

## Energy Saving Trust 2019 Smart Export Guarantee consultation response

### **Introductory Statement**

Our response focuses on the household and community sector.

Given current prices for installed systems and for electricity, Energy Saving Trust (EST) analysis shows small scale renewable energy systems are rarely financially attractive for UK households without subsidy support. The Smart Export Guarantee (SEG) will not, by itself, change that (this is effectively recognised in the Impact Assessment) because the SEG only guarantees a level of payment for exported electricity that is greater than zero. It will not therefore achieve its aim of driving innovation as there will not be a decent market for innovators to chase.

We see two ways in which the SEG could work to promote installed clean electricity generation in homes and communities:

- 1) The SEG could be introduced as proposed in this consultation, alongside other, medium term, measures to improve the cost-effectiveness of small-scale systems for clean electricity generation in homes and communities. This way, the SEG can fulfil its potential to drive innovative payment arrangements for exported electricity and help to build towards a subsidy-free market for small scale renewable energy generation.
- 2) The SEG could be introduced with a decent minimum payment level rather than allowing suppliers to offer payments which could be miniscule; this would directly ensure that the Guarantee has an impact on the financial viability for small scale renewable electricity generation.

Our preference would be for Option 1.

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

Purely as a mechanism for helping householders (and other generators without Power Purchase Agreements, PPAs) to get access to someone who will purchase their exported electricity, the proposal does provide a reasonably 'suitable' mechanism because, by its nature, it forces suppliers to have to offer a tariff.

There is no guarantee that it is practical, however because the SEG on its own is only likely to lead to a small number of additional installations (as the Impact Assessment recognises - see question 2). Suppliers are only likely to offer an attractive SEG if there is a sufficient customer base. Therefore, the practical value and impact of the SEG is likely to hinge on the UK government either:

(a) mandating a minimum level for SEG or (b) providing wider UK government support that improve the cost-effectiveness of installed small scale generation, and therefore driving uptake of these systems.

Depending on the tariff model that suppliers are required to offer (see our response to question 3), we are also concerned that the SEG may not be practical because it requires the installation of a smart meter coupled with onsite generation. Given that it is now widely assumed that the completion of the smart meter roll-out will be delayed beyond the 2020 target date (to 2023), a significant number of non-smart-meter properties will not be able to benefit from the SEG for several years to come.

The availability of meters could therefore (a) actually impede householders access to SEG for quite some time, and in addition, (b) delay the ‘smart’ element of this if householders have to be on basic tariffs because they don’t have half hourly data.’

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

The Impact Assessment modelling (while the assumptions used aren’t explained), shows the SEG only leading to a very small amount of additional installed capacity. For example, assuming all the additional PV capacity is from domestic systems of 4KWp, the IA suggests the SEG will only lead at most to the installation of around 3000 extra systems each year.

If the SEG only enables tiny levels of deployment, then there is only a tiny market for renewables created and thus the market won’t see any reason to bring forward innovation (or acceptable tariffs) when the potential is so small. Therefore, the practical value and impact of the SEG is likely to hinge on UK government either (a) mandating a minimum level for the SEG or (b) providing wider UK government support that improve the cost-effectiveness of installed small scale generation, and therefore drive uptake of these systems and thereby a wider market for SEG offers and innovation.

**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**

Our preference would be for a simple variable tariff as a minimum, with suppliers allowed to offer others in categories C to E should they choose to.

There is currently a gap between the smart meter rollout and the feasibility of tariffs C – E, for example, as a lot of people don’t have smart meters and can’t settle half-hourly at the domestic scale. Therefore, a simpler tariff that doesn’t rely on half-hourly settlements would be most suitable at this stage, as it will take a number of years to get to the point that half-hourly metering will be widespread.

**4. Do you agree that Government should not take a role in price setting, e.g. through a fixed discount against a ‘wholesale price’, as this would detract from the objective of the SEG, for example by reducing location and time specific price signals?**

See our introductory statement: if SEG is the only support mechanism to drive uptake of small scale renewable energy generation, it should be introduced with a minimum price. Our preference however, would be that SEG is introduced as proposed in this consultation – without price setting - alongside other support mechanisms.

That’s because we recognise that the aim of the SEG is to create the infrastructure for a new market in electricity produced from small scale renewable generation, allowing innovation and price-setting by the market.

Nonetheless, it is important that the UK government should monitor and keep under review the SEG offers in the marketplace (for example by monitoring against the wholesale price) to ensure that offers are attractive to generators and thereby helping to build the market.

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

The SEG should be kept under review and removed where there is an active and self-sustaining market that does not require a supplier obligation. The SEG should be there for minimum 5 years, to help this new market to develop; then reviewed every two years to see if it is still required.

**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?**

The SEG will only bring about innovation if it creates a market. See answer to question 1 and question 2.

- 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?**

The proposed SEG arrangements constitute a less supportive policy framework for community energy than the FiT regime. The benefits of community energy programmes are widely recognised, and the community energy sector is highly innovative. Because of the way it raises investment, the community energy sector requires knowledge of income and accurate forecasts of how much income they will generate over set periods to secure investment. The SEG alone will not provide this. So as not to stall progress in this sector, UK government should put in additional support for the community sector alongside the SEG through, for example, offering access to 0% interest loans for community energy schemes.

- 8. How long will it take for suppliers to put systems in place in order to administer the SEG, and what would the associated administrative costs of the SEG be? Please provide justification for your answer.**

*No response from EST*

- 9. We would welcome views on whether the SEG can and should be linked to any similar mandatory communications requirements.**

We agree with the principle of consumers understanding where their money is going and there is a requirement within the SEG for consumers to understand the different tariffs on offer. Therefore, there needs to be emphasis on a principle of simplicity around the communication of different tariffs from energy suppliers to consumers, ensuring this is easy to understand for householders.

It is also essential that consumers will be able to quickly and easily compare tariff offerings to help them decide which is the best deal for them.

- 10. Do you agree that appropriate guidance on the administrative arrangements that suppliers will need to consider in order to set a SEG tariff should be issued? Please provide your reasoning.**

*No response from EST*

- 11. What factors would suppliers consider when setting a SEG tariff, and what additional costs do suppliers expect might be incurred as a result of providing a SEG tariff?**

*No response from EST*

**12. Do you agree that an annual market condition report should be published for the SEG? Please provide your reasoning.**

An annual report should be produced but this isn't sufficient for consumers and market operators, who should be able to keep a live track of what SEGs are available in the marketplace. A live database that is continuously updated may be more useful than an annual report and this could incorporate some form of calculator to help consumers calculate financial benefits and compare offerings.

In addition, we believe it is essential that consumers can access independent and impartial advice on the SEG and other options for them, both online (for more standard questions) and also with some form of advisor for where more bespoke discussions are necessary.

An annual report should be produced as it will be useful for the industry and UK government to assess what has happened over the previous year and what the trends are for the future.

**13. Do you agree with our assessment of the impacts of the SEG on certain consumer groups such as those in or at risk of fuel poverty or energy intensive industries?**

As BEIS has stated, you '*do not expect a net impact on consumer bills*' to arise from the SEG (though the assumptions that allows BEIS to conclude this are not clear), we do not anticipate negative impacts on fuel poor households. Rather, the SEG could, in theory, help those in fuel poverty by facilitating cheap access to energy and onsite generation, particularly if there was more of an incentive i.e. attractive flat rate / minimum guarantee.

Information about the SEG and potential tariff offerings should not only be available online as this may discriminate against those who are not confident users of the internet or computers. To this end, provisions should be made that information on tariffs is also available for free via phone from suppliers and also that there is independent, impartial advice available by phone as well to help consumers compare tariff benefits and find out more.

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

*No response from EST*

**15. Are non-SMETS stand-alone export meters, with an ability to record half-hourly export, currently available on the market? Please provide information on the costs for stand-alone export meters, such as capital and installation costs.**

*No response from EST*

**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**

Yes, we agree that it shouldn't have an EPC requirement, but the SEG needs to be part of a wider policy mix where energy efficiency is robustly encouraged. Energy efficiency plays a key role in maximising the benefits of electricity generating microgeneration. The cost effectiveness, alongside the carbon and bill reduction potential, are all improved when microgeneration is installed in

conjunction with energy efficiency. Thus energy efficiency makes microgeneration a more attractive proposition to the consumer.

Furthermore, consumers at the household level should have access to independent, impartial information both online and over the phone about energy saving options available to them. This is so they can take an informed view as to whether using their funds to install a renewable electricity system and claiming a SEG tariff is preferable to installing insulation or upgrading to a renewable heating system for example. To not do so, leaves consumers open to the risk that they are not necessarily fully informed about the best options for them.

**17. Do you agree it is the correct approach to allow applicants eligible for further local or regional support to also be potential SEG applicants?**

Yes. Local or regional support should be allowed in addition to the SEG – if councils, devolved governments, community groups or others want to incentivise uptake of renewable electricity (which SEG won't achieve in any meaningful scale in its current form) then they should be able to do so and the customer shouldn't be penalised for this.

**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.**

We agree with the UK Government's ambition to enable generators who receive SEG payments to also benefit from storage technology. However, it is important to consider whether (a) this is practical given current meter and software availability and (b) whether the costs of this would be too high that it becomes disproportionate. If there was a metering requirement for storage to distinguish between green and brown electricity, then the market could potentially develop solutions.

**19. Do you agree with the metering arrangements when co-locating storage with generation technologies eligible for the SEG? If you disagree with the proposal, please explain why and provide reasoning.**

*No response from the EST*

**20. If SEG payments were to be made on 'brown' electricity exported from a co-located storage device, are there any potential opportunities for gaming? If so, please provide details.**

*No response from the EST*

**21. Should the SEG make provision for installations where an eligible technology is co-located with a non-eligible technology and/or storage? If so, what would the necessary metering arrangements need to be?**

*No response from the EST*

**22. Do you agree or disagree that AD installations newly accredited under any future arrangements to support small-scale low-carbon generation should be subject to the same sustainability criteria and feedstock requirements as AD installations under the FIT? Please provide your reasoning.**

*No response from the EST*

**23. Do you agree that the current FIT reporting requirements and administration process, including the arrangements for payment adjustment for ineligible electricity, would be appropriate and practical for the SEG? Please provide evidence for your answer.**

*No response from the EST*

**24. Do you agree with the proposed obligations and functions on each of the other parties involved in the SEG - BEIS, Ofgem, and suppliers - including the enforcement action required by suppliers and Ofgem? If not, why?**

Yes, in broad terms. Ofgem must include within their responsibilities the need to ensure that tariffs are clearly and properly communicated to householders by suppliers and contract terms are fair.

**25. Do you agree with the review process proposal for the SEG? If not, what alternative approach would you suggest?**

It is not clear what the proposed review process is. We suggest an annual review by BEIS to assess if the SEG is achieving its aims of driving innovation and fairly paying generators of renewable electricity. This review could include an analysis of the number and types of tariffs available, uptake of tariffs and systems deployed due to the SEG, the state of market regarding similar offerings not under the SEG, customer feedback including number and nature of complaints, and recommendations for improvements.

**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.**

We feel that given this threshold for mandatory SEG suppliers, the market forecast is very small, with no fixed price and additional supportive actions. While smaller suppliers can voluntarily opt in, a phased approach to increase supplier engagement could be considered, whereby the threshold for mandatory SEG suppliers is lowered over a number of years to increase supplier participation. If BEIS want to support innovation, the 63 'small energy suppliers' outlined in the 2018 Q3 Smart Meters report could be mandated to offer the SEG after an initial phase 1 involving large energy suppliers. This would require wider capacity building to help small energy suppliers participate in the SEG scheme, particularly if the voluntary opt in evidences little to no participation in the SEG by small energy suppliers.

**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?**

Yes. Consumers rights need to be protected and commitments made to them about payments will need to be upheld by any new replacement supplier. This is because those signed up to an SEG tariff will have made a decision to purchase a renewables system on the basis that the SEG conditions will

continue and they should not be disadvantaged should the tariff be removed or altered outside of the terms of the contract they have. Knowledge that this eventuality could occur will discourage installation and reduce sign-up to SEG tariffs and thus mustn't be allowed. It also will act as an exemplar of best practice and drive up standards of market offerings that are not under the SEG.

**28. Do you agree with our preferred approach to help ensure consumer protection? Is it practical and are there other factors that should be considered and why?**

MCS should be a requirement for small scale renewables as proposed and, should energy storage be covered by MCS in the future, then this should automatically become a requirement for any new systems not yet registered for a SEG tariff. Storage installations which occur before a storage MCS standard is put in place should not be expected to meet MCS standards at a later point, as retrospective certification is unlikely to be possible.

Consumer protection can also be achieved through the availability of independent, impartial advice on options available to consumers and alongside the ability to compare the benefits of the various tariffs available on any particular day. To not have this support available increases the risk of mis-selling and of consumers taking decisions on how to use their own funds without full knowledge of how else they could otherwise improve the energy efficiency of their home or of other renewables options available to them including renewable heating.

**29. This policy is focused on power generation, however increasingly we anticipate that installations will be integrated with battery and vehicle-to-grid technologies. What additional technical challenges might we need to consider, for example relating to installation standards, and how would this effect the development of the market?**

It seems reasonable to include vehicle batteries in the same category as stationary batteries in the home, unless they are on a separate wire and metering is not possible. The SEG should encourage best practice and therefore any vehicle-related storage should only be accommodated where it meets best practice standards similar to those used for MCS.

**30. Is the process for applying to the SEG practical, and will it ensure only eligible generators are able to participate in the SEG?**

*No response from the EST*

**31. Should deployment of installations through the SEG be submitted to a central register administered by Ofgem?**

Yes, and it would be very useful for a variety of organisations in the energy sector should reports be made publically available and searchable using a number of filters including deployment date, region and country, type of tariff (A to E), generation only or generation + storage.

**32. Are our proposals for the treatment of settlement practical for suppliers to implement, and compatible with the Balancing and Settlement Code? If not please explain why.**

*No response from EST*

**\*33. Are there any other issues you would like to raise as part of your response to this consultation?**

***No response from EST***