

Energy UK Response to the BEIS Part B Consultation on the Smart Export Guarantee

24th May 2019

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Executive Summary

The proposed Smart Export Guarantee (SEG) comes at a transformative time for the energy sector. 2018 was another record breaking year in the power sector with the low carbon share of generation rising to an all-time high of 53%, technical strides being made in the electrification of transport and the continued cost reduction of low-carbon technologies. The Feed-In Tariffs (FIT) scheme is one of a host of Government policies that have been responsible for initiating the transition to a low-carbon grid by incentivising the uptake of small-scale low-carbon generation which has helped to drive down the cost of these technologies. It is important that the move from the FIT scheme to the SEG is recognised as a transition from a subsidy-based scheme to a market-based scheme. It should also be acknowledged that for larger generators there already exists a competitive export market through Power Purchase Agreements (PPAs).

The need for the timely implementation of an alternative to the FIT Scheme

Energy UK continues to support the transition to a smarter, more flexible, low-carbon energy system and accepts the move from Government to create a route to market for small-scale low-carbon electricity through the SEG. In both our responses to the 2018 Government consultation on the FIT scheme and the initial consultation on the SEG, we warned that a hiatus between the closure of the FIT and introduction of a replacement would remove any framework for reimbursement and/or incentives, potentially leading to significant associated impacts on deployment and supply chains. Therefore, we continue to call for the timely implementation of an alternative to the FIT scheme.

However, given the current complexity of the SEG design, we believe that the proposed final deadline for implementation of end-2019 is unrealistic. The need to publish the Government's full consultation response, associated scheme guidance (including the SEG order), and the need to introduce new licence conditions all have associated timescales. Industry will need to have time to respond to those documents as they are published, as well as manage the introduction of a new scheme in existing, busy change management processes. Taking this into account, introducing a complex SEG in the proposed timeframe is infeasible.

We are concerned that the SEG, as currently proposed, is overly complex

In our response to the January consultation on the SEG, we suggested that the scheme could be delivered through a simple licence condition that would require all suppliers to 'offer, when requested, export terms to all customers where that customer is smart enabled'. We strongly believe that government should follow this approach to limit barriers to supplier involvement. At a time when the joint Ofgem and BEIS Future Retail Market Design programme is actively considering the role of obligations and thresholds and whether they distort and hold back market development, it would seem counter-intuitive to introduce a complex mechanism that requires these interventions^[1].

Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

I can confirm that this response may be published on the Department's website.

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Response to Questions

1. The government welcomes any comments on the proposed new licence conditions attached at the end of this consultation, which are required to implement the Smart Export Guarantee.

Energy UK agrees that the policy intent of the SEG should be to promote low-carbon small-scale electricity, however, we believe that the licence conditions, in their current form, lack detail on the issue of identifying an eligible low-carbon energy source. We propose that more detail is provided in the licence conditions on the issue of co-location with storage and on determining eligible low-carbon generation. Fundamentally, requiring suppliers to differentiate between 'green' and 'brown' power appears to be a disproportionate measure for domestic households, where there is little incentive or means to 'cycle' electricity for financial gain. In line with the policy intent, we would propose a threshold over which differentiating between green and brown power should be required, in order to deliver on the low-carbon focus, eliminate the opportunity for material scheme abuse and reduce the administrative burden on Generators. This approach would have the added benefit of allowing Licensees to offer higher value tariffs to Generators by removing some pass-through costs.

We are not satisfied with the level of clarity on whether SEG Licensees are expected to fully settle export generation in line with the Balancing and Settlement Code (BSC). The text included in the "definitions and interpretations" section of Schedule A, "*Export...which is accounted for in accordance with the Balancing and Settlement Code...*" is not definitive. We note that FIT Licensees are not expected to settle export, given the low level of FIT volumes, and suggest the same approach is adopted for the SEG scheme. We are concerned that introducing additional steps for SEG Licensees will ultimately affect the value of tariffs that can be offered to SEG Generators.

We welcome the flexibility that the current drafting of the licence conditions provides SEG Licensees in regards to switching, termination rights and change of ownership. It is important that the Licensee is able to define these terms in any SEG product according to its own business model. We also welcome licence condition 6.3, which details the duty of the SEG Licensee in ensuring these terms are clearly communicated and understood by the Generator. We are satisfied that the current drafting ensures that both parties to the contract are protected, which is key to delivering a successful SEG.

¹ Bristol Energy agree with the position in the consultation that there should be a threshold of 150,000 on the supplier obligation.

2. The government welcomes views on this proposed approach to sustainability requirements.

Energy UK agrees with the proposed sustainability requirements. The policy intent of the SEG is to create a route to market for small-scale low-carbon electricity, therefore, Anaerobic Digestion (AD) installations applying for the SEG should be subject to the same sustainability and feedstock requirements as AD installations under the FIT to ensure that carbon emissions are reduced and the biomass is sourced sustainably.

We mentioned in our response to the initial SEG consultation in March 2019 that we do not believe that suppliers should be required to carry out verification of the accreditation requirements. A requirement to make decision on AD composition, battery chemistry and wider installation details would add another layer of complexity to the scheme. As such, we welcome the proposal for AD generators to evidence that they have met the relevant sustainability requirements and feedstock restrictions by adhering to the Authority's administrative arrangements for these restrictions.

3. The government welcomes views on this proposed approach to a SEG register.

In our response to the initial consultation in March 2019 we saw no reason for the implementation of a central register to hold the details of installations receiving SEG tariffs. We pointed out that a central register would be incomplete as those installations that were in receipt of an export tariff/terms 'outside' of the SEG scheme would not be registered.

Energy UK recognises the potential for abuse of the SEG scheme by generators who may apply for terms with more than one supplier. Whilst the duplication of payments is a possible issue, the risk is outweighed by the complexity and cost involved in the creation and maintenance of a SEG register. We believe the onus should be on the Generator to self-declare that they are claiming payments from any supplier whether through a SEG tariff or a non-SEG tariff. Licensees should then be able to stipulate within contract terms that evidence of duplicate payments can lead to penalties such as immediate termination of a contract.

There is an industry concern that an onerous level of reporting to the Authority would risk recreating the administrative burden of the FIT scheme. If reporting is to be introduced, we would welcome detail on the regularity, level of detail and consequences of failure to report. The creation of the SEG should be seen as an opportunity to implement modern, streamlined policy that limits the impact on supplier operations and allows for future market developments. Ultimately the SEG should be seen as commercial contracts between the SEG Licensee and the SEG Generator and, therefore, the key will lie in clear terms and conditions and penalties for failing to adhere to the contract.

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