

# **Citizens Advice response to BEIS consultation on a Smart Export Guarantee**

The logo for Citizens Advice, featuring a dark blue speech bubble shape with the words "citizens" and "advice" stacked vertically in white lowercase text.

**citizens  
advice**

# Introduction

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The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. On 1 April 2014, the Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2017, Citizens Advice Service helped fix 163,000 energy problems through our local network and 61,000 through our Consumer Service Helpline. Our Extra Help Unit specialist case handling unit resolved 8,367 cases on behalf of consumers in vulnerable circumstances, and their Ask the Adviser telephone service handled 2,593 calls from other advice providers in need of specialist energy advice.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

# Our view

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## Introduction (Q.1, Q.2)

Citizens Advice welcomes the government's proposal for a Smart Export Guarantee.

In our response to the government's call for evidence on the Future of Small-Scale Low-Carbon Generation and the consultation on the Closure of the Feed-in Tariff Scheme, we expressed concerns that the abrupt closure of the export tariff alongside the generation tariff could leave small-scale generators without a clear route of access to market.<sup>1 2</sup> The proposed Smart Export Guarantee should help to bridge this looming gap and should help the nascent market for small-scale generation to find its feet. However we still recommend several important changes to the government's SEG proposal which we summarise below.

## **A new supplier obligation to provide a meaningful backstop export tariff (Q.1, Q.4, Q.5)**

In both of the aforementioned consultation responses we proposed that the government should introduce an obligation on suppliers to offer a backstop export tariff to small-scale generators to succeed the Feed-in Tariff. We also proposed that this backstop tariff should be subsidy-free, with suppliers able to reasonably recoup their costs, avoiding the need for levelisation and removing the need for the export tariff to be considered when setting the price cap. The proposed SEG satisfies these two criteria and meets with our approval in these respects.

However, we are concerned about the proposed backstop price of 0p/kWh. We understand that the intention of this backstop is to prevent negative pricing, which the government considers may deter consumers from installing microgeneration. We partially agree with that logic, although we think it runs the risk of unintended consequences in two areas. Firstly, that it could be abused by

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<sup>1</sup> [Citizens Advice Response to BEIS's Call for Evidence on the Future of Small Scale-Low Carbon Generation](#) (August 2018)

<sup>2</sup> [Citizens Advice Response to BEIS Consultation on the Closure of the Feed-in Tariffs Scheme](#) (September 2018)

suppliers only offering token payments to householders for their export. Secondly, it may create mixed signals on investment in onsite storage, which could benefit from negative prices.

On the first of these points, the likely offer from obligated SEG suppliers to eligible householders remains unclear. No such market currently exists, as the level of remuneration under the FiT has been higher than the market value of any export, meaning that commercial alternatives to it do not exist. At the same time, the cost to suppliers of administering export payments is unclear. Insofar as changes to IT systems and processes may be required to deliver this functionality, these may be in competition for resources with other major supplier change programmes. There is therefore a risk that some suppliers who would incur high administrative costs in serving these customers, or who are not able to easily do so until their systems are updated, may choose to offer tokenistic tariffs in the interim as a way of complying with their obligations to offer the SEG. It may be possible to mitigate these risks if the SEG is portable and generators are able to access an export tariff from a different supplier to their import supplier.

It is clear that the government intends for a competitive market for export tariffs to emerge under the SEG, but the consultation does not appear to acknowledge the current metering obstacles which prevent generators from choosing an export tariff provider different from their import supplier, nor does the consultation propose measures to address this. We note that there is currently a live modification proposal being considered under the Balancing and Settlement Code that would appear to allow for the splitting of meter readings across multiple suppliers that may enable this.<sup>3</sup>

In the absence of choice, while the government proposes that Ofgem will provide guidance on how suppliers should price and design their mandatory tariff, it is unclear whether this will be sufficient to prevent tokenistic export tariffs being offered.

Negative prices are currently very rare, but may become less so in future as ever increasing amounts of low marginal cost renewable generation on the system facilitate price cannibalisation. In principle, negative prices could create an incentive for the installation of onsite storage, such as batteries. We have already started to see the introduction of some import tariffs that offer negative pricing.<sup>4</sup> It is not clear what investment or behavioural signals may result from

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<sup>3</sup> P379, 'Enabling consumers to buy and sell electricity from/to multiple providers through Meter Splitting'

<sup>4</sup> For example, Agile Octopus.

allowing household consumers exposure to bi-directional (i.e. positive or negative) import prices while constraining export prices to only being positive.

We therefore continue to recommend that the backstop price in the obligation be linked to the market price of electricity, discounted to reflect reasonable administrative costs. We believe that a backstop price designed in this way will be sufficiently high to attract continued investment in small-scale generation, but sufficiently low that it will not undermine the development of a private market.

The government, or Ofgem if it is being tasked to do this through the provision of guidance on fair export pricing, will need to build a model of credible administrative costs that allow it to set a backstop that doesn't force suppliers to sell at a loss. If suppliers can identify additional efficiencies in administering the scheme relative to the allowance made in the government backstop, if they can identify additional value for locally generated electricity generated green electricity above the market price of electricity, or if they are willing to offer more generous terms in order to acquire new customers, they should be able to offer competitive tariffs higher than the SEG backstop price.

We see the SEG as a transitional measure that can help smooth the pathway from a fully subsidised market (under the FiT) to a fully commercial market. This is preferable to a "cliff-edge" of simply withdrawing the FiT and hoping that commercial offers will spontaneously emerge. Nevertheless, the intention of the SEG must be to support the emergence of a new market, not to act as a replacement or alternative to that market. By setting a floor price, we would hope to see the emergence of a range of market offers that beat that floor, as suppliers compete for new customers. It may therefore become the case that the backstop arrangements created by the SEG become redundant or irrelevant, as suppliers offer better deals voluntarily. Noting the government's desire to move away from intervening in low-carbon markets, it may therefore be appropriate to include sunset provisions for the SEG (or alternatively, a commitment to review whether it is still needed after it has been in place for a short period, perhaps two years).

### **Expediently resolving outstanding issues with smart export and/or provisionally extending deemed export (Q.14).**

We embrace the government's vision of smart, flexible, cost-reflective pricing for electricity exported by small-scale generators, and agree that small-scale generators should be obliged to *request* a smart meter from their supplier when

applying for the Smart Export Guarantee, and should also be obliged to *accept* a smart meter when approached by their supplier, in order to be eligible.

However, would-be-generators should not be deterred from investment and denied a route to market because of their supplier’s smart meter rollout schedule, or because their supplier or SEG provider cannot readily access their export data (e.g. owing to SMETS1 interoperability issues, issues with export MPANs, or issues of intermittent or unreliable WAN coverage). It already looks like there may be a significant gap between the closure of the Feed-in-Tariff and the introduction of the SEG legislation causing unnecessary damage to microgeneration businesses, and causing wasteful damage to a supply chain that will eventually have to be rebuilt to meet the government’s vision under the Clean Growth Strategy. Further delays in providing an export tariff based on metering issues could significantly compound these issues.

We therefore repeat our recommendation that the government publish a roadmap laying out how and when outstanding export data issues will be resolved, with a clear accountability framework for its delivery. If export data issues are expected to persist beyond the time the SEG legislation is due to enter into force, we propose that the government should mandate that suppliers offer a deemed, flat-rate, export tariff on a provisional basis to any small-scale generators facing export data barriers through no fault of their own. These generators would then be moved on to a metered export tariff once these export data issues are resolved.

### **Accommodating flexibility in suppliers’ SEG tariff offerings (Q.3, Q.6)**

The government has invited views on how the mandatory SEG tariff should be designed, laying out several options in Table 1 of the consultation document, which we reproduce below.

A) Export metered and registered for settlement only	Suppliers offer an above-zero export tariff to all small-scale generators who agree to metered and settled export. This could be a non-variable flat rate tariff.
B) Simple variable tariff	Suppliers offer a simple ‘variable’ export tariff. Interpretation as to variability (e.g. day/night or weekday/weekend) and tariff rates would be up to the supplier. Must also be metered and settled.
C) Advanced	Suppliers offer a ‘variable’ export tariff, to reflect

variable tariff	energy system conditions on up to a half-hourly basis. Interpretation of tariff rates would be up to supplier. Must also be metered and settled.
D) Variable tariff linked to market	As option C, plus suppliers 'link' their variable tariff to the market. The interpretation could be up to the supplier but there would be an expectation that there should be a rise and fall linked with half-hourly market (e.g. day-ahead wholesale) prices. Must also be metered and settled
E) Variable tariff benchmarked to market	As option C, plus suppliers benchmark their variable tariff to half-hourly market prices. The level of the tariff would be determined by the supplier but rising and falling in proportion to the market price. Must also be metered and settled.

Broadly, we feel that suppliers should be free to structure their mandatory SEG tariff as either a flat-rate, simple variable, or advanced variable tariff as they prefer, conditional on the necessary infrastructure being in place for small-scale generators to apply for that mandatory tariff (i.e. the supplier should not be able to choose a tariff design as an exclusionary tactic to minimise the number of SEG generators they are obliged to take on, for example, by only listing an advanced variable tariff when half-hourly settlement is not widely available). This is in keeping with our proposal that suppliers should be obliged to offer a deemed flat-rate tariff until (or unless) barriers to metered export are removed.

Whichever SEG tariff design suppliers opt for, they will need to be able to present them in a way that consumers can meaningfully compare them to find the tariff which best suits their export patterns. This will pose significant challenges, however, in principle, consumers should soon be assisted in making choices by price comparison websites or switching services which can securely use their own historical export data to find the most competitive tariffs (while balancing their other preferences regarding customer service, etc). It's essential that the Government considers how the smart meter Data Access and Privacy Framework applies here in order to facilitate the emergence of these services.

The consultation document makes clear that suppliers are free to offer additional tariffs outside of the scope of their mandatory SEG export tariff.<sup>5</sup> This is an important provision to ensure that the SEG doesn't stifle innovation in

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<sup>5</sup> In Para 2.13 of the consultation, the government states: "With this approach SEG providers would be free to set additional, alternative, tariff structures outside of the SEG - these could include variable or fixed tariffs, or tariffs targeted at differing types of power generation e.g. intermittent or dispatchable - we expect increasing competition in this market as suppliers look to attract generators."

supplier offerings, which might include non-monetary incentives for export. In order to facilitate comparison, however, it might be prudent to keep more complicated offers which are particularly difficult to compare, independent of the Smart Export Guarantee.

### **Supplier guidance on expected administrative arrangements and an annual market condition report (Q.10, Q.12)**

We would welcome the provision of clear guidance by Ofgem on the types of administrative arrangements that the supplier is expected to put in place, as well as indications of the perceived value of exported energy to SEG suppliers. The consultation document is unclear on what the status of this guidance would be, including on whether it is simply advisory or whether the regulator could take enforcement action for non-compliance.

We would also welcome the publication of an annual market condition report by Ofgem providing a comprehensive comparison of the export tariffs which are available.

### **Extending and expanding current consumer protections under the Microgeneration Certification Scheme (Q.28)**

As a minimum, we would expect that current obligations under the FiT scheme for all equipment and installers to be accredited with the Microgeneration Certification Scheme (MCS), or to meet equivalent standards, should be ported across to the SEG. The MCS places important additional obligations on installers to be registered with a consumer code for domestic contracts.

However, we are concerned that, even under the most optimistic expectations, the returns consumers can expect for export under the SEG will be substantially less than the returns they could expect under the FiT scheme with the generation tariff included. Consumers interested in microgeneration could therefore be more readily enticed to operate outside of the SEG scheme by low-cost, low-quality equipment and installers, placing them at greater risk of detriment.

One way the government might prevent a rise in low-quality installs would be to consider introducing a blanket requirement that all microgeneration technologies seeking to connect to the grid needs to be MCS certified and fitted



by an accredited installer.<sup>6</sup> This measure would provide a strong consumer protection framework for a much larger share of future small-scale generators.

Finally, we would also expect that small-scale generators with a SEG export tariff would continue to have access to the Energy Ombudsman for alternative dispute resolution.

### **The SEG supplier threshold (Q.26)**

We do not hold strong views regarding the appropriateness of the setting the supplier threshold based on having more than 250,000 domestic electricity supply customers. However, as the SEG tariff should be subsidy-free, we note that the risk of cross-subsidies flowing from poor to rich is not a relevant consideration when setting a threshold for this policy in the same way that it is for the Warm Homes Discount and the Energy Company Obligation. This makes the need for a lower supply threshold for the SEG less pressing. Moreover, if the SEG is well designed, we expect that many suppliers below the threshold will volunteer to become SEG providers.

### **Arrangements in the event that a supplier loses its license or goes into administration (Q.27)**

In the event that a supplier goes into administration or loses its license, it should be relatively quick and painless for consumers to find another supplier offering the smart energy guarantee, which would limit any lost revenue.

There is a risk that suppliers could build up large balances due to the generator if they don't pay them frequently enough. The cost for these balances risk being externalised on to the customers of other, more financially responsible companies if a SEG supplier goes into administration. To mitigate this risk, suppliers should be obliged to pay generators on a regular basis (at least quarterly).

### **Co-location of storage and non-eligible generation technologies (Q.18-21)**

As the smart export guarantee isn't intended to be a subsidy for green electricity, there is little risk of small-scale generators from being over-compensated for "brown" electricity exported from batteries charged from the grid, or exported from co-located non-renewable generation technologies. While these sources of electricity are not specifically targeted for support by the SEG, the ancillary

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<sup>6</sup> See section 4.1 of the [Requirements for MCS Contractors](#)

support for storage remains consistent with the government's vision of a smart, flexible energy system. Moreover, the additional metering requirements needed to disaggregate the electricity from co-located sources would be too burdensome for consumers considering the incentives offered.

### **Removing energy efficiency requirements (Q.16)**

We agree with the government that the requirement to meet minimum EPC standards for small-scale generators operating under the Feed-in Tariff Scheme should be lifted for the SEG. The SEG is not a subsidy, and such conditions are no longer appropriate, as they would risk reducing appetite for installing microgeneration.

Nevertheless, it is important that consumers are helped to recognise that installing energy efficiency measures will, in most cases, be a more cost-effective way of lowering their energy bills and reducing their carbon footprint than investing in onsite renewable power. Advice from government and other relevant agencies should reflect this.

### **Conclusion**

Citizens Advice welcomes the government's proposal for a Smart Export Guarantee and the opportunity to respond to this consultation. Our principal concerns with the proposal are that the backstop minimum price offered by the guarantee is a meaningful one and that small-scale generators are not denied a route to market owing to delays resolving metering and export data issues which are outside their control. If these issues are resolved, we are confident that the Smart Export Guarantee can play an important role in helping a market for small scale generation to develop.