



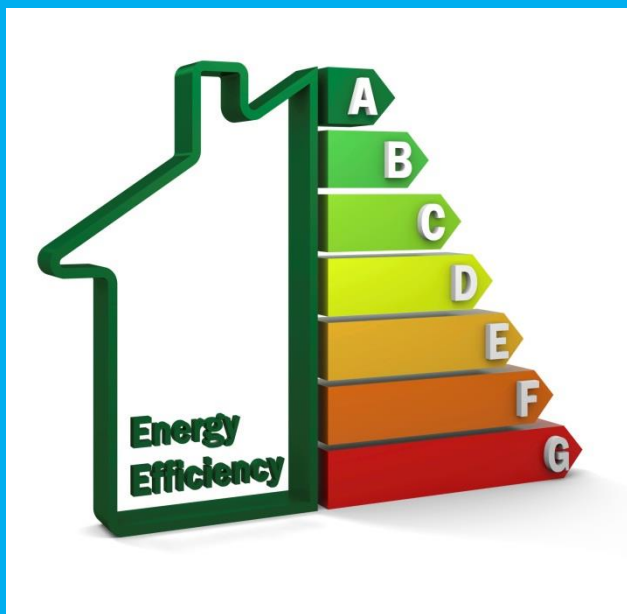
Department
of Energy &
Climate Change

Electricity Demand Reduction Pilot BSRIA

Charlie Lewis, DECC
25 March 2014



Efficiency at the heart of a low carbon economy



“Energy Efficiency belongs at the heart of a low-carbon economy. By reducing energy use and cutting down on waste, we can reduce energy bills, make our energy system more sustainable and drive down greenhouse gas emissions”

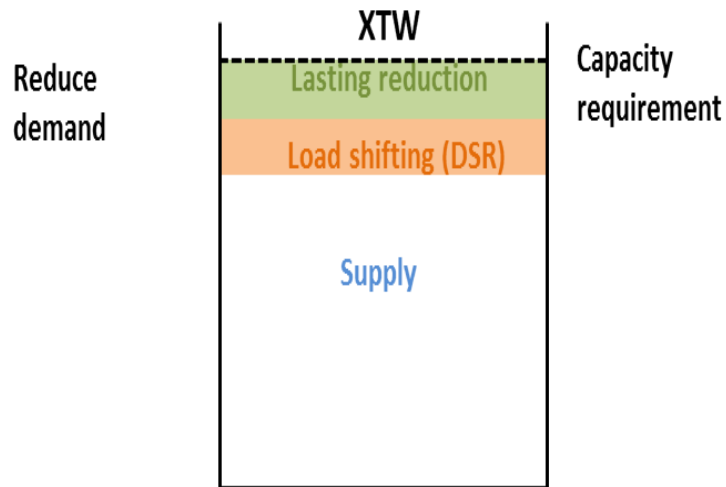
Edward Davey, Secretary of State for Energy and Climate Change

The Energy Efficiency Strategy 2012



Recap: Capacity Market Approach

Capacity Market



Payment for demand reduction as an alternative to generation capacity

- Capacity Market pays capacity providers for capacity – such as generating plant, Demand Side Response and Storage.
- Capacity Market based on auction to meet capacity requirement
- EDR focussed on whether efficiency measures be included, not on load shifting



We are piloting...

Objectives

- To examine the viability of EDR in the Capacity Market
- To learn lessons for Government and wider stakeholders on delivery of EDR schemes

“Now there will be new incentives to cut electricity use a new 20 million pilot, the first ever in Britain... Companies being paid for saving energy, not wasting it.”

- Edward Davey, 15 September 2013

Overview:

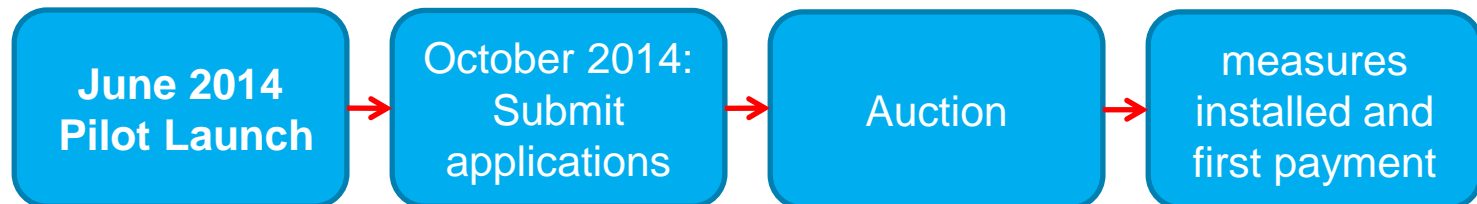
- Plan to pilot over 2 years from June 2014
- Subject to the outcome of the pilot, the Energy Act 2013 contains the provisions to implement EDR as part of the forthcoming Capacity Market



Pilot Design Overview

- Capacity market based on an auction, so is the pilot
- Subsidy payable for lasting reductions in electricity from installation of efficient measures
- Participants will bring together plans to reduce their electricity demand and then bid these savings into the auction

Potential timeline ...





Eligibility

Requirements	Eligible	Ineligible
<ul style="list-style-type: none">• lasting savings• Relevant to winter peak (3-7pm, Nov-Feb)• Minimum bid size of 100kw of capacity• Measures must be installed within 9 months of auction	<ul style="list-style-type: none">• All sectors• GB-based• Bids can include any number of eligible technologies or measures• Bids can cover multiple sites or sectors	<ul style="list-style-type: none">• Demand Side Response• reducing demand by switching to off-grid supply• reducing demand by reducing economic output• Behavioural programmes are ineligible for pilot• Measures benefitting from specified Government incentives (e.g. Climate Change Agreements, Salix loans)

Criteria will be formally set out as part of June rules

Measurement , Verification and Additionality

M&V

Objectives:

- robust M&V regime to have confidence in savings, but
- Not too onerous it may deter participation

Approaches:

- Deemed: savings estimated but not actually measured
- Engineering: combination of assumption + measurements
- Full measurement approaches: metering before and after

Additionality

Objective:

VFM - target savings that would not have happened anyway.

Approach:

- Aiming for a simple yet effective filter (payback periods)



MVA manual to guide participants will be published with rules at launch in June. Being finalised currently, but welcome support to market test pre-launch.



Live design issues

Looking at further design issues currently including:

- How to ensure design suits bidders that aggregate multi-site bids?
- Suitable “pre-qualification” process?
- Incentivising delivery

... happy to discuss any issues today.



Getting involved



Next steps

- First factsheet published. Copies available on the **gov.uk** website or on request.
- More such factsheets will be issued before launch as design is tied down.
- June launch will see full rules published and bids invited.

Please register your interest for more information or ask any questions via edr-project@decc.gsi.gov.uk



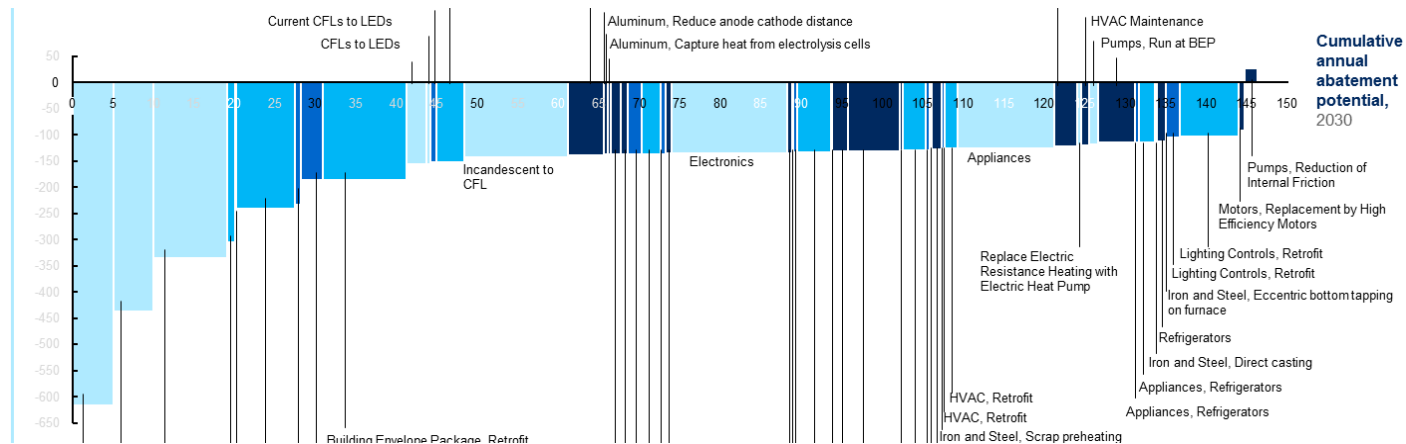
Annex – spare slides if needed for questions



The starting point

What potential for improving electrical efficiency is there out there? And why isn't it being realised?

- Significant opportunity outstanding, tens of TWh at least, spread out through all parts of the economy



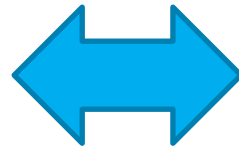
- But barriers are also complicated – Financing, other priorities, split incentives and lack of information ...



Taking action

So what's the plan?

- We looked at Supplier Obligations, Efficiency Feed in Tariffs, voluntary schemes and many more, but settled on a **financial incentive delivered through the Capacity Market.**



- This targets reductions at peak demand (most valuable time)
- It recognises the real value of kW saved to the energy system
- It allows a direct trade-off between support for new generation and EDR, meaning the cheapest solution for ensuring capacity is reached