

Background on the Smart Export Guarantee

Following the closure of the Feed-in Tariff (FiT) scheme to new generation on 31 March 2019, the UK has seen a sharp drop in residential and commercial solar (PV) panel installations. In order to revive the sector, following an industry consultation,¹ the government announced that it intends to implement a new replacement scheme, named the Smart Export Guarantee (SEG), intended to enable anaerobic digestion, hydro, micro-combined heat and power (with an electrical capacity of 50kW or less), onshore wind and solar photovoltaic exporters with up to 5MW capacity to receive payments for exported electricity.

The SEG will be implemented through new secondary legislation (the Smart Export Guarantee Order 2019) and by modifications to conditions of Electricity Supply Licences² using primary powers under the Energy Act 2008. The Smart Export Guarantee Order 2019 was made on 9 June 2019 and mainly comes into force on 1 October 2019 to introduce the SEG scheme, which commences on 1 January 2020. Customers who have already signed up to the FiT scheme before 31 March 2019 will continue to receive FiT payments and will not be obliged to switch to the SEG scheme once it comes into play.

Key Takeaways From the Government's SEG Response

The key takeaways from the government's response to the SEG consultation are:

- Licensed electricity suppliers with more than 150,000 domestic customers (which includes more than 90% of the retail market)³ will be required to provide at least one tariff offer to any eligible exporter (although they will be free to offer more than one tariff); other electricity suppliers may participate on a voluntary basis.
- There will not be any specified minimum tariff rate, other than that a supplier must provide payment greater than zero at all times of export.
- Electricity suppliers will be free to choose the form of tariff they offer – provided they meet the requirements of the SEG; suppliers could, therefore, offer flat rate or time-variable tariffs, or smart tariffs of their own design.
- The date when all relevant electricity suppliers will need to be compliant with SEG requirements is expected to be 31 December 2019.



- The obligation under the SEG will apply to low-carbon electricity exporters; however, the government recognises that smart systems may take various forms and the SEG will, therefore, provide suppliers with the flexibility to purchase power from more complex systems, including small-scale storage and other forms of generation, if they choose to do so (and provided they are co-located with a SEG installation).
- There will not be a central register of SEG installations, on the grounds that it would create additional burdens while offering limited benefits.
- Electricity suppliers will need to obtain from exporters evidence that their installation is certified to the Microgeneration Certification Scheme, or equivalent standards.⁴

It is envisaged that Ofgem will issue guidance for electricity suppliers in the run up to the SEG, setting out what electricity suppliers will need to do to ensure that they are compliant with the SEG requirements.

1 BEIS Consultation: [The future for small-scale low-carbon generation: Response to consultations on policy proposals for a Smart Export Guarantee, and on proposed amended licence conditions](#), June 2019, accessed 26 July 2019.

2 Condition 57 Smart Export Guarantee and Condition 58 Implementation of Smart Export Guarantee.

3 Impact News Service, "New laws to guarantee payment for solar homes providing excess electricity", 11 June 2019.

4 Ibid 1.

What Tariffs Were Available Under the FiT Scheme?

Under the FiT scheme, there were two payments under different tariffs.

- A. A **Generation Tariff** (for electricity that is generated onsite [tracked by a generation meter] and which is dependent on the technology and the system size) – this is the main payment of the FiT scheme and is paid on the total output of the renewable energy system, whether exported to the local electricity network or used onsite.
- B. A (route to market) **Export Tariff** (for any unused electricity that is exported [as measured by an export meter or otherwise the value is deemed at 50% of the electricity produced for installations with a total installed capacity of up to 30kW], to the local electricity network for the duration of the generation tariff)⁵ – this is a bonus payment for surplus electricity and provides an incentive for energy efficiency. Under the FiT, obligated electricity suppliers are required to buy such exports at the minimum rate, providing small-scale low-carbon generators a guaranteed income stream.

So Is the SEG Less Generous Than the FiT?

Under the FiT, if a property's solar panels generated 2,000kWh of electricity in a year and the owner had a FiT contract paying a fixed rate of 20p/kWh (for the FiT Generation tariff), they would be paid £400 for all the energy generated. Under the FiT Export Tariff, the same household is also paid a fixed rate (5.38p/kWh) on half of the energy generated (1,000kWh) – £53. The household will also be using much of its own solar energy, a saving potentially worth hundreds of pounds a year.

The SEG would appear to be less generous than the FiT scheme, but then the FiT customers are benefitting from being the early adopters of these technologies. Under the SEG, customers are only paid for the metered electricity they export back to their electricity supplier. There is no longer a "generation tariff", so it is likely to take much longer (potentially 20 years) before the initial costs are covered by the SEG payments and energy savings. Unlike the FiT, the export price is not set by government and there will be no long-term contracts. Typically, consumers will be able to secure short-term fixed rates or opt for a variable rate that will pay the "market rate" for energy at the time it is exported.⁶ In addition, this "market-led" approach means there is no long-term electricity export pricing for customers to rely on when considering investment in generation, for example, solar PV panels.

The precise details of the tariff – such as length and level – will be for electricity suppliers to determine, but there are a few core conditions, not least that exporters must be paid for what they produce, even when market prices are negative, and it is expected that the electricity suppliers will bid competitively for electricity to give exporters their best market price, while providing the local grid with more clean, green energy.⁷

One further point to note is that there is inevitably going to be a gap between schemes – by the time electricity suppliers' SEG export tariffs are in place, the industry will have had nine months without any form of export tariff incentive to offer potential customers.

Have Suppliers Started to Offer Export Tariffs?

Since the government consulted on the proposal earlier this year, some UK electricity suppliers, such as Octopus, have offered or started trialling export tariffs to small-scale generators. Octopus offers its so-called "Outgoing Octopus" fixed export tariff of 5.5p/kWh (£55/MWh, or US\$70/MWh) and an "Outgoing Agile" tariff that matches a generator's half-hourly prices with day-ahead wholesale prices. According to Octopus, under this product, a prosumer combining a 4kWp solar panel unit with battery storage could earn £436/year, 50% more than the same panels would earn on the fixed 5.5p/kWh rate.⁸

Takeaway Thoughts

Encouraging electricity suppliers to bid competitively for electricity will give households the best market price for their electricity, while providing the local grid with more clean, green energy, as the UK bids to become a net zero emissions economy. The Climate Change Act 2008 (2050 Target Amendment) Order 2019, which was made on 26 June 2019 and came into force on 27 June 2019, increases the UK's 2050 net GHG emissions reduction target under the Climate Change Act 2008 from 80% to 100%.

Even though it is not as generous as the FiT scheme that it replaces, it is hoped the SEG can help revive the UK's small-scale renewable energy industry as the government looks to move to a smarter energy system, incorporating a range of renewable energy sources and technologies, including well-established ones such as hydro and solar, and the newer and more disruptive technologies such as battery storage.

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- 5 For installations below 30kW, the amount exported may be "deemed" at 50% of generation for solar, wind and anaerobic digestion; and at 75% for hydro. Installations over 30kW must have an export meter.
- 6 Jo Thornhill, the Guardian, "Under new rules for selling solar power, is it still worth it?; With a big outlay and a six-month wait before the launch, do you invest now, wait more than 150,000 over **domestic customers**", 30 June 2019.
- 7 WiredGov, "Chris Skidmore speaking at COGX", 11 June 2019.
- 8 Platts, Electric Power, "[UK Smart Export Guarantee to reward prosumers from 2020](#)", 11 June 2019, accessed 10 July 2019.

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