

Reviewing the microgeneration market

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In 2007 HM Treasury asked Ofgem to review the market arrangements for customers wanting to sell power from household electricity generation units to energy suppliers.

The Treasury asked Ofgem to consider:

- whether it is easy for customers to find out how much suppliers will pay them for exported electricity
- whether it is simple for customers to compare the offers suppliers make, and
- whether the price paid reflects the value of microgeneration to suppliers and climate change objectives as a whole

► What is microgeneration?

Household electricity generation – or microgeneration – refers to the variety of units available allowing customers to generate electricity or heat for their home or business. They include:

- Small-scale solar systems which convert energy from the sun into electricity
- Solar powered hot-water systems
- Micro-hydro units which use energy from flowing water to generate electricity
- Small roof-top wind turbines, and
- Domestic combined heat and power units, powered by mains gas or other fuels. They provide heating and hot water like a normal boiler but they also generate electricity

There are currently around 100,000 microgeneration units in Britain. The vast majority of the units are thermal technologies such as solar-thermal water heating.

Customers can sell back any surplus power from some of these units (such as photovoltaic solar panels and roof-top wind turbines) to energy suppliers, but in the past this has not been an easy process to go through. The Climate Change and Sustainable Energy Act, passed in 2006, granted the government the power to require that suppliers offer fair prices to customers wanting to sell surplus power.

► What are Ofgem's findings?

Ofgem's report shows that suppliers have stepped up their efforts to offer a range of tariffs to customers wanting to sell back electricity. Importantly these appear to be a fair reflection of the wholesale price of electricity and other benefits that come from locally sourced energy, for example a reduction in the amount of electricity lost as it travels long distances through the wires. This means that less electricity needs to be generated to cover those losses, which in turn lowers carbon emissions.

Customer response has been positive to the range of offers available (see table below). The number of customers that are signed on with suppliers to sell back surplus electricity has increased significantly over the last year to around 1,500 or so.

However Ofgem estimates that the payback on the costs of home electricity generation kits may take 20 years or more, given current market conditions. The payback period depends on several factors such as the technology being used, the price customers are being paid for electricity they sell and how much of the electricity generated is being used in the customer's own home.

► What incentives are available for customers who want to sell power?

The financial incentives for customers to sell home-made electricity are an important way of encouraging increased take-up of the units. Renewable microgeneration qualifies under the Renewables Obligation, which is the Government's main support subsidy for renewable electricity. It allows domestic customers to make money by claiming renewables obligation certificates (ROCs) according to the qualifying output of their microgeneration units. The certificates demonstrate that the energy is from green power sources and can be sold to energy suppliers. The suppliers themselves use

these ROCs to meet increasing targets for sourcing the electricity they sell from renewables. Some suppliers insist that the customer sells the ROCs to them as a condition of their offering.

Ofgem believes changes are needed so that financial support for microgeneration is easier to access.

► Next steps

The Government has pledged to review the current financial incentives for microgeneration as part of developing a new renewables strategy, and the conclusions of Ofgem's report will be fed into that review. In particular, Ofgem believes the market for exported electricity, which is still in its infancy, and household microgeneration in general, would be improved by better information to help customers find the best deal that suits their circumstances.

Customers also need easier access to financial incentives. Ofgem will continue to explore with Government ways of improving the efficiency with which the Renewables Obligation can be administered, particularly in relation to smaller generators.

Ofgem will also convene a meeting of the Microgeneration Forum in May 2008 to discuss the conclusions of this report.

► What packages do suppliers offer?

Suppliers offer customers a variety of ways to sell back power. For example the table below sets out how much suppliers will offer for metered exported power. Customers will need to consider this against several other factors such as the cost for electricity they use from their supplier. (Customers with microgeneration units will still need to buy electricity from

their supplier as the amount of power they produce is dependent on weather conditions and other factors). Some suppliers also charge customers for providing a meter needed to register the amount of power exported.

Supplier	Key features of offer	How much will a customer get for exporting power	Price of electricity purchased from the supplier (calculated from monthly direct-debit tariffs)	Meter cost
British Gas	Customer reads their export meter quarterly and sends in reading Customer claims Renewables Obligation Certificates (ROCs) separately	5p/kWh	12.27p/kWh	£30
EDF	Customer claims ROCs separately Limited to microgeneration of less than 10kW	7.64p/kWh or 5p/kWh for small-scale hydro	11.10p/kWh	£70 to £200
npower	Limited to microgeneration of less than 6kW Npower keeps revenue from ROCs	10.98p/kWh (although this varies by region)	11.64p/kWh	£60

(Table continues overleaf)

What packages do suppliers offer? continued

Supplier	Key features of offer	How much will a customer get for exporting power	Price of electricity purchased from the supplier (calculated from monthly direct debit tariffs)	Meter cost
E-on	<p>Customer reads their export meter quarterly and sends in reading</p> <p>Customer claims ROCs separately</p> <p>Limited to microgeneration of less than 5kW</p> <p>Only available for solar panels</p>	Solar: 8.79 to 11.26p/kWh depending on region	11.64p/kWh	£100
Scottish Power	<p>Scottish Power collects ROCs but only pays out on exports</p>	4.25p/kWh	11.20p/kWh	Free of charge
SSE	<p>Price includes payment for exported power and ROCs for the customer's output</p> <p>Only available for solar panels</p>	Solar: 18p/kWh	9.54p/kWh	Free of charge if an import customer

Source: Suppliers, February 2008

For further information please contact:

Mark Wiltsher, Head of Media Relations

020 7901 7006

email mark.wiltsher@ofgem.gov.uk

Chris Lock, Communications Officer

020 7901 7225

email chris.lock@ofgem.gov.uk

Rebecca Hill, Communications Officer

020 7901 7217

email rebecca.hill@ofgem.gov.uk