

## **HHIC response to The future for small-scale low-carbon generation consultation**

### **About HHIC**

The Heating and Hotwater Industry Council (HHIC) are the leading representative body for the UK domestic heating and hot water industry, worth £3-4 billion per year. HHIC's membership base covers approximately 94 per cent of heating and hot water solutions available in the UK. HHIC are a division of the Energy and Utilities Alliance (EUA).

### **Full Response**

#### **1. Will the SEG as described provide a suitable and practical route to market for exported electricity?**

EUA recognise the SEG as a positive step towards filling the gap left by the closure of the FITs scheme. However at this stage it is not possible to say if it's a 'suitable and practical route to market for exported electricity'. This is because we don't know what the potential export rate would be, what the long term assurances over tariffs to generators would be and many other questions over the operation and sustainability of the scheme.

EUA represents manufacturers of Micro CHP units. For these companies their operations are often predicated on the ability to raise investment funding based on future returns, as this is a new emerging market. The FITs was ideal for this as it provided long term returns, however the SEG, at this stage, does not have the level of assurance to persuade investors for Micro CHP.

It would be helpful at this stage for the Government to issue more details on the proposed start date and some level of assurance over minimum tariff rates to encourage support to this burgeoning industry.

**2. Will the SEG support innovation towards the ‘smart’ energy transition and if so how?**

The concern EUA have with regards to innovation within the SEG mechanism is the uncertainty over long term funding and tariff rates. To bring an innovation to market requires a degree of certainty over future market conditions. At the moment this does not exist because the SEG is not live.

In the long term we would expect innovative billing and smart generation solutions to emerge that bring appliances, generators and storage together to maximise output. However we are concerned that at the outset there may be a funding gap.

In particular we are concerned that as standalone resellers into the electricity markets, householders will not have the generational capacity to leverage fair remuneration for their generated electricity. We do not have assurances that suppliers will pay fair market rates, and in fact our concern is that until innovative aggregating solutions emerge the provided tariff will be significantly low.

**3. Given the options set out above in table 1, what type of SEG tariff would be appropriate at this point? Please provide justification for your answer.**

At this stage EUA do not have strong preferences over the SEG tariff type. However any chosen mechanism needs to be understandable by consumers and not too complicated so it could be gamed by either suppliers or aggregators. We do recognise that it needs to have in built flexibility to allow for future flexible pricing to correctly value electricity produced at peak hours, such as Micro CHP.

**5. Should the SEG have a fixed end date or not? Please provide justification for your answer.**

EUA does not believe it should have a fixed end date. However without a fixed end date there is scope for future Governments to end the scheme with limited notice. Therefore we would prefer the scheme to have an inbuilt mechanism to ensure that any future closure has a minimum closure duration.

This would help provide some level of reassurance to consumers if they choose to invest in a technology expecting some level of return on investment.

## **6. Will the SEG allow the market to innovate and bring forward additional routes to market, and create a competitive market to provide generators with the best tariffs?**

Again EUA does not believe it can answer this question with any level of confidence. There is scope for the SEG to allow this kind of market to emerge. Ideally Micro CHP units would attract higher tariffs, because they generate clean electricity at peak times, when grid electricity is often at its dirtiest. Therefore the scheme should reward this type of innovative technology with the best tariffs.

However there are no guarantees that this kind of micro generation will be able to compete with fast cycle gas plant or other large scale electricity generation. There may be concerns over the granular nature of their deployment and would guarantees be needed on ensuring these appliances generate when required.

EUA believes the SEG has the potential to innovate and provide additional routes to market, however given the relatively vague nature of the plans and lack of concrete assurances it would be hard to confidently affirm this.

## **7. We are aware that whilst segments of the small-scale sector (e.g. commercial rooftop PV) are able to deploy without direct support, others, particularly some of the less mature technologies and more complex community developed schemes are still often marginal at best in delivering commercial returns. Do the proposed arrangements create additional challenges for certain segments, e.g. through reducing access to finance, and how can these be effectively mitigated through the SEG?**

There is a very real possibility that these changes and the lack of starting date and assurances over tariff rates will end the Micro CHP market in the UK.

Micro CHP requires access to finance and this requires some level of long term certainty over returns. The SEG does not provide this.

This will impact on innovative start-up companies that are at the forefront of developing fuel cell technology that could have a real impact in delivering the smart energy markets the government is striving for. It is also an ideal technology for whole systems solutions as it blends gas and electricity. The other benefit is that it is particularly compatible with hydrogen.

As currently designed, the SEG would struggle to support Micro CHP. In the long term it may, but by this point the technology will have been developed overseas and so will be imported into the UK. At the moment this technology is a net exporter, with Germany in particular a popular destination for products.

Ideally a minimum tariff and minimum tariff duration would help provide some assurances for investors.

**14. Do you agree with the proposed metering requirements for the SEG? If you disagree with the proposal, please explain why and provide reasoning.**

EUA is in agreement. However we would ask that Government ensures that the current generation of smart meters are compatible. In conversations with manufacturers we have been told that they should be, but there are potential concerns over the ability to switch between suppliers and to interact with aggregators.

**16. Do you agree that installations entering into the SEG should not be required to meet a certain energy efficiency standard? If you disagree with the proposal, please explain why and provide evidence.**

EUA agrees with that SEG installations should not be required to meet a certain energy efficiency standard. This is to ensure a level of scheme simplicity. Also as the tariff will be far lower than the current FITs there will not be the incentive to invest in upfront energy

efficiency measures. Not requiring a specific standard also simplifies the scheme and makes it cheaper for suppliers to deliver.

**18. Where storage is co-located with an eligible generation technology, should SEG payments be made on 'brown' electricity exported from storage or limited to exported 'green' electricity? Please explain your reasoning.**

EUA does not have any strong views either way on this point. Allowing 'brown' electricity could help incentivise storage systems. Also would electricity generated from Micro CHP be classified as green or brown?

However the reporting of electricity generation should try and accurately differentiate between the two.

**26. Do you agree that the threshold for mandatory SEG suppliers should be set at 250,000 or more domestic electricity customers? If not, what alternative threshold would you suggest? Please provide any useful information or evidence to support your suggestion.**

EUA believes all energy suppliers should be required to provide the SEG. In order to create a market for micro generation there needs to be a significant number of companies. Allowing smaller suppliers to be exempt also adds additional costs for larger supplier.

**27. Do we need to set out arrangements for the event in which a supplier either loses its supplier licence or goes into administration? If so, what provisions need to be made?**

Provisions need to be made to ensure continuity of payment.