



Energy Act: Electricity Demand Reduction

Issue: Tapping into the unrealised potential for permanent electricity reductions

Policy Commitment:

In the Electricity Market Reform White Paper published in July 2011 we made a commitment to assess whether there are sufficient support and incentives available for households, businesses and organisations to use energy more efficiently.

To fulfill this commitment DECC initiated the Electricity Demand Reduction (EDR) project in July 2011.

Preliminary research undertaken with McKinsey & Co suggested that there could be the potential for up to 92 TWh of reduction in electricity use in 2030. As the project has progressed the focus of the analysis has been narrowed. We also sought to strengthen the evidence base by comparing the original analysis to UK data sources. Taking a conservative approach, sector specific UK data sources have been used where they were judged to be more accurate. As a result, the estimate of potential was revised down to 32TWh. The evidence therefore suggests that even under conservative assumptions there remains considerable potential for cost-effective electricity demand reduction.

Government has identified a number of barriers and market failures that are responsible for under investment in energy efficiency projects and the aim of Government intervention to support EDR is to address these failures and barriers

A policy decision was taken that a market-wide financial incentive should be the way forward. Therefore provision is being made in the Energy Act to allow EDR to be delivered via the Capacity Market. DECC has also committed to consider non-financial measures.

Legislative proposal:

The EDR provisions as part of the Energy Act allow EDR to be integrated into the Capacity Market by ensuring that there is no doubt that the terms “providing capacity” and “reducing demand” include a reduction in the consumption of electricity. They also allow an alternative delivery body to be appointed for EDR and paid for if required, as well as providing a standard spending power that would allow DECC to run a pilot to test how some aspects of the scheme might work.

Businesses that make permanent reductions in the amount of electricity they use could receive financial incentives through the Capacity Market. Reducing the overall amount of electricity we use can help reduce costs for businesses and bring down



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emissions. Businesses could be rewarded for installing more efficient lighting, upgrading to better heating systems and cutting electricity usage.

The Government is considering whether to test the approach via a pilot to better understand, among other things, how much potential we can reach.

Relationship to other legislative proposals:

This will allow EDR to be a part of the Capacity Market, which in turn is an integral part of the Government proposals under the Electricity Market Reform package.

Where can I find out more about EDR?

The publication of the Government's Electricity White Paper in July 2011 [Electricity Market Reform white paper](#) set out the Government's commitment to assess whether there are sufficient support and incentives available for households, businesses and organisations to use energy more efficiently.

To fulfill this commitment, the [Electricity Demand Reduction project](#) initiated in July 2011 conducted research and consulted with the public. The final version of '[Capturing the full electricity efficiency potential of the UK](#)', the analysis undertaken with McKinsey was published in November 2012. This takes into account public comments on the draft version that was published in July 2012. [Ecofys](#) were commissioned to examine the [measurement, verification and additionality of electricity demand reductions](#) in the context of providing financial incentives for electricity efficiency. The [Response](#) to the [EDR consultation](#) was published on 21 May 2013.

We also asked the [Carbon Trust](#) and [SPA Future Thinking](#) to conduct a qualitative research project to explore the potential role of incentive schemes in increasing the efficiency of energy use. You can read the outcome of this research in [Exploring the design of policies to increase efficiency of energy use within the industrial and commercial sectors](#) .