

SMART EXPORT GUARANTEE (SEG)

How does the proposed SEG scheme shape up compared with the FIT scheme and how will it impact on the market?

Supplier mandate

Like FIT, the SEG scheme will mandate suppliers with more than 250,000 customers, with smaller suppliers free to opt-in voluntarily. Whereas under FIT the mandate was an obligation to make payments to eligible FIT generators, with the SEG the mandate is simply to offer a tariff.

Technology size and class

No change here; SEG will apply to anaerobic digestion, hydro, micro-combined heat and power, onshore wind and solar PV, providing not exceeding 5MW. However, SEG will likely allow co-location with storage technology.

Price

This is the key difference. The FIT scheme incorporated both export and generation tariffs, with the generation tariff set by BEIS at a fixed flat rate based on quarterly digression. In contrast, the SEG tariff – and each supplier must offer at least one – will be export only, with complete freedom for the supplier to set the price. This means that prosumers generating for own-consumption, with no or minimal metered exports, will not benefit from the SEG. It also means that, whilst generators will not need to pay during times of negative pricing (as with CfDs, for example), without further regulatory intervention suppliers could theoretically offer a tariff below the real value of power in order to meet their obligations.

Term

Whereas the FIT scheme guaranteed subsidy payments for 15 years, the SEG will not mandate suppliers to offer their tariff(s) for any specific length of time. This will be a crucial point for funders, as it seems that suppliers will not be required to provide fixed or long-term PPAs, which may not help in the financing of schemes.

Route to market

There is a final point worth making, which is that deployment caps under FIT limited the level of capacity that could receive a particular tariff rate in a specified tariff period. This could really bite, as FIT generators could find themselves ready to operate without the benefit of a FIT revenue if deployment caps were reached at the time of their application for accreditation. Ofgem's recent announcement that 16 MW of projects in the 50 kW capacity band have breached the deployment cap is a case in point. This news became particularly problematic for those generators who had not been pre-accredited at the time the FIT scheme closed (for example, roughly 77 solar and wind projects – circa 53MW – were unlikely to be able to secure a FIT prior to the scheme's closure).

Under the SEG scheme, small low-carbon generators will have a guaranteed route to market, although lack of certainty over price and tenor as outlined above may outweigh any perceived benefit here.

So what impact will SEG have on the market?

This is difficult to judge right now, not least because of the lack of revenue certainty the scheme offers developers. However, when it comes to uptake and effectiveness of low-carbon generation in fostering a smarter and more flexible energy market, other factors are at play. These are likely to influence the extent to which the SEG can deliver on BEIS's objectives.

Time of Use Tariffs

First, the FIT scheme's flat tariff did not incentivise time-efficient consumption of electricity, nor facilitate an interaction with a flexible energy system. The idea with the SEG is for suppliers and generators to work together to develop more innovative and cost effective pricing options, and more accurately match variable supply and demand profiles through time of use tariffs. However, this requires the adoption of market-wide half-hourly settlement – and Ofgem's decision on this is not expected until the second half of 2019 followed by an implementation process – and also for the smart meter roll out to be completed. Until then, the SEG alone will likely fall short of enabling a transition to smart, competitive and cost-reflective export tariffs.

Smart meters

Second, as SEG payments are based on export volumes, exports will need to be accurately metered at half-hourly levels. The SEG will mandate the use of smart meters so as to provide granular export volumes to suppliers,

yet there is still some way to go before the smart meter roll out is fully completed. Furthermore, technical changes are required, particularly to SMETS1 meters already installed in overcoming current interoperability issues when a customer switches suppliers.

Battery storage

Third, the consultation sought views on whether SEG payments should only be made on the 'green power' component (i.e. where the storage device was charged from low-carbon generation) or also made on the 'brown power' component (i.e. where electricity was imported from the grid). In any event, the feasibility of battery storage for energy arbitrage will likely be low until such time as the capital cost of battery storage decreases.

DSO and DERs

Finally, with the transition from DNO to DSO role, active management of the distribution networks is becoming increasingly relevant. National Grid's procurement of balancing services from distributed energy resources (DERs) – for example through the Power Potential project – will see an increasing role for DERs in displacing network reinforcement. Although this will help reduce costs for end-consumers in the long term, the implementation of such services by DERs is still in its infancy, and the SEG alone is not likely to cause an immediate increase in DERs.

So is the SEG taking us in the right direction?

Where the FIT scheme succeeded was to help foster behavioral change and incentivise the development and deployment of small-scale low-carbon generation, particularly at a time when technology costs were high. Now we've seen a significant drop in technology costs and increased economies of scale over the last decade, it is probably right to move away from a highly regulated scheme and leave the market to develop solutions which are more appropriate and cost-effective to achieving a smarter and more flexible energy system.

However, if we are to see meaningful investment to support continued deployment at the smaller end of the market, the other pieces in the smart grid "jigsaw" must first fall into place. The SEG in its current proposed form may not be enough on its own.

Although BEIS has yet to report back on the outcome of its consultation, the market

waits for no-one, and it is encouraging to see recent announcements from the likes of Octopus Energy, E.On and Bulb heralding the arrival of a new breed of SEG products. And these are tariffs at rates higher than, or equivalent to, the now closed FIT. Positive signs for those sceptics who await with trepidation of BEIS' post-consultation recommendations on the SEG.



For more information, please contact

Chandni Ruparelia

chandni.ruparelia@shma.co.uk
+44 (0)207 264 4475
+44 (0)7946 472813

or a member of the energy team at Shakespeare Martineau LLP.