



Future of Small-Scale Support Team,
Department for Business, Energy and Industrial Strategy,
3rd Floor Spur,
1 Victoria Street,
London,
SW1H 0ET

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The future for small-scale low carbon generation: part B - response

The British Hydropower Association [BHA] is the leading trade membership association with around 260 members, that solely represents the interests of the UK hydropower industry [from micro to large-scale, including pumped storage hydro and tidal energy] and its associated stakeholders in the wider community, both in the UK and overseas.

1 Background

In January 2019 the UK Government issued a consultation on the future of small-scale low carbon generation termed the Smart Export Guarantee [SEG]. This scheme obliges the larger electricity suppliers to offer an export tariff which must be greater than zero other than at times of negative wholesale pricing [when the tariff may be zero but not negative].

We are grateful for the opportunity to now respond to this 'Part B' consultation which seeks our views on the modifications to electricity supply licence conditions which would be required to introduce the Smart Export Guarantee.

The BHA has no further detailed comments to make on the Part B' consultation other than to reiterate our original views and concerns which are detailed as follows -

2 BHA proposal

The scheme, whilst not a replacement for the Feed in Tariff, has some merits in that it provides a route to market for small renewable energy generation. However in the form proposed, where suppliers have total control over the level of the tariff offered, this is effectively the 'Zero Hours' contract of renewable electricity generators.

The scheme could be modified to provide a guarantee of a fair distribution of the costs of energy delivered to the consumer.

Ofgem uses the Standard Variable Tariff [SVT], the tariff that is charged to consumers who have not entered into any fixed price contract with their Supplier, as the benchmark for measuring the cost of energy to consumers. The modification to the SEG the BHA proposes uses the SVT as a similar benchmark to ensure a fair proportion of the energy costs charged to consumers is passed on to small scale renewable generators.

At the present time the SVT charged to consumers is a fixed price per kWh independent of time of day. There is no incentive built into the SEG for suppliers to reduce the tariff offered to consumers or promote the use of improvements in metering to decrease consumer bills. In addition a number of major and minor suppliers offer tariffs to the consumer which promises the delivery of 100% renewable energy. These tariffs are typically at a premium cost to the consumer but rarely pass that benefit on to the generators.

The proposed BHA modification to the SEG would require all suppliers who are mandated to enter, or voluntarily enter, the SEG to provide a fair proportion of the SVT to the generator.

The SEG should be modified such that a fixed percentage of the suppliers SVT is paid to the generator. This proportion should initially be determined from the data held by Ofgem on the costs of operating distribution, transmission and marketing of energy. The proportion should be fixed on the SVT paid by consumers, independent of the standing [daily] charges. The generator also paying standing charges for connection as currently.

Whilst initially the scheme should be a flat rate dependant only on the SVT [which is not time dependant] charged to consumers, it could be extended to allow for a Standard Smart Variable Tariff [SSVT] when a significant proportion of consumers are connected with smart metering.

A study would be required to determine what a fair proportion would be and should take into account a reasonable amount for administration costs of the scheme and profit for the suppliers.

Whilst not a guarantee of a specific revenue to renewable energy schemes fixing the proportion of the SVT payable to generators would provide a significant degree of certainty in revenue which is financeable. It would also provide an incentive to suppliers to reduce the SVT in the knowledge that their costs would similarly reduce, resulting in a potential to reduce fuel poverty particularly for those consumers on SVTs.

Simply put, if the suppliers wish to pay less for renewable energy then they must pass this saving on to the consumer through a reduction in the SVT. Conversely if generators wish to increase their revenue they must move their PPA to suppliers who charge a higher SVT.

As suppliers increase the number of smart meters installed in consumers premises and at generator locations, the scheme would automatically reward generators for production at peak periods and provide a disincentive to generate at low [or negative] price periods. Similarly it would incentivise suppliers to improve the roll out of Smart Metering to consumers as they would see a reduction in the risks of purchasing renewable energy on a non-time dependant basis.

The scheme achieves the Government's aim of not subsidising the production of renewable energy and not mandating the price paid for renewable energy. But it does provide a more predictable revenue stream, a guaranteed access to the market, and a strong incentive to both Suppliers and Generators

3 Specific observations on the SEG

Small-scale renewable hydropower generation can offer the UK a range of benefits, from supporting the transition to a smart and flexible energy system to delivering socio-economic benefits to communities and consumers across the UK.

The future for the hydropower sector is deeply uncertain, principally due to the prolonged uncertainty surrounding the closure of the Feed-in Tariff, and the proposed Smart Export Guarantee (SEG) does very little to address the hydropower sector's concerns around its future role 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 anticipate that this will continue.

However we are very disappointed not to see the emergence of a mechanism to provide a viable route to market for small-scale hydropower.

4 Principle concerns

1. That the SEG is not currently 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 Budgets.
2. That SEG is only an effective support for a small segment of the market – some rooftop solar PV development and little else. This is such a narrow focus, and the lack of ambition to utilise the SEG to bring forward new hydropower generation, is very disappointing.
3. As the SEG is a highly complex and administratively-heavy mechanism, we believe this will further limit any take-up and therefore the number of participants.
4. The SEG model is not a commercially viable model for community projects or small-scale commercial hydropower projects. Both these rely on long-term contract visibility to secure project finance and a floor-price for revenue and neither of these are offered by the SEG, which exposes participants to market volatility.
5. We are disappointed that government is moving away from supporting these technologies at a time where network charging reform is imposing significant cost increases on small-scale hydropower generation.
6. Policy uncertainty is creating stagnation in projects, and wider economic issues are hampering further development.

7. The SEG will only be viable if it is priced appropriately and we are concerned that the 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 hydropower development.
8. Additionally, we expect 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 required for a flexible energy system.

The answers to each of the consultation questions accompany this covering letter

Yours sincerely,

Simon Hamlyn

**Chief Executive Officer
British Hydropower Association**