

The Future of Small Scale Support Team
Clean Electricity Directorate
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London

07 September 2018

Dear Sir/Madam

Consultation Response: The Feed-in Tariff Scheme

Scottish Renewables is the representative body for the renewable energy sector in Scotland, working to grow a sustainable industry which delivers secure supplies of low-carbon, clean energy for heat, power and transport at the lowest possible cost. We represent around 280 organisations ranging from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain. We represent a number of project owners, developers, operators and manufacturers across the small-scale renewable generation sector.

The UK energy market, and policy ambition surrounding energy, has changed drastically in recent years. Along with technology development, and our wider energy system adapting to increased decentralisation and renewables penetration, new and emerging technology-driven market opportunities are continually appearing. Small-scale embedded technologies are at the forefront of this transition. We expect this to be revolutionary for how consumers, businesses and energy generators engage in the energy market. The opportunity this shift presents to tackle issues such as climate change and fuel poverty while growing the UK economy should not be underestimated.

Small-scale renewable energy projects in the UK are significant in three main ways:

- Firstly, small-scale generation both necessitates and facilitates the transition to a smart energy system. Renewables have led the decentralisation of our energy fleet, moving us towards a more dynamic, responsive and flexible approach to energy which will allow households, communities and businesses to take advantage of low-cost, clean energy supplies.
- Secondly, these technologies provide growth opportunities and a varied set of socio-economic benefits to households and often remote communities, helping meet government's ambitions as set out in the Industrial Strategy.
- Finally, these projects generate volumes of low-carbon power (often for local use), helping consumers take greater control of their energy bills and carbon footprint while contributing to the UK's climate and energy targets.

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Scottish Renewables is concerned about the impact that a number of changes to the policy landscape are having on the small-scale renewables sector, threatening the opportunity to deliver across these three areas.

Our response to the Call for Evidence on the future for small-scale low-carbon generation¹ sets out our ambitions for the future of the sector in detail, along with a number of proposals through which we believe both Scottish and UK governments could support the sector.

In order to ensure the benefits this sector brings are not lost following closure of the FiT, policy-making should reflect:

- The importance these technologies will have in driving our transition to a smart, flexible and decentralised energy system, enabling smart consumers and businesses to take control of their energy supplies.
- The role these technologies have in supporting the rural economy, including rural businesses such as farming.
- The impact this sector has on national infrastructure development, particularly in driving the development of our electricity network.
- The economics of small-scale development, and how this differs from large (CfD-scale) development and between technologies.

As we set out in further detail in the enclosed response, it is our view that to effectively support this sector government should:

- Protect the sector from a potential 'policy gap' through implementing a transition period out of the Feed-in Tariff, involving:
 - Allowing for the full utilisation of existing budget within deployment caps
 - The short-term continuation of an export tariff
 - The reform of the export tariff upon the emergence of flexibility markets
 - A route to market mechanism to lower risk for small-scale generators in tandem with operational flexibility markets
- Improve transparency in the FiT queue process and better maintain the queue
- Allow for the fair replacement of generating plant
- Ensure the continuation of certification schemes and data provision

We set out more detailed information on the above points in our enclosed response and would be happy to assist further as your work develops.

Yours sincerely

¹ <https://www.scottishrenewables.com/publications/consultation-response-call-evidence/>

A handwritten signature in black ink, appearing to read 'Hannah Smith', written in a cursive style.

Hannah Smith

Senior Policy Manager

Consultation Response

1) Preventing a support gap and delivering a viable route to market

Scottish Renewables is concerned that the proposed closure of the Feed-in Tariff scheme creates a policy cliff-edge, adding to already damaging uncertainty for the small-scale renewables sector.

While we appreciate BEIS has issued a Call for Evidence on the future of small-scale low-carbon generation, with the FiT scheme's proposed closure in March 2019 we anticipate a policy gap between the closure of this scheme and any future support mechanisms/the emergence of new markets/business models.

As set out in detail in our response to the Call for Evidence, the small-scale decentralised low-carbon generation sector is at a transition point, and is both driving and dependent upon a wider change to our energy system to take place. Initial support for the sector has been driven by the Feed-in Tariff, but we would highlight the aim in the developing Decentralised Power Sector Deal that the small-scale decentralised power sector is resilient and subsidy-free by 2032, and making a significant contribution to the UK economy and its power system. We understand from recent analysis that, driven by the value to consumers, businesses and industry, low-carbon, decentralised power will come to constitute more than half of the UK's total installed capacity².

The enabling market frameworks that will allow for this transition are not currently in existence. Scottish Renewables is therefore concerned that a gap in support for these technologies will at best prevent the further growth of the sector, and at worst lead to further contraction.

With appropriate grandfathering arrangements (as have been put in place alongside the closure of support schemes such as the Renewables Obligation), and allowing for budget already committed under the scheme to be utilised by industry, we believe this policy gap could be prevented.

While budget remains in deployment caps for the Feed-in Tariff, we would recommend that the tariff stay open. This would allow the industry to develop a small pipeline of projects, helping to create some certainty for these small businesses in a challenging operating environment. Given budget has already been committed this certainty for industry would not come at an additional expense to the consumer. Further, this would alleviate pressure on stakeholders such as statutory bodies who are likely to see a steep increase in workload ahead of the scheme's closure which they may struggle to resource.

² In line with modelling such as National Grid's Future Energy Scenario's 'Consumer Renewables' stretch scenario where 52% of total capacity is connected at distribution by 2032.

We therefore propose that government enables a gradual transition away from the feed in tariff.

1.1) The full utilisation of deployment caps

We understand that, as set out in the Control for Low Carbon levies³, Government has committed to introducing “no new low carbon electricity levies until the burden of such costs is falling”. However, given spend under the Feed-in Tariff has already been committed, and several deployment caps have not yet been used to their full capacity, we recommend that government keep the Feed-in Tariff open until allocated budget is used up or viable alternative routes to market are in place.

1.2) A transition period: the export tariff

Scottish Renewables disagrees with the proposal to end the export tariff after 31 March 2019.

The export tariff is critical to the business models for small-scale renewable generators which, as we set out in our response to the Call for Evidence, have a very different set of project economics to large scale schemes⁴. It is the tariff which has drawn consumers to take control of their energy supplies, and has indeed made onsite generation viable at all scales, with commercial enterprises using revenue to reinvest in their assets.

As our energy system becomes further decentralised, new markets will emerge around local energy and energy as a service, rather than as a commodity. These markets do not exist at present, meaning the business case for small-scale renewable generation cannot be predicated on them. Conversely, without a thriving small-scale renewable sector to operate in local, dynamic markets, these market structures will not emerge.

It is therefore our position that the export tariff ought to be maintained, at least as a transitional measure, until new market opportunities exist and are viable.

The maintenance of a tariff, we believe, would sustain elements of the small-scale sector to the point where new business models materialise, helping foster the transition towards subsidy free development. This is particularly true if we are to keep consumers engaged in the energy market and develop energy services based around solar, storage and EV charging.

We recognise that the existing export tariff is a blunt instrument, which is unable to reflect changes in the wider market.

We therefore propose two ways by which the tariff could be reformed to enable it to better reflect market conditions. This should not be done immediately, but as new business models emerge:

³ <https://www.gov.uk/government/publications/control-for-low-carbon-levies>

⁴ <https://www.scottishrenewables.com/publications/consultation-response-call-evidence/>

a) An index linked tariff

Index linking the export tariff to an appropriate marker of the wider market conditions would ensure the tariff is responsive to economic change. Index-linking to the wholesale price of energy would, in our view, be an appropriate measure to ensure market reflectivity.

b) Variable as well as fixed rate tariffs

Once flexibility markets are fully operational it is likely that different small-scale renewable energy stakeholders (households, communities, and onsite commercial) will have different needs. While we anticipate the export tariff will need to be retained over this time period, we foresee that offering a series of more diverse and innovative tariff structures – such as variable and fixed rates – could be an appropriate support to small-scale renewable generators while ensuring tariffs remain responsive.

1.3) Route to market at a discounted rate

Scottish Renewables understands that, while a mechanism to reduce risk is helpful for small-scale projects, project economics are such that a market mechanism operating at a discounted rate would not be viable in and of itself for small-scale low-carbon technologies at this time. We would however seek further discussion with BEIS on the detail of what this mechanism could look like.

In the long-term, once flexibility markets are fully enabled, we see value in government creating a guaranteed route to market to offset risk for small-scale renewable generators. This would encourage investment, market entrants, protect small-businesses and consumers and help safeguard the sector as it transitions towards subsidy-free development.

2) Impact Assessment

We have a number of concerns with the impact assessment published alongside the consultation.

The impact assessment clearly states that the proposal to close both the Feed-in Tariff and Export Tariff will adversely affect the deployment of small-scale low-carbon generation relative to the 'Do Nothing' scenario. There is also recognition in the assessment that 'foregone low-carbon generation' will be met by plant which 'typically have higher greenhouse gas content' – an outcome clearly juxtaposed to Government's climate and carbon policies.

We find it alarming that the impact assessment does not carry out a quantitative assessment of the impact of the policy proposals on jobs. As we set out in our response to the Call for Evidence, our members reported that in some small-scale renewable sectors employment levels have already decreased by as much as 75 per cent. The impact assessment only goes

as far as to say there is “a potential reduction in employment in the low-carbon sector from lower deployment”.

We welcome the impact assessment’s inclusion of deployment scenarios across technologies. We would argue that these are too low to sustain the sector. Again, as put forward in our call for evidence, our members report that the following estimated deployment expectations would be required for them to stay in business:

- Small-onshore wind: 20-30MW annually
- Hydro power: 100MW annually
- Solar power: 75MW-2GW annually⁵

We would seek further detail from government on the contents of table 6 in the impact assessment – which sets out the estimated marginal impact of continuation of the FiT post 2019 on average price and bills by illustrative groups.

It has been well understood for some time that the transition towards a smart, decentralised and low-carbon energy system will offer savings for consumers. Small-scale renewable generation both necessitates and will drive that transition going forward. The National Infrastructure Commission clearly sets out how a smart power revolution spanning storage, interconnection and demand response is worth up to £8bn to UK consumers⁶.

The Committee on Climate Change states that achieving our carbon budgets with a ‘more flexible power system’ has the potential to save consumers £3bn-3.5bn per year⁷.

With ONS statistics showing that there are 27.1m households in the UK, we calculate an estimated household benefit of £129.15 per annum from a smart energy system. This is clearly net positive when compared to the £1 average marginal impact of FiTs on the end user’s bill, though we do appreciate that households may incur other costs (such as the installation of a battery system, purchase of electric car) in the shift towards a smart system.

We would encourage government to adopt a long-term approach to policy making in this area, reflecting that investment over the short term to support the development of a smart and flexible energy system will deliver long-term savings and benefits to consumers.

3) The queue

We believe that the Feed-in Tariff queue could be improved in a number of respects.

Firstly, we are aware of issues surrounding doubling of applications of projects in the queue with no disincentive or penalty for doing so.

⁵ <https://www.scottishrenewables.com/publications/consultation-response-call-evidence/>

⁶ <https://www.gov.uk/government/publications/smart-power-a-national-infrastructure-commission-report>

⁷ <https://www.theccc.org.uk/publication/power-sector-scenarios-for-the-fifth-carbon-budget/>

Similarly, we are aware of some pre-accredited projects stalling in the queue due to wider development issues. A mechanism to ensure projects able to progress should be developed with urgency⁸.

4) Replacement of Generating Plant

We are aware that BEIS is already in receipt of proposals from industry regarding the valid replacement of generating equipment.

Scottish Renewables' position is broadly as follows:

- Where all generating equipment is replaced like for like, the accreditation of the site should be unaffected.
- We acknowledge that on some occasions it is impossible to replace equipment like-for-like. Where it is not possible to replace equipment with exactly the same Total Installed Capacity, we believe it would be fair for the installation to receive its original tariff on a pro-rata basis against the original project's Total Installed Capacity. For additional capacity added through replacement of generating equipment, no further Feed-in Tariff payments would be made.
- To reflect this, the references in the supplier guidance ([Feed-in Tariff: Guidance for Licensed Electricity Suppliers \(Version 8.1\)](#)) to stations "being seen as decommissioned" if all components of generating equipment are replaced⁹ needs to be reworded. Plant is decommissioned when all components of generating equipment have been *permanently removed* rather than *replaced*. This requires no legislative change.

5) Certification schemes and data provision

Microgeneration Certification Scheme (MCS)

Scottish Renewables supports the retention of a nationally recognised quality assurance scheme, ensuring that market participants demonstrate quality and compliance to industry standards and that consumers are protected.

The current MCS scheme was an eligibility requirement for the Feed-in Tariff, and we would argue that even in the absence of a tariff a certification scheme should be maintained.

Central FiT Register

⁸ We note that this approach has been adopted by DNOs seeking to manage connections queues

⁹ i.e. paragraphs 8.2 and 8.14 state "If all components of generating equipment are replaced, the installation will be seen as decommissioned". This should be reworded to say "If all components of generating equipment are permanently removed, the installation will be seen as decommissioned".

Embedded generation can be difficult to track on the system, particularly as volumes are connected behind the meter. The dramatic growth of embedded generation over recent years has been one of the main drivers underpinning the move towards a smart and flexible energy system.

The Central Feed-in Tariff Register (CFR), which tracks installed capacity by technology type and tariff band, is the principle data source used by industry to monitor embedded generation on the system. This includes use by stakeholders such as network operators.

It is vital that this register of projects is maintained and that new distributed generation assets continue to be added to a central register.

Data provision

The need for a central register of projects will grow in importance as our system becomes 'smart' and new business models require a wider variety of assets to 'talk to each other'. Models where household appliances take signals from generation assets, which themselves operate in tandem with storage assets/EVs and interface with a local system operator are gaining traction through projects such as Open Networks.

Data will be central to the success of this system – and it is likely that we will require more data on a wider variety of assets than currently exists.

We would strongly encourage government to consider how best to maintain, build and utilise data on our decentralised generation fleet and how to integrate this with smart system models as they emerge.