

# Feed-in Tariffs for Energy Saving

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# Feed-in Tariffs for Energy Efficiency

## Three questions

- Why do we need to think about changing EE support mechanisms?
- Why might EE FITs be a good idea?
- How would an EE FIT system work?



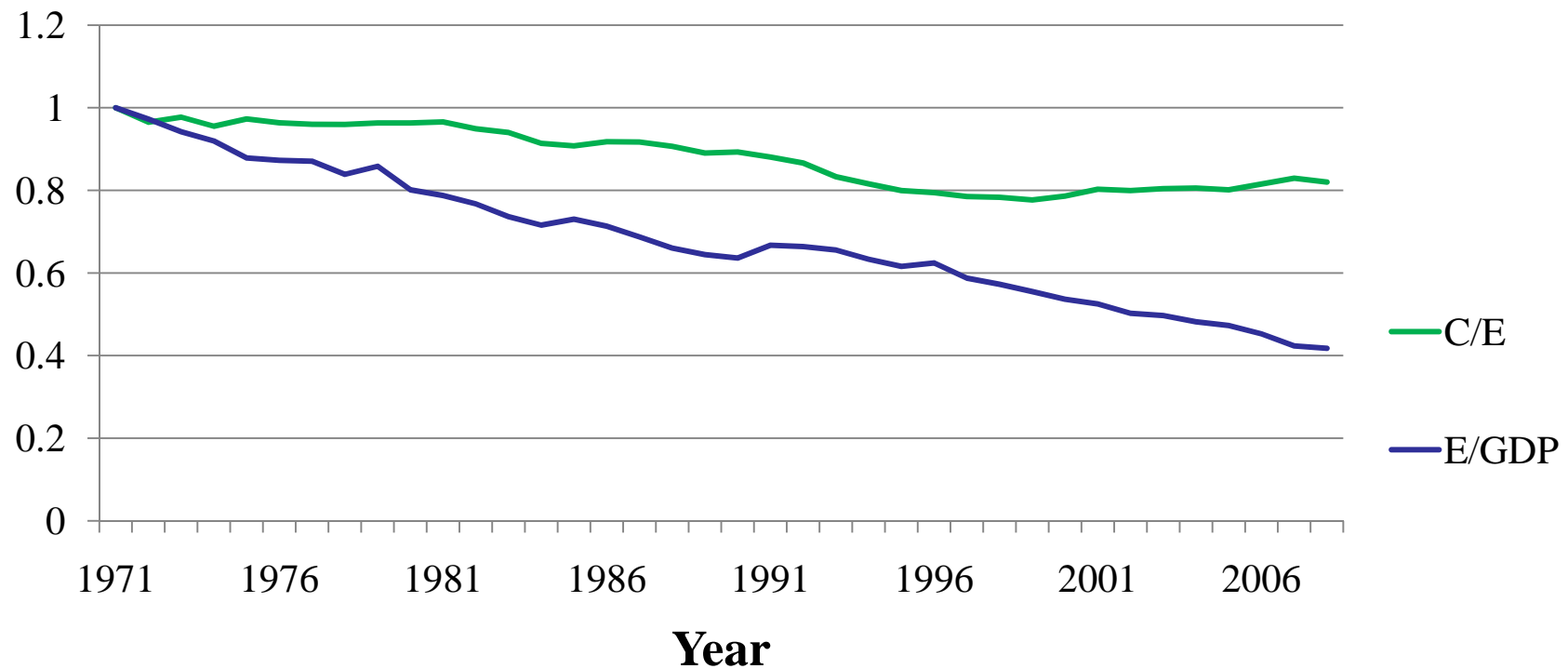
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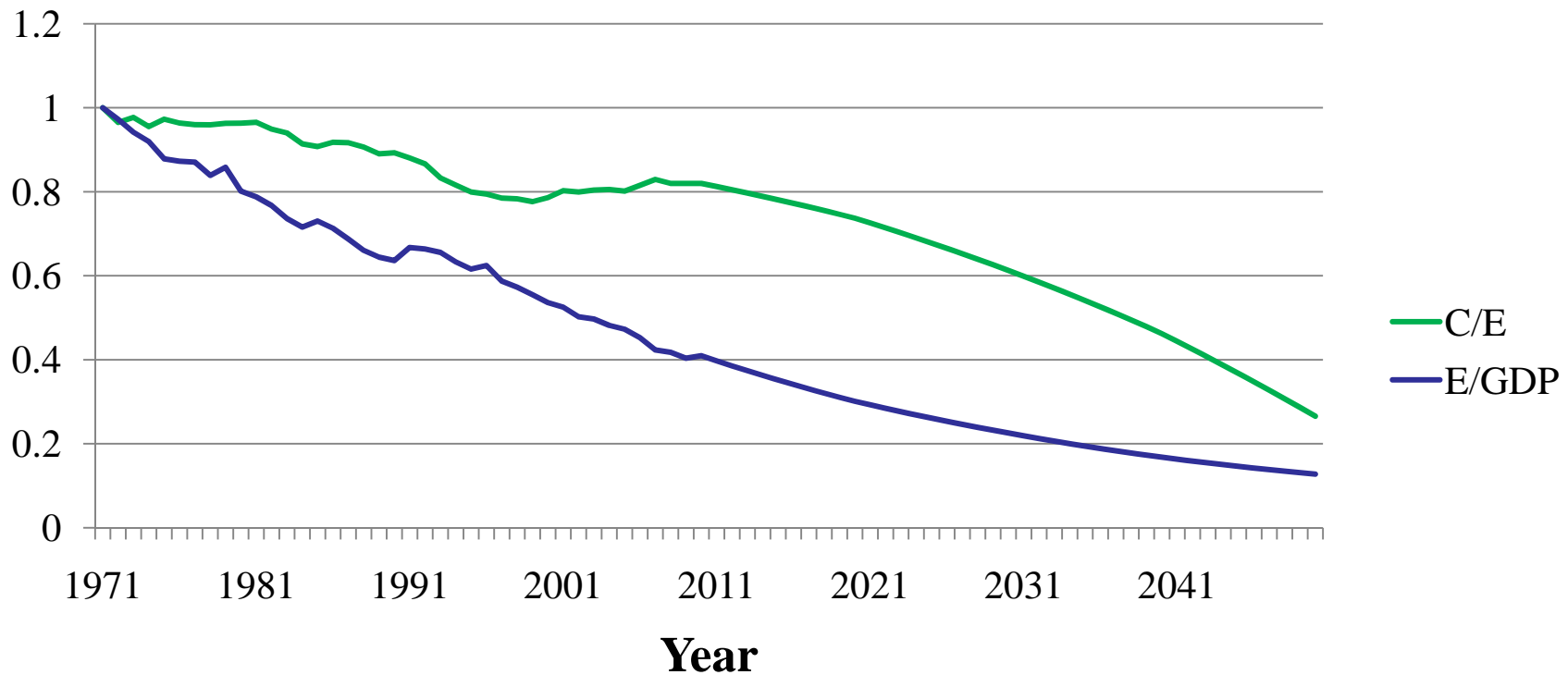
# UK Carbon, Energy and GDP: history

## UK Carbon, Energy and GDP ratios



# UK Carbon, Energy and GDP: future

## Committee on Climate Change 80% reduction projection



# Electricity market reform provides a new context

## Old rules of the game

- Financial support in supply restricted to innovative technologies
- Preference for quantity based measures, i.e. trading
- Energy efficiency support focused on load reduction in CERT

## EMR rules of the game

- Financial support for **all low carbon** electricity supply technologies
- Preference for price based support systems for supply, i.e. **FITs**
- Much more focus on 'demand response' i.e. load balancing

# Energy efficiency policy change needed to provide a level playing field

- Under electricity market reform proposals all kWh of low carbon power will benefit from a FIT
- Not providing similar support for (low carbon) demand reduction is a market distortion in favour of supply
- Under EMR, energy saving has a system benefit that should be reflected in the regulatory/subsidy system



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# Current policies won't deliver

- Price based instruments – EUETS, CCL, CRC, fuel taxation - are very blunt, politically problematic at the levels needed and don't address the post EMR world
- Existing energy regulation, e.g. via CERT, works reasonably well
  - but only for low cost measures and only in housing
  - CERT is 'owned' by energy suppliers and provides no transparent incentive structure for other actors
- Green Deal may also work for low cost, mass delivery
  - but it will not deliver higher cost measures
  - And is designed for finance providers not those with the capacity to deliver efficiency measures



# Why EE FITs? Engaging different actors is likely to help delivery

- A transparent, fixed price system provides the clearest incentive for householders, communities, SME installers
- Does not rely on energy companies (who have incentives to increase demand)
- Empowers and uses actors with higher levels of trust than energy suppliers and banks
- Relatively low transaction costs



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# EE FIT Design Fundamentals

- Payments to energy users, annually or upfront based on
  - installation receipts, or
  - demonstrated demand reductions
- Either
  - Ex-ante assessment of typical savings and lifetimes, or
  - Ex-post payments on the basis of performance
- Registration of accreditation of installers
- Cost recovery via energy suppliers (or distributors)
- Administratively feasible - nothing here has not been done before under CERT, FIT or grant schemes



# EE FIT Design implications

- Would need fixed price FITs
- May need to discount for deadweight
- Need for rules about saving gas and other fuels
- Single price based on supply side CfD FITs; or multiple prices for different technologies
- Ex-ante assessment (like CERT and RHI) or ex-post actual demand



# Conclusions

- It's a very bad idea to subsidise new supply as proposed in EMR without asking what the demand side can deliver
- EE FITs seem an innovative way forward, consistent with EMR supply proposals
- Administratively possible, but the devil is in the detail

