

Future of Small-Scale Support Team
Department for Business, Energy and Industrial Strategy
3rd Floor Spur
1 Victoria Street
London

05 March 2019

To whom it may concern,

Smart Export Guarantee: Consultation Response

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy transition. We represent around 260 organisations across the full range of renewable energy technologies in Scotland and around the world, ranging from energy suppliers, operators and manufacturers to small developers, installers and community groups, as well as companies throughout the supply chain.

Small-scale renewable generation can offer the UK a suite of benefits, from supporting the transition to a smart and flexible energy system to delivering socio-economic benefits to a diverse array of communities and consumers around the country¹.

The future though for this sector is deeply uncertain, principally due to the prolonged uncertainty surrounding the closure of the Feed-in Tariff. The Smart Export Guarantee (SEG) proposals outlined in this consultation do little to assuage the sector's concerns around its future participation in the energy market.

We recognise that as our energy system changes, and energy is treated more as a service than a commodity, that consumers will interact with the energy market in a fundamentally different way. The market is already beginning to respond to this, with innovative offerings linking electric vehicles to supply tariffs, for example, already emerging and we expect this to continue apace. We therefore do believe the SEG could be of some value, particularly to households looking to install rooftop solar PV.

¹ <https://www.scottishrenewables.com/publications/low-carbon-gen-call-evidence/>

This however is just one small segment of what the transition to a smart and flexible energy system is about. We are concerned that the SEG is focused on too narrow an area – and an area where the market itself is likely to develop without government intervention.

Given government’s legally binding commitments set in the 2008 Climate Act² we are disappointed not to see the emergence of a mechanism to provide a viable route to market across the suite of small-scale low-carbon technologies.

Our principle concerns with the SEG are as follows:

1. We recognise that the SEG is currently designed to support our transition to a smart and flexible energy system and is not designed to bring forward new generation. We find this particularly concerning given recent analysis from the Committee on Climate Change detailing that government’s Clean Growth Strategy will not achieve the 4th and 5th Carbon Budgets³.
2. We see the SEG only supporting a small segment of the market – i.e. supporting some rooftop solar PV development but little else, therefore only benefiting a particular sub-set of consumers and being unlikely to support the full transition to a smart, flexible energy systems – as is the intent. This narrow focus, and the lack of ambition to utilise the SEG to bring forward new low-carbon generation, is disappointing, particularly given point 1.
3. The SEG is a complex and administratively heavy mechanism. We believe this could further limit the number of participants.
4. The SEG model is not a commercially viable model for community projects or small-scale commercial projects. Both rely on long-term contract visibility to secure project finance and a floor-price for revenue. Neither of these are offered by the SEG, which rather exposes participants to market volatility.
5. There is little recognition within the SEG consultation that it won’t deliver for these types of projects. We are especially disappointed to see government move away from supporting these technologies at a time where network charging reform is imposing significant cost increases on small-scale renewable generation, policy uncertainty is creating a stagnation in projects, and wider economic issues are hampering development.

² <https://www.legislation.gov.uk/ukpga/2008/27/contents>

³

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671187/Updated_energy_and_emissions_projections_2017.pdf

6. While the ambition for the SEG is to encourage the delivery of a smart and flexible energy system, dependencies such as the smart meter roll out and half hourly settlement have not been fully addressed. This dilutes the usefulness of this mechanism.
7. Similarly, a smart and flexible energy system will require a generation mix – including most obviously the integration of battery storage devices. The current SEG proposals are unlikely to fully support, and therefore encourage, these types of projects.
8. The SEG will only be viable if it is priced appropriately. While a commitment to ‘greater than zero’ pricing is welcome, we are concerned that this level of ambition in pricing does not match either the ambitions of government or the commercial realities of investment. While we appreciate that leaving price setting and offerings to the market may lead to some interesting tariff options, we foresee these only being relevant at a consumer level, and not for community-scale or other small-scale development.
9. Additionally, we would anticipate that SEG pricing will fall far below previous tariffs available under options such as the Feed-in Tariff. This pushes the effective use-case for technology installations to behind the meter use, which will not only have a limited market but will disincentivise the roll-out of the technologies and generation mix we want to see to enable a smart and flexible energy system.
10. We anticipate a number of suppliers rapidly advancing into this space, and we are already seeing innovation in this area. We question whether suppliers will be incentivised by the SEG or whether tariffs of this nature will increasingly be offered anyway. We are concerned that the SEG could be potentially rendered relatively redundant and become a market distortion preventing innovation from SEG providers. For example, we would hope to see technology specific tariffs over and above a base SEG tariffs emerge, or tariffs which respond to a particular locational need.
11. We equally anticipate that others in the market will be less willing to participate and will price themselves out of SEG participation (through offering prices a fraction above zero).
12. We also caution against increased administrative burdens on the supply market, given its volatility and challenging operational landscape over recent months. Suppliers will have to consider the value of exported electricity at any given time and the temporal alignment of exports, as well as scheme administration.
13. Much of the transition which we understand the SEG is trying to encourage is consumer focused, requiring their participation. We have expressed our concerns above about the SEG mechanism being only likely to attract a sub-set of consumers, due to the volatility, complexity and likely low-returns model it offers. We see a number of barriers to entry into the SEG, limiting the use-case for domestic consumers.

14. We welcome commitment from BEIS to legislate for the SEG quickly. We question however the feasibility of these timescales and again caution that the uncertainty hampers investment and the development of small-scale renewable energy assets.

We have answered your consultation questions where appropriate overleaf and would gladly discuss our response further.

Yours sincerely,

Hannah Smith

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

Senior Policy Manager

Scottish Renewables

Consultation Questions:

1. Will the SEG as described provide a suitable and practical route to market for exported electricity?

We are concerned that the SEG will not provide a suitable and practical route to market for exported electricity for all small-scale renewable electricity generators. While we anticipate that SEGs may be of value to some rooftop PV installations, we cannot see this working for technologies such as small-scale hydro, small wind developments or community projects as the mechanism fails to deliver the certainty required to finance these projects.

This is very concerning for several reasons. Firstly, small-scale renewable generation can play a key role in decarbonising our economy. As projections show we are not on track to meet our 4th and 5th carbon budgets, the lack of ambition around bringing new generation at this scale forward is disappointing. Additionally, as we have previously set out in detail, small-scale low-carbon generation offers a number of socio-economics beyond energy⁴, which fail to be recognised through this approach.

2. Will the SEG support innovation towards the ‘smart’ energy transition and if so how?

To some extent. The SEG may encourage some suppliers to offer new tariff formats which, for example, link rooftop PV and EVs. However, we question whether the SEG is the real driver of this transition.

In our view, as expressed in detail elsewhere⁵, a suite of renewable resources is required to operate a balanced smart and flexible energy system. As the SEG is not designed to bring forward generation of this type, or other enabling assets such as DSR, we do not believe the SEG will deliver the scale of transformation our energy system requires.

3. Given the options set out above in table 1, what type of SEG tariff would be appropriate at this point? Please provide justification for your answer.

It is our view that B – a Simple Variable Tariff is the most appropriate tariff offering at this point. We would however welcome the continued protection against negative pricing. We believe that more advanced tariffs (C,D,E) may emerge naturally over time. A simple variable tariff is well understood by the market.

⁴ <https://www.scottishrenewables.com/publications/low-carbon-gen-call-evidence/>

⁵ <https://www.scottishrenewables.com/publications/low-carbon-gen-call-evidence/>

We do however note that in option B the supplier takes market risk and will recover this through pricing in a margin. We are concerned that this could erode value for generators. Option E presents least risk to the supplier, thus presumably a lower risk margin potentially leading to maximum returns for the generator.

We would encourage government to allow suppliers to innovate in the types of offering they will bring to market.

4. Do you agree that Government should not take a role in price setting, e.g. through a fixed discount against a 'wholesale price', as this would detract from the objective of the SEG, for example by reducing location and time specific price signals?

While we understand the position of government is to let market participants set the SEG rates, we do caution that the price-point of tariffs will drive participation. We would at the least welcome protection from negative pricing.

We do not expect SEG rates to replace tariffs previously available and therefore do not expect quantities of generation to be encouraged. This is disappointing.

Again, we have concerns about what additionality the SEG offers compared to allowing the market to develop without government intervention.

5. Should the SEG have a fixed end date or not? Please provide justification for your answer.

Experience with the Feed-in Tariff has shown that markets can be severely damaged when mechanisms come to an end if this is not well-foreseen and understood by all participants. We would welcome an approach where SEG reviews were committed to in advance, such as is happening with EMR.

As stated above, we expect the development of this market to occur naturally and in a market-led scenario we would however question how an end date would operate in practice.

6. Will the SEG allow the market to innovate and bring forward additional routes to market, and create a competitive market to provide generators with the best tariffs?

We are already seeing innovation in the energy supply market, where new tariffs and packages are coming forward. Tariffs and consumer packages may well continue to develop alongside the SEG, though we question whether this will happen naturally in time

alongside the increased penetration of EVs, household storage and other emerging technologies.

We are extremely doubtful that the SEG will bring forward additional routes to market for small-scale renewable generation beyond rooftop solar PV.

We are additionally concerned that the SEG could prove a market distortion that prevents new offerings materialising. SEG providers should be allowed therefore sufficient freedom to innovate, for example, through introducing tariffs which are technology or location specific. We would expect these tariffs to come with supplier-set eligibility requirements, such as in the PPA market.

- 7. We are aware that whilst segments of the small-scale sector (e.g. commercial rooftop PV) are able to deploy without direct support, others, particularly some of the less mature technologies and more complex community developed schemes are still often marginal at best in delivering commercial returns. Do the proposed arrangements create additional challenges for certain segments, e.g. through reducing access to finance, and how can these be effectively mitigated through the SEG?**

The SEG proposals deliver no assurances for the majority of technologies formerly supported by the Feed-in-Tariff.

While innovative technologies and energy systems are still developing (thus requiring more risk to be priced into projects) other technologies such as hydro are well-established technologies. Small-scale renewable energy developments have a fundamentally different set of project economics to large scale sites, and cost reduction profiles will look different.

The SEG is an uncertain mechanism for these types of projects. Without a set timeframe and floor price we believe the SEG is too volatile to act as a route to market for these technologies.

One particular impact is on the availability and cost of debt finance. For even small projects of scale, debt financing is usually required. Various sets of affordability criteria are applied to lending – usually based on a floor price or discounted market projection. Income stream risk is factored in, and the more volatile this is over the length of a debt agreement, the higher the debt margin will be.

We therefore have considerable concerns that the SEG will significantly reduce the amount of debt available and increase the cost of that debt. We see a risk that these

additional costs would either prevent projects from going ahead or be passed onto consumers.

We would like to see the SEG designed to support suppliers in innovating and bringing forward new offerings – such as enhanced tariffs for green technologies or tariffs with long contract durations – appealing to different segments of the market and hopefully, in doing so, benefiting a variety of renewable generating technologies.

8. How long will it take for suppliers to put systems in place in order to administer the SEG, and what would the associated administrative costs of the SEG be? Please provide justification for your answer.

Suppliers already offer Power Purchase Agreements to generators which largely mirror what is offered through the SEG. We are concerned that the SEG will add an administrative burden to suppliers and through doing so risk eroding market value for the generator.

9. We would welcome views on whether the SEG can and should be linked to any similar mandatory communications requirements.

We note a dependency on smart meters for the SEG to reach its full potential. We would welcome join-up in that regard.

10. Do you agree that appropriate guidance on the administrative arrangements that suppliers will need to consider in order to set a SEG tariff should be issued? Please provide your reasoning.

We would support a level of consistency across the market so would welcome guidance.

11. What factors would suppliers consider when setting a SEG tariff, and what additional costs do suppliers expect might be incurred as a result of providing a SEG tariff?

Several factors will be considered, including but not limited to, the value of the exported electricity at any given time, the potential that electricity will be exported at the different times (i.e. periods of low demand and high generation) and the length of time for a minimum contract to allow for certainty of investment payback alongside administration costs.

For these reasons we believe that a supplier should be free to offer different SEG tariffs to different generators/exporters. For example, based on technology type, new or existing build, or ability to adjust output based on pricing signals.

If suppliers are required to offer a mandatory tariff to all exporters in the market, we would expect suppliers be free to price this accordingly (effectively able to price themselves out of the market) and to offer additional specific tariffs in addition to this.

12. Do you agree that an annual market condition report should be published for the SEG? Please provide your reasoning.

We believe it is important that policy levers are frequently reviewed to assess their effectiveness and that these review periods be set and well-communicated in advance. We believe an annual review may be useful for policy-makers though we expect it to be less useful for consumers. A comparison type website may be more useful for consumers, though again we would expect existing third-party comparators to move into this space in time.

Given we would expect to see tariff offerings like these emerge regardless of SEG legislation, it is important that any reviews do not act to stymie market activity.

Similarly, there is a balance to be struck between incentivising cost competitive offerings and developing a transparent market while allowing for commercially sensitive data to be held confidentially.

13. Do you agree with our assessment of the impacts of the SEG on certain consumer groups such as those in or at risk of fuel poverty or energy intensive industries?

We disagree with the analysis that for on-site generation and projects brought forward by community groups the “proposals for the SEG will ensure that a route to market remains available for projects of this type”. For reasons discussed elsewhere in this response, and set out in detail elsewhere⁶, we do not believe the SEG offers a route to market for the suite of small-scale renewable energy assets that these groups have benefited from.

14. Do you agree with the proposed metering requirements for the SEG? If you disagree with the proposal, please explain why and provide reasoning.

We agree that net rather than deemed metering is more practical.

⁶ <https://www.scottishrenewables.com/publications/consultation-response-call-evidence/>

Again, we note dependencies to the roll out of smart metering

15. Are non-SMETS stand-alone export meters, with an ability to record half-hourly export, currently available on the market? Please provide information on the costs for stand-alone export meters, such as capital and installation costs.

We believe that meters of this nature are available on the market. Along with the cost of the meter itself, we understand one concern to be the cost of associated communications infrastructure. While for domestic installations existing broadband connections may be used, for remote sites the cost of communications infrastructure could be more significant.

16. Do you agree that installations entering into the SEG should not be required to meet a certain energy efficiency standard? If you disagree with the proposal, please explain why and provide evidence.

We agree that by imposing standards the SEG is likely to become viable for only a particularly small pool of participants and that there are other avenues better suited to pursuing energy efficiency.

17. Do you agree it is the correct approach to allow applicants eligible for further local or regional support to also be potential SEG applicants?

Yes, we agree.

18. Where storage is co-located with an eligible generation technology, should SEG payments be made on 'brown' electricity exported from storage or limited to exported 'green' electricity? Please explain your reasoning.

Unless the SEG were to provide an enhancement over market price for green energy, we expect detailed metering arrangements to be largely unnecessary. However, an immediate concern is that some suppliers differentiate themselves in the market by offering 100% renewable tariffs. If the SEG were to mandate brown electricity exported from storage must be paid the SEG tariff, this could damage those suppliers positions.

We would therefore suggest that payments to brown generation could be optional for suppliers, or that the SEG incentivises suppliers to support renewable-based local energy systems, such as a battery unit coupled with renewable generation.

19. Do you agree with the metering arrangements when co-locating storage with generation technologies eligible for the SEG? If you disagree with the proposal, please explain why and provide reasoning.

We do not feel the proposed metering arrangements are particularly clearly stated within the document and would welcome more clarity.

20. If SEG payments were to be made on 'brown' electricity exported from a co-located storage device, are there any potential opportunities for gaming? If so, please provide details.

In line with the consultation proposals, it is our understanding that opportunities for gaming would be minimal.

21. Should the SEG make provision for installations where an eligible technology is co-located with a non-eligible technology and/or storage? If so, what would the necessary metering arrangements need to be?

Where the SEG does not seek to provide a market enhancement in recognition of green energy/carbon savings we would not expect metering arrangements to be a particular concern.

22. Do you agree or disagree that AD installations newly accredited under any future arrangements to support small-scale low-carbon generation should be subject to the same sustainability criteria and feedstock requirements as AD installations under the FIT? Please provide your reasoning

We agree that this would be appropriate.

23. Do you agree that the current FIT reporting requirements and administration process, including the arrangements for payment adjustment for ineligible electricity, would be appropriate and practical for the SEG? Please provide evidence for your answer.

While we would like to see consistency with the FIT reporting requirements, it is clear that the SEG is not a replacement FIT. Rather than supporting a suite of small-scale renewable energy technologies it is likely the initial uptake of a SEG will only be through a small number of consumers with rooftop PV. In order not to raise artificial barriers to market entry it is important that reporting requirements on SEG recipients are proportionate.

We do note that the FIT register and the MCS accreditation scheme have become key industry databases. In our view it is important that these continue, either integrating the SEG in some form, or that the SEG as a separate, publicly available reporting mechanism.

24. Do you agree with the proposed obligations and functions on each of the other parties involved in the SEG - BEIS, Ofgem, and suppliers - including the enforcement action required by suppliers and Ofgem? If not, why?

We broadly agree with these requirements.

25. Do you agree with the review process proposal for the SEG? If not, what alternative approach would you suggest?

See answer to question 12.

26. Do you agree that the threshold for mandatory SEG suppliers should be set at 250,000 or more domestic electricity customers? If not, what alternative threshold would you suggest? Please provide any useful information or evidence to support your suggestion.

We would welcome clarity on whether non-domestic only suppliers are able to voluntarily take on domestic consumer exports even if they do not hold a domestic supply licence. Whilst we would not want non-domestic suppliers to be mandated to take on domestic suppliers, making allowances for this to be offered voluntarily would drive competition and provide additional options for both supplier and exporter. This could also apply vice versa i.e. domestic suppliers voluntarily taking on non-domestic exports.

We would encourage the government to allow the SEG to be voluntary for non-domestic suppliers. Non-domestic suppliers tend to have smaller customer bases than domestic suppliers in comparison to market share (based on energy supplied) and this if they are required to offer a SEG this could be unduly onerous for a smaller customer base.

In addition, as the SEG is primarily aimed at a scale consistent with domestic supply portfolios, we believe that non-domestic suppliers should not be obligated to participate as the offering of services to domestic consumers is an entirely new concept to these suppliers. Instead we believe that non-domestic supplier should be given the option to volunteer for both the SEG scheme as a whole and the ability to offer export services under the SEG to domestic customers separately.

27. Do we need to set out arrangements for the event in which a supplier either loses its supplier licence or goes into administration? If so, what provisions need to be made?

We believe it is important to have the right protection in place for SEG participants.

28. Do you agree with our preferred approach to help ensure consumer protection? Is it practical and are there other factors that should be considered and why?

No comment.

29. This policy is focused on power generation, however increasingly we anticipate that installations will be integrated with battery and vehicle-to-grid technologies. What additional technical challenges might we need to consider, for example relating to installation standards, and how would this effect the development of the market?

Along with the deeper integration of electricity-based technologies at a household level it is also important to consider the decarbonisation of heat in the home – which may or may not be achieved through electricity generating technologies.

It is important that the SEG can relate to these suites of technologies in the round, and we agree that in doing so areas such as installation standards will increase in their importance.

30. Is the process for applying to the SEG practical, and will it ensure only eligible generators are able to participate in the SEG?

No comment.

31. Should deployment of installations through the SEG be submitted to a central register administered by Ofgem?

Yes. We strongly feel that a central register of installations should be kept, be frequently updated and be publicly accessible.

32. Are our proposals for the treatment of settlement practical for suppliers to implement, and compatible with the Balancing and Settlement Code? If not please explain why.

No comment.

33. Are there any other issues you would like to raise as part of your response to this consultation?

Please see opening letter.