# FiT for purpose?

**Policy |** The UK's small-scale feed-in tariff closed to new applicants earlier this year, forcing policy makers and installers alike to run the rule over new models and legislation. Liam Stoker takes a look at the government's Smart Export Guarantee and what it might mean for UK solar


**Campaigners have been urging the UK government to introduce an appropriate replacement for the now-defunct FiT**

*Credit: STA*

At the stroke of midnight on 31 March 2019, the UK's feed-in tariff (FiT) scheme slammed shut, effectively ending the subsidy era for solar in the country. Now, the sector is committed to operating outside of government assistance for the first time.

Between their introduction in 2010 and closure in 2019, the feed-in tariffs kick-started an industry now on the cusp of independence. Just shy of one million rooftops the length and breadth of the UK have adopted solar under the FiT, providing a significant and meaningful contribution towards the country reaching its current capacity of 13GW+.

The FiTs were the last bastion of renewables subsidies in the UK, and the mechanism's closure marks the end of the beginning for clean energy in the country. Now, renewables are expected to stand on their own two feet and pay their own way, with increasing confidence that they can do just that. The government's plans for small-scale solar and other renewables, unveiled earlier this year, are just the start.

## Export guaranteed

In January 2019, the UK's Department for Business, Energy and Industrial Strategy finally unveiled how it intended to replace FiTs. Energy minister Claire Perry at first committed to ensuring some form of export tariff would remain, then official proposals snubbed it entirely, despite European legislation deeming it necessary that all power exporters receive "fair" compensation for what they produce.

Strong condemnation from the industry followed, and the country's energy department eventually relented, albeit at a late stage in the game. Suggestions have been that civil servants were forced to work on the policy over Christmas in a move which, given Westminster's Brexit-related workload of late, would not have gone down well. Critics have lambasted a government that has known for at least three years that the FiT was to close, so to not have a replacement mechanism already in place appears slapdash at best. Indeed, ex-energy minister Lord Barker was busily mooting net metering as a possible FiT successor as early as November 2015.

But a re-FiT has been forthcoming nevertheless. Dubbed the 'Smart Export Guarantee' (SEG), it would replace the government-backed generation and export payment with a single tariff, paid for by energy suppliers, for any self-generated power that is exported to the grid.

There are, however, some caveats. Only large suppliers – those with more than 250,000 customers – are mandated to offer a guarantee, limiting the competitive pool somewhat. Smaller suppliers can still do the same but must comply with the same regulations and guidelines. In addition, tariffs must always be above 0p/kWh and cannot dip into negative pricing if the wholesale price happens to do just that, protecting consumers.

But perhaps the most significant barrier to the industry as it stands is the removal of deemed exports, requiring all export settlements to be metered. The most sensible way for this to be achieved is via a smart meter, however the UK's smart meter roll-out has proved costly, complicated and been delayed to such an extent that the government is on the brink of extending its own installation deadline.

One possible workaround would be for a standalone export meter capable of providing metered exports on a half-hourly basis to be fitted at the time of the solar installation, however the government's own analysis suggests that the cost of doing so, at £300 up front and an additional £50 a year on maintenance, is at risk of rendering any PV array uneconomical, depending on subsequent SEG tariffs.

This issue was keenly picked up by the Solar Trade Association, the UK's de facto trade group for the industry, which had spent much of the previous year stressing the importance of a FiT replacement worth its salt. "Our worry is that these [barriers] may impede the ability of suppliers to offer fair and meaningful rates, even though they may wish to," said the association's chief executive, Chris Hewett.

## Crunching the numbers

The UK political system requires government departments to publish an impact assessment for each policy decision it reaches, and the energy department's assessment for the SEG reveals a minimal expected impact.

The assessment accompanying the SEG poses two scenarios with different self-consumption and adoption rates, the most beneficial indicating that between 11.1MW and 12.5MW of additional solar capacity could be stimulated between 2019 and 2026 as a result of the policy's implementation.

Given the UK's average domestic rooftop solar installation size of 3kW, that would equate to somewhere between 3,700 and 4,200 extra domestic solar installations each year, a mere fraction of the domestic installation rates which the UK solar industry has recorded in the past.

Aside from ensuring the right protections are in place, the UK government appears willing to leave the fine tuning of the SEG very much to the suppliers themselves. Such an approach bears all the hallmarks of the influence of Dieter Helm – a renowned energy academic in the UK with a feted distaste for government intervention in markets – who published a somewhat controversial white paper on future energy policy just a few months before the SEG was unveiled.

The only guidance the energy department has given energy suppliers to date – at least publicly – has been "the smarter the better", referring to the way it envisages export payments to track the wholesale price throughout the day and hopefully incentivising more flexible behaviour from consumers for the good of the grid.

It remains to be seen whether or not the UK's energy retailers, beleaguered as they are, are up to yet another challenge, but the early signs have been encouraging.

### Early promises

Even without the SEG in full effect, at the time of writing a trio of suppliers in the UK are offering effective export payments.

The first two – established name E.On and challenger supplier Bulb – have introduced limited-supply export mechanisms that would appear to be almost trials for how their respective schemes will work in the future. Bulb is to trial a mechanism rewarding 50 homeowners with unsubsidised solar over the coming year, while E.On's so-called Solar Reward scheme is of a larger scale, and will honour the most recent export tariff price of 5.24p/kWh, for the first 500 customers to install solar under E.On's own deployment programme.

The most interesting on the market however is Octopus, which has a strong, vested interest in the UK solar sector already. Octopus' supply division has committed to "replace and improve" upon the export tariff with its own spin, starting with two individual tariffs: Outgoing Octopus and Agile Octopus.

The former is a simple, flat rate payment of 5.5p/kWh, equivalent to about £55/MWh on the wholesale market. Not only is that more than the previous export tariff, but broadly in line with fair market value on the wholesale market today. But the latter, which will see customers receive a fluctuating payment based on day-ahead, half-hourly settlement prices, is precisely the kind of smart export payment the government and industry have envisaged.

Octopus claims that its standard, Outgoing tariff could be worth around £287 per year for homeowners installing solar today on standard consumption and export patterns. As it stands, this is highly unlikely to be the kind of financial stimulus for deployment the feed-in tariff once was,

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but it represents a considerable benefit as equipment prices shift further.

What other suppliers make of the SEG remains to be seen. Ray Noble, one of the UK solar sector's stalwarts and adviser to the Renewable Energy Association, considers that most SEG tariffs will fall around the 2-3p/kWh mark, roughly half what was on offer under FiTs. Other installers in the sector are saying similar, with a broad recognition that they won't be FiTs, but they might just be fair.

Others, however, just aren't that interested in what little, or large, the SEG will have to offer, having placed far greater importance in other, more advantageous revenue streams and business models.

### What's next?

While a handful of suppliers have unveiled their tariffs, it may still be some time yet until the SEG comes into force in earnest. The government's consultation on the matter closed on 5 March 2019 and while it is on the record as saying it intends to introduce the scheme post-haste, this is a Westminster that's very much gridlocked by Brexit. The SEG is not expected to be formally implemented until well into 2020 and although homeowners that install solar in the meantime will be eligible for the payments, they will not be backdated.

In the meantime, a handful of solar companies are thinking outside of the box and investigating other sources of revenue. Companies like Social Energy are now coming to the fore, working with solar installers to fit both PV and battery storage entirely unsubsidised, and bolstering consumer returns by aggregating storage capacities to provide local grid flexibility services.

Social Energy founder Ryan Gill says that in doing so, his firm will be able to deliver investment returns even more beneficial than the FiTs were at their most generous 43p/kWh. It's a bold claim, and while Social has worked with independent consultancy Baringa to cement the model's numbers, the industry remains sceptical about the potency of grid services in such a way given its possible saturation.

Once again, the UK's domestic solar sector stands on a precipice, not knowing clearly which direction to turn. What is certain is that the industry's future is now far less dependent on government intervention and more so on that of energy suppliers, a fact which may not sit well with some. ■


Credit: Octopus

**Octopus is weighing into the post-FiT market with two tariff options**