheme for EDR as a 'bolt on' to the Capacity Market (clause 37). Unfortunately the proposals lack detail, and the Commons had no real opportunity to scrutinise the amendments. The Government has taken a step forward, but it will barely scratch the surface of the potential for energy savings identified in DECC's own research, 155 TWh[1].

The Capacity Market option has many pitfalls and is unlikely to deliver substantial savings. Respondents to the Government's consultation were overwhelmingly negative about its suitability for delivering adequate levels of energy efficiency[2], and similar schemes in the USA have also failed to deliver, and instead have strongly favoured supply-side fossil fuel generation.

WWF calls on Peers to scrutinise the Government's efforts on demand reduction, probe for clarity about the proposed pilot scheme, and call for multiple pilots on demand reduction to properly evaluate therange of options over the next 1-2 years.

[1] DECC (2012) **Capturing the full electricity efficiency potential of the UK**
[2] DECC (2013) **Government response to consultation on options to reduce electricity demand**

Issues that require further clarity

Investor certainty: there is not yet a mature market for delivering large scale energy efficiency, and it will therefore struggle to compete on cost with existing supply. To invest in their supply chains, providers will require certainty that they will be bidding for a minimum level of energy savings. Over time this investment and scaling up of projects should bring down the costs to allow EDR to compete on a level playing field with supply.

However, experience from the forward Capacity Markets in the USA – much relied upon in DECC's proposals – does not bode well. Evidence to date shows that in the USA only 3% of capacity payments have gone to demand reduction projects while 70% have gone to existing fossil fuel generation. Such examples provide little confidence to potential investors that the UK proposals will, on their own, drive a significant market expansion or deliver substantial savings for households, business and industry.

WWF recommends the Government set a minimum level of delivered energy savings to provide certainty to the market, and clarify how and when EDR projects are expected to compete in the Capacity Market.

Triggering auctions: The purpose of the Capacity Market is to deliver capacity at times where there is a "capacity crunch", based on assessments by National Grid to identify any shortfall. However, there is no guarantee there will be a shortfall – and therefore auctions may never occur. To ensure that demand reduction projects are delivered it will be necessary to decouple capacity auctions for EDR from those for supply-side options.

WWF recommends Peers probe how the Government will reduce demand at times when no capacity auctions are needed.

Suitability for all sectors: All sectors – households, businesses and industry – will need to reduce demand. However, the structure of the Capacity Market is likely to reward only large scale industrial demand reduction projects, and not deliver for households or small businesses. It is right in principle that the scheme should be accessible to all who pay for it, and this will include all consumers, who will be paying for the Capacity Market payments through their energy bills. This is a particular priority to support efforts to tackle fuel poverty and for small businesses with small margins, which are particularly vulnerable to high and rising bills.

WWF recommends the Government pilot multiple schemes including those more suited for households and SMEs, such as an energy efficiency feed-in tariff.

Multiple pilot schemes: Clause 37 does not specify the number or types of pilots, although DECC has indicated its intention to run a Capacity Market pilot in 2014. Unfortunately the pilot process could delay the introduction of any substantial mechanism for EDR for at least 1-2 years. This is an unnecessary delay and it is plausible that the pilot will not be successful, given the concerns raised in the consultation.

WWF recommends that the Government pilot multiple EDR schemes including premium payments (widely supported in the consultation), the capacity market, and other schemes. This would then allow a more thorough evaluation of the best solutions for EDR in the UK market.

WWF also recommends the Government provide further details about the pilot process results, and how they expect it to translate into a market-wide scheme. Only then will it be possible to give adequate scrutiny to Clause 37.

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