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BRIEFING PAPER

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Support for small scale renewables

By Suzanna Hinson

Summary

- **A Smart Export Guarantee (SEG) for renewable generators began on 1 January 2020.**
- **This new scheme replaces the feed-in tariffs (FIT) which closed to new customers at the end of March 2019. Both schemes involve payments from suppliers to generators.**
- **The FIT scheme resulted in 6.3 GW of new capacity, but will cost £30 billion.**
- **The SEG is intended to create a market for renewable exports, but stakeholders are concerned that prices may not be high enough to deliver new renewables.**
- **This briefing explains both schemes and summarises commentary on the change.**

Background

The Government supports renewable power in line with meeting its targets on decarbonisation; electricity generation accounts for over 20% of UK greenhouse gas emissions. The Government have justified intervention in electricity generation by saying that historically, market incentives have not been sufficient to meet the UK's climate change commitments, and that a route to market is still needed.

History of support: Feed-in tariffs

In 2010, the then Government introduced the feed-in tariff (FIT) scheme to promote the uptake of renewables. Technologies supported included solar PV and wind turbines, and the scale ranged from small rooftop installations, to up to 5MW; the equivalent of an 18,000 panel solar farm. Participants in the scheme received three benefits:

- **Generation tariff -** payment from electricity supplier for units of power generated.
- **Export tariff -** payment from supplier for any surplus units of generated power that instead of being consumed on site, are exported to the grid.
- **Possible lower electricity bills -** as producers consume their generated power.

Closure of feed-in tariffs

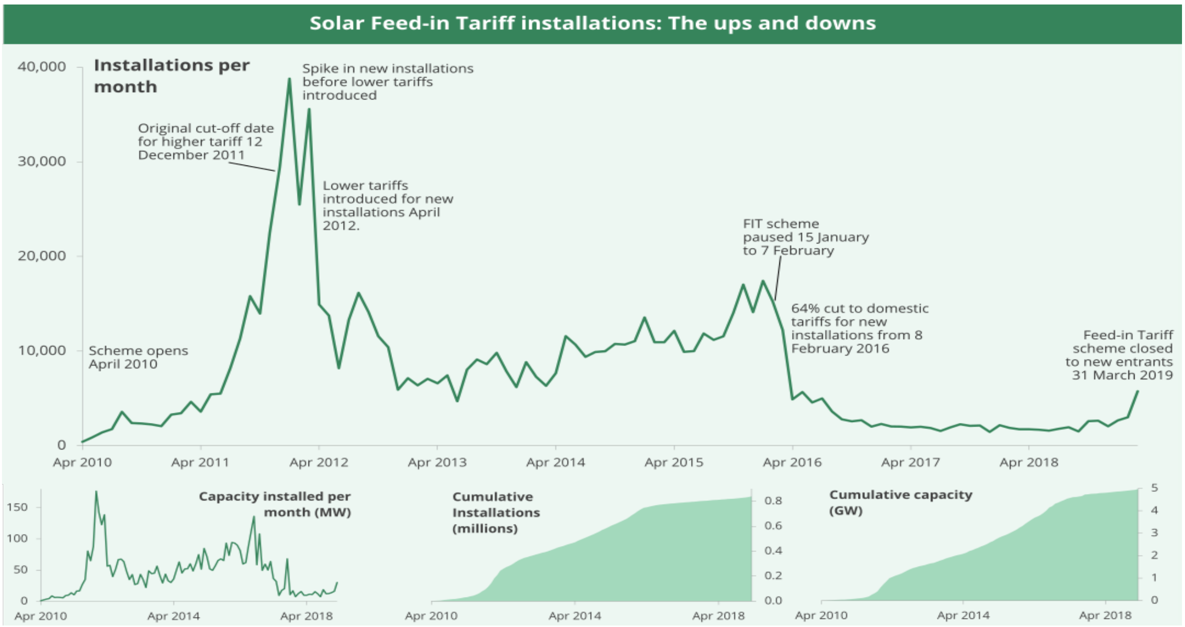
As part of their 2015 feed-in tariff review, the May Government announced that the **generation tariff** aspect of FITs would close in March 2019. Following a 2018 consultation, the Government announced that the **export tariff** would also close as "it does not align with the wider government objectives to move towards market-based solutions, cost reflective pricing and the continued drive to minimise support costs on consumers". The changes only impact new installations after the end of March 2019; existing installations will continue to be paid as usual.

Analysis of success of the scheme

FITs resulted in 6.2GW of installed capacity over the 9 years of the scheme, almost double the 3.2GW expected from the Hinkley Point C nuclear plant (though note capacity is not the same as actual generation). There were a total of 849,109 installations, mostly solar; far more than the 750,000 installations by 2020 expected in the original impact assessment. High uptake of FITs led to higher costs; the Government say the scheme has cost £6 billion so far and will total £30 billion over the scheme's life. High uptake also resulted in the tariff levels being cut several times. The impact on solar installations is shown below. Solar installations in May 2019, after the closure of FITs, were down 21% compared to May 2018 when FITs was still open, although this fall may be partly due to projects being accelerated to meet the March deadline.

FIT Key Points

- 849,109 installations
- 6.2GW of installed capacity
- £30 billion total cost



Source: Monthly Central Feed-in Tariff register statistics, DBEIS

Smart Export Guarantee

Closing the FIT scheme meant not only that there are no subsidies for installing small-scale renewables, but that those that did install renewables would be exporting any surplus power to the grid for free. Following industry concern about this issue, on 8 January 2019 the Government published a consultation on proposals for a replacement to the export tariff element of the FIT, known as a 'Smart export guarantee' (SEG).

On 10 June 2019, the Government announced the new SEG would be introduced in GB from 1 January 2020. The Government justified the proposal saying an "underdeveloped private market" is a significant barrier and issues such as some generators not having "required information or commercial expertise to negotiate private contacts" means that "without intervention it is unlikely that competition with larger generators will take place on a level playing field". Now in operation, the key points of the new scheme are:

- Electricity suppliers must offer a tariff for the surplus power that renewable generators export to the grid;

- Available for technologies up to a capacity of 5MW, including solar PV, hydro, wind, and anaerobic digestion (subject to sustainable feedstock criteria);
- Suppliers with more than 150,000 domestic customers must offer tariffs as part of the SEG;
- Suppliers can set their own tariffs, so long as they offer generators more than £0;
- Exported power must be metered, with a meter capable of reporting exports on a half hourly basis (FIT payments could be unmetered and paid based on estimates).

The Solar Trade Association (an industry trade body) have produced a 'League table' showing the tariffs different suppliers are offering. There are two types of rates; fixed or variable, the latter meaning the value ranges based on the time of day the electricity is exported, and the demand for electricity at that time. According to the table, some suppliers are offering tariffs at or slightly above the level of the export tariff under the FIT scheme – 5.38p/kWh (correct as of January 2020).

FIT vs SEG payments: key differences

Both the FIT and SEG require electricity suppliers to make payments to eligible generators. Key differences between the schemes include:

1) SEG payments are only for export rather than for generation and export under FIT;
2) rather than the tariff level being set by the regulator Ofgem under FIT, under SEG suppliers can set their own value for the export payments, so long as it is more that £0;
3) SEG payments must be based on half-hourly meter readings, rather than estimates under FIT;
4) more suppliers are obligated; under FIT participation was only mandatory for suppliers with at least 250,000 customers, SEG is at least 150,000.

Commentary on the SEG

Government view

The Government has raised concerns about the costs to consumers of the FIT scheme, especially as costs of technologies have fallen. A January 2019 press release on SEG said:

> With the cost of solar falling by 80% since 2008, it's the right time to review the way these payments are made- with the scheme currently costing consumers approximately £1.2 billion a year.

The Government continued that "the new scheme could create a whole new market, encouraging suppliers to competitively bid for this electricity, giving exporters the best market price while providing the local grid with more clean, green energy, unlocking greater choice and control for solar households over buying and selling electricity".

Industry view

A key question from industry was whether the replacement scheme would improve the financial argument for businesses, schools, and households to install renewables. The Solar Trade Association said they were concerned about fair export prices being offered in a market where a price cap is in force to ensure a fair supply price for customers, and that Government intervention on minimum export prices may also be necessary.

Other concerns reportedly raised by stakeholders, included the gap between the FIT scheme ending in March 2019 and the SEG scheme launch in January 2020, during which time new generators were exporting to the grid for free. However, some suppliers have offered export tariffs since the closure of the FITs.

Parliamentary comment

On 11 June 2019, a number of parliamentary questions were asked about the SEG. Clive Lewis MP criticized the new scheme, along with changes to solar VAT:

> Only this Government could dress up a 94% collapse in domestic solar installations as a success. They now plan to slap 20% VAT on solar and storage and to replace the certainty of the feed-in tariff export payments with a lick-and-a-promise scheme with no certain payment rates and no guaranteed periods.

The Minister Chris Skidmore MP responded:

> March was a record month for installations in the last two years, as we saw a rush for applications before the scheme closed. We had a question earlier about fuel poverty, and the point about the feed-in tariff is that, although it was important at the time and helped 850,000 people to use solar panels on their households, it was going to cost £30 billion, which would mean an average of £14 on every single household's bill. We must now look into moving forward so that we can take a locally adopted position and ensure that we can generate a market.

Since the SEG began in January 2020, the Government has said the scheme has been successful in bringing forward tariffs, but that it would be kept under review:

> The SEG has been successful in bringing forward a range of competitive offerings to the market. Renewable generators now have several tariffs to choose from, in some cases even higher than the FIT export tariff.
>
> The Government will continue to monitor the types of export tariffs being offered to small generators to assess the development of the small-scale low-carbon export market. The Government will keep the operation of SEG under review.

Next steps

The May Government amended the *Climate Change Act 2008* to include a target for net-zero emissions by 2050. When recommending this target, the Committee on Climate Change said that decarbonising electricity would require increasing the share of low-carbon power from 50% today to 95% in 2050. The SEG impact assessment predicts it will deliver only 12.5 MW per year until 2026. While the SEG is not the only Government support for low carbon power, there may be calls for more support for renewable power in light of the net-zero target.