24/05/2019

REA Response to the BEIS Consultation on the Smart Export Guarantee 'Part B' – Modifications to the Electricity Supply Licence Conditions

Deadline: 27th May 2019
This 'Part B' consultation seeks views on the modifications to electricity supply licence conditions which would be required to introduce the Smart Export Guarantee (BEIS's preferred method if enacting the SEG).
Covers England, Scotland and Wales
Email any direct responses to: futureofsmallscalesupport@beis.gov.uk

Introduction and Context

The design of a replacement for the FIT scheme to support the smaller scale renewables sector is vital for decarbonising the UK energy sector and transitioning to a smarter, more flexible energy system, cost-effectively. It comes, though, with a set of inherent, complex choices to be made.

We welcome decisions to introduce a metered and settled Smart Export Guarantee scheme, with obligations applying to suppliers with over 150,000 domestic consumers, although have further recommendations to the scheme which would aid in supporting reaching our 2020 renewable energy targets and improving the resilience and flexibility of our energy system through decentralised energy.

We cannot stress enough that the grid charging reviews, as part of the TCR (Targeted Charging Review) and Access and Forward looking charges processes, are absolutely critical to the development of a successful industry and will loom large over the SEG - so it is vital that these support flexible, low carbon generation. The results of the grid charging review must not become a barrier to market, for if they do, the SEG will become purely academic in terms of its effectiveness.

The price per kWh and length of SEG contracts is critical to the market. While the REA is supportive of the innovative and progressive work of the challenger suppliers to open up the market and innovate, it is the majority REA view that without a suitable minimum price/linked index and contract length then SEG tariffs will not deliver a route to market and are no better for generators, financiers and developers than trying to negotiate a PPA contract, which any project can already do and are not sufficient to deliver considerable additional capacity.

Given the pace and scope of change in the market, there could be scope for a form of derogations for supply companies if they can be proven to be offering innovative, flexible generator offerings that are in effect commensurate to or better

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than, the SEG minimum terms we are proposing to support for generator certainty. As outlined below, nothing in our proposals should prevent suppliers innovating and delivering new options which go further than the minimum standards as we know that challenger suppliers in particular have huge value to offer in this space and future market developments. Please see our response to the initial BEIS consultation on the SEG proposals for more details on what the decentralised energy industry requires from the SEG.

REA Priorities for a Smart Export Guarantee:

1. Suppliers should offer SEG tariffs as soon as practically possible, before the end of 2019 at the latest;
2. Index linked minimum price at a fair market rate – linked to system imbalance price – 90% of this price would be optimum;
3. Minimum contract length of 10 years;
4. Include standalone energy storage devices in the eligible technologies to increase system flexibility, in addition to Vehicle-to-Grid technologies.

Details on REA Priorities

The price to be paid for power in the SEG tariffs is paramount for all parties, especially in the light of ever changing grid charging frameworks, for example through the TCR and Access and Forward looking charges reviews, which must be reformed in such a way as to enable rather than block renewable and innovative solutions. The choice is as follows:

- On the one hand the Government must maintain momentum in terms of renewable power generation as our overall 2020 renewable energy target remains at risk (which can be met by increased renewable power capacity), and safeguard the thousands of jobs in the small scale industry - an RECC/REA Survey last year showed there could be 6,000 jobs at risk. The drivers of this and requirements for leveraging project financing while not adding to consumer bills call for an index-linked tariff of fixed duration.
- On the other hand, supply companies may simply put up energy prices if faced with a scheme that does not reflect their costs, defeating the policy aim of a mechanism designed to have no net-impact on energy bills. Innovative challenger supplier brands are ready to offer competitive rates and their capacity for innovation to benefit this nascent prosumer market space is considerable, which must be unlocked rather than stifled (albeit not all suppliers will take a similar approach).

On balance, after considering all of these factors, the majority view of the REA is for some minimum requirements regarding price and term.

- The SEG must tackle the concern front and centre regarding enabling new renewable generation capacity from the outset and this is most effectively done by offering terms that projects can use to secure project financing. This requires:

  - mandating as a minimum index-linked SEG tariffs – which should be linked to a percentage (c.90%) of the System Imbalance Price, as reflective of the actual value of power to the market at any one time, averaged over a month and paid quarterly on exported power; and
  - a fixed term of 10 years (with the scope for suppliers to offer longer terms).
- Fixed term contracts are necessary for generators, developers and financiers to enable project financing of new projects, of a minimum of 7 to 10 years, again with suppliers free to offer longer term tariffs should they wish. This is essential both for consumer clarity at the small scale, and providing a basis for investment at the 50 kW to 5MW scale. Payments should be made on a quarterly basis rather than monthly, to minimise supplier and generator administration and costs. Again, our finance, developer and generator members inform us that this is essential for financing new projects.
- The SEG must encourage flexibility in the energy system. Standalone as well as co-located energy storage projects should be eligible for a SEG tariff, in addition to Vehicle to Grid (V2G) units. This could be achieved by altering the list of SEG-eligible technologies.

Consultation Questions

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

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

The REA agrees with the proposed sustainability and feedstock requirements for anaerobic digestion technologies.

Clarification is requested from government around its intention to align sustainability requirement with those set out in RED II (which are to be brought by EU member states into national regulations by June 2021). Specifically on:

  - Whether government intends to set the same sustainability requirements across electricity, heat and transport, but with differing GHG emission targets depending on the energy sector (electricity, heat and transport) and; depending on the initial operating date of the plant?

- o Whether should new requirements be put in place, existing AD plants would be grandfathered?

The REA also recommends that the eligibility criteria includes RECC certification (or equivalent), in addition to MCS (for <50kW installations).

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

Member comments sought

Additional Points

1. SEG-eligible projects should also be able to choose between the SEG and CfD mechanisms at a TIC between 50kW and 5MW. To be clear, we are calling for this in terms of such projects accessing the existing CfD budget, *we are not calling for added resources from the Control on Low Carbon Levies*. This would only require a change to the CfD eligibility regulations. An added advantage to the CfD scheme would be an increase in competitive tension in the CfD auction mechanism as more capacity enters each allocation round;
2. There should be a choice for existing FiT projects to transfer from the FiT export rate to a SEG tariff if they would like to. This could be a one-way 'gate' allowing one switch only. This would also have the benefit of providing an informal indicator of the market's view of the SEG tariffs on offer. The very onerous mechanism to access this payment must also be made more efficient by allowing self-declaration (like the FiT scheme), but with meter numbers registered with Ofgem so they can be checked.
3. There is a strong case for a separate support mechanism for the community renewable energy sector, who face unique constraints and challenges in developing projects, and introduce wider social value in addition to economic value. Please see Community Energy England's consultation response for more detail on this.