



Department
of Energy &
Climate Change

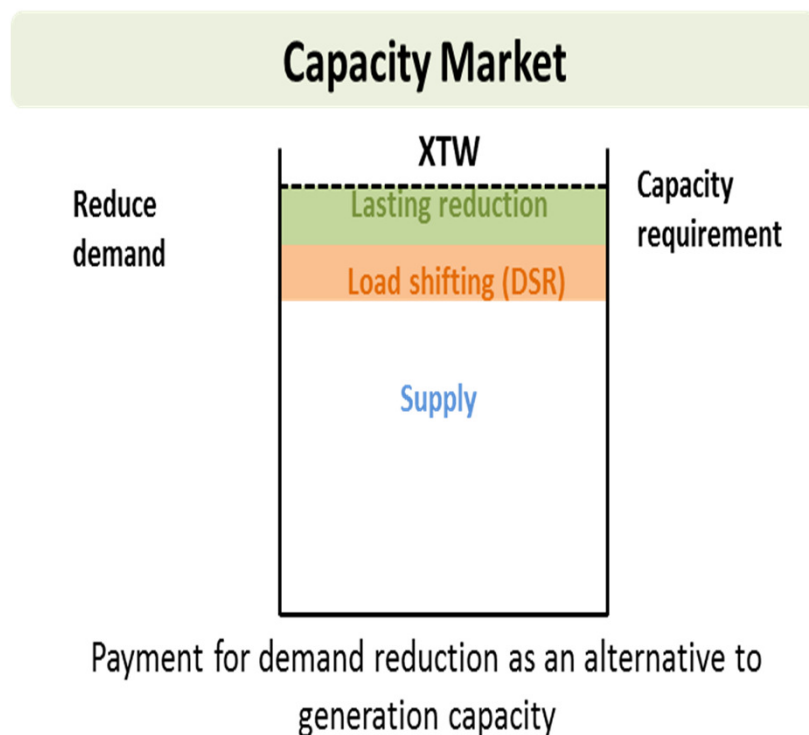
Electricity demand reduction (EDR) pilot

6 March 2014



Introductions & Pilot Overview

Capacity Market Approach



- 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

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We are piloting...

Aims

- To examine the viability of EDR in the Capacity Market including whether it provides an efficient and cost effective means of achieving EDR
- 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:

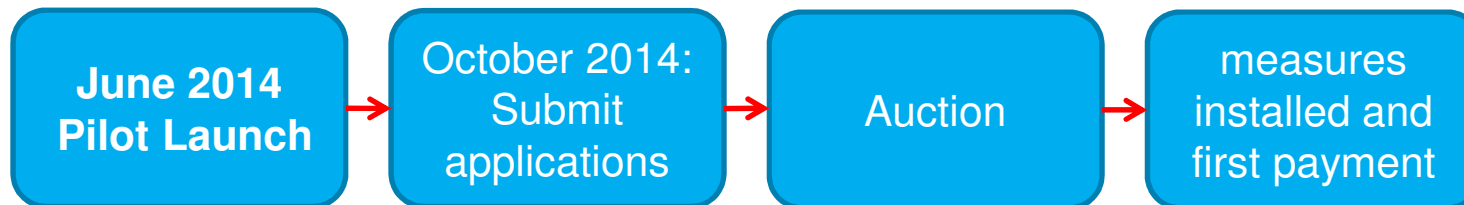
- Plan to pilot over 2 years from June 2014
- Subject to the outcome of the pilot, the Energy Act 2013 contains the provisions to implement EDR as part of the forthcoming Capacity Market

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Pilot Design Headlines

- Participants will bring together plans to reduce their electricity demand and then bid these savings into an auction
- Subsidy payable for lasting reductions in electricity from installation of efficient measures
- Pilot launch - final rules in June 2014, initial bidding deadline in October
- Potential timeline ...



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Eligibility: key areas highlighted in factsheet...

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)

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Criteria will be set out as part of June rules



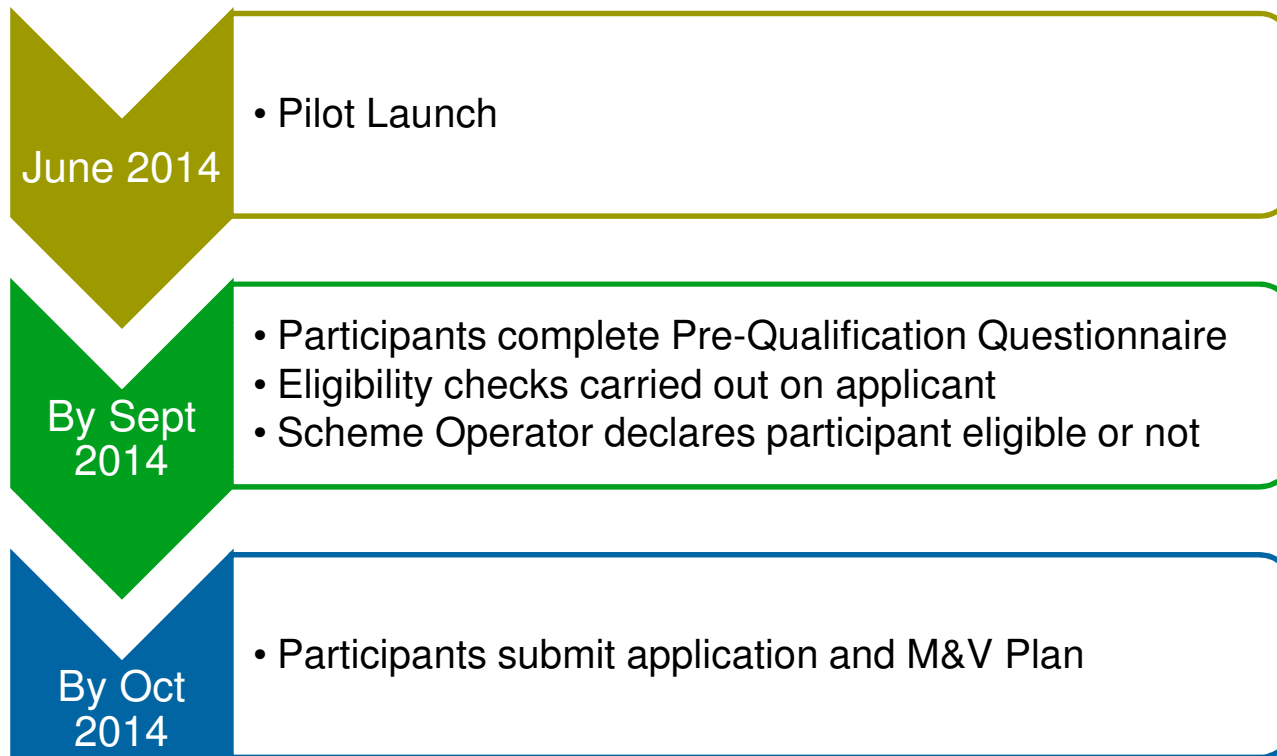
EDR Pilot Overview

- Design options to be decided



Pre-Qualification Process

For Discussion:



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Pre-Qualification Process

For Discussion:

By Dec
2014

- Scheme Operator assesses application
- Inspections?
- Scheme Operator deems application eligible or not / may also assess savings

Jan 2015

- Participants submits bid in £/kW
- Auction held early January 2015
- Scheme Operator notifies outcome of auction – successful/unsuccessful bids
- Grant Offer Letters / Contracts issued

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First Auction Process

For Discussion:

By March
2014

- Deadline for confirmation of installation / order of capital equipment

By October
2014

- Deadline for installation of measures

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Scheme Operator Role

For Discussion:

- Scrutinising M&V plans – checking M&V plans meet requirements set out in rules/ MVA manual (e.g. right method of M&V chosen, level of savings realistic, appropriate data provided etc), liaising with participants to resolve issues.
- Receiving and scrutinising M&V data from participants, querying where relevant and calculating payments based on savings delivered.
- Auditing data and organising site inspections as appropriate

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Aggregated and multi-site bids

Multi-site bids:

- *A single organisation* combining savings for different projects from across their different sites.

Third-party aggregator:

- *A third-party aggregator* is a person or organisation who, for the purposes of EDR, combines projects from different organisations or households to put forward a single bid and is responsible for the fulfilment of the contract.

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Aggregated and multi-site bids

Aggregated bids from a third-party could be riskier to deliver (more complicated project management, more difficult to monitor savings, less control over sites/homes etc).

For both aggregators and multi-site bids, we are suggesting that **at pre-qualification stage**, bidders provide:

- permission from owner of building that the measures can be installed within the timescales required.
- Additional requirement for third-party aggregators to provide evidence that they have agreement for 100% of the savings they will bid in for from their customers' sites/homes, including permission for installation within the timescales required.

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Questions

Pre-Qualification Process:

1. Does the pre-qualification process provide the right balance between ensuring reliability, safeguarding public funds and not creating undue burden on participants?
2. Would a participant be able to complete this process by the end of September?

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Questions

Scheme Operator Role:

3. How far should the Scheme Operator go in assessing the accuracy of baseline and projected savings at prequalification? – basic credibility checks / detailed checks / inclusion of site visits?
4. If required to take a site visit to verify correct installation or accuracy of meter readings, would you prefer (a) the Scheme Operator to appoint the inspector and arrange the visit, (b) to appoint your own inspector from an accredited list, (c) something else?

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Aggregated and multi-site bids

Questions:

5. Are these definitions clear?
6. Do they cover sufficiently the different types of aggregation and multi-site bids we could have?
7. Do these requirements strike the right balance between encouraging the risk of non-deliverability and being achievable within the proposed timescales?
8. Are there any other requirements we should be placing to reduce the non-deliverability risk?

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Delivery Incentives



Why have an incentive regime?

- To encourage full delivery of kW savings, in line with the timetable in the project plan and to deter underperformance or non-delivery of savings.

What is the delivery scenario?

- Installed the measures by the date specified in their contract;
- Complied with their monitoring and reporting plan and participated in the evaluation process (e.g. interviews, questionnaires etc);
- Operated the EDR measure at the same time of the peak period as the old equipment was operating;*
- Delivered the savings in capacity terms as specified in their contract.*

These will be based on the adjusted baseline principle.

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What is a non-delivery scenario?

- Non-installation of all measures;
- Late installation of measures;
- Permanent partial installation of measures;
- Reduction in use compared to the baseline;*
- Increased use compared to the baseline;*
- Under-performance of measures;*
- Non compliance with the monitoring and reporting plan and evaluation.

*Compared to any adjusted baseline.

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What tools can we use to incentivise delivery?

- Fines/ claw-back;
- Termination of contract;
- Bid bond;
- Pro-rata payments to reflect partial delivery;
- Payment profile.

Fines and bid bonds are not currently proposed to be primary approach – prefer to base payments against delivery of milestones.

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Current thinking ...



Current thinking ...

- Non-installation of all measures / confirmation of intent to procure by a specified date – contract is terminated.
- Late installation of measures but still before specified date for termination – first payment after installation and other pro rata payments to reflect proportion of winter peak period when measures were installed and operational.
- Permanent partial installation of measures – Pro-rata payments to reflect the partial installation of measures.
- Reduction in use compared to the adjusted baseline – Reduce the second payment on a pro-rata basis.
- Increased use compared to the adjusted baseline – Reduce the second payment on a pro-rata basis.
- Underperformance of non-deemed measures - Reduce the second payment on a pro-rata basis.

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Other issues



Further issues to be considered

- Proportion of payment paid when participant has demonstrated delivery of reductions (non-deemed) and proportion paid upon completion of monitoring and reporting plan.
- Defining the final date for compliance with the monitoring and reporting plan after which the payment linked to this is cancelled.
- Definition of effective installation.
- Cliff-edge issues. E.g. a participant delivers 99%

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Questions

9. Does the approach lead to an acceptable risk and reward level for participants?
10. Would it be possible to measure performance in the way envisaged in the delivery incentive regime in your organisation/industry?
11. Would the delivery incentive regime significantly discourage your organisation/industry from submitting a bid for EDR Pilot funding? If yes, why?

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Thank you for listening

Any questions?



Next steps....

Thank you

- Factsheet:
 - Published on 28th February. Copies available here, 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.
- Let us know if you are interested in getting involved in testing materials
- Please Register your interest for more information or ask any questions via edr-project@decc.gsi.gov.uk

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