

Going green with your electricity use

Factsheet 77

04.02.09

www.ofgem.gov.uk

Over the past few years, energy customers have become more and more interested in reducing their carbon footprint. This fact sheet gives advice to customers on the options available.

► Energy efficiency must come first

Households or small businesses who are concerned about either the costs or environmental impact of their energy use should first consider how they can save energy. Measures include better insulation or replacing old boilers with more efficient models. Independent advice is available from the Energy Saving Trust.

Customers who have undertaken energy efficiency measures but want to go a step further have a number of options.

One is to consider installing their own electricity generation or supporting community renewables schemes such as solar panels or local combined heat and power units. The Energy Saving Trust provides independent advice on this. Another option is to sign up to a green electricity tariff. A green tariff is marketed as having environmental benefits and around 319,000 customers are currently signed up to such offerings.

► Why are customers confused over green tariffs?

Despite their popularity, research by Ofgem has shown that customers are confused about what, if any, environmental benefits green tariffs offer.

This confusion results from a number of factors. Customers may not realise that if they sign up to a green tariff, the electricity from their plug will not be any better for the environment than that supplied under a standard tariff. This is because even under a green tariff, the electricity delivered is a mix of the electricity from all sources including coal and nuclear power stations as well as wind power and other renewables.

Confusion also arises from the fact that suppliers already have to meet targets under Government programmes aimed at battling climate change. The Renewables Obligation (RO) sets suppliers annually increasing targets for sourcing more electricity from renewables. The Carbon Emissions Reduction Target (CERT) requires suppliers to help domestic customers

reduce their carbon emissions through a variety of energy efficiency measures. Suppliers pass on the costs of meeting these two programmes to all customers as part of their standard gas and electricity bills.

A number of green tariffs are marketed by suppliers as being sourced from renewables and customers who sign up to them often pay a premium. Ofgem has concerns that some suppliers are doing no more than assigning the electricity they source to meet the RO to green tariffs. In other words, some green tariffs do not necessarily result in any new renewable electricity being created. And all customers pay for RO green energy in their standard electricity bill.

As with the RO, Ofgem has concerns that suppliers may be offering CERT energy efficiency improvements under the guise of a green tariff when the improvements arise simply from the an existing obligation.

► What environmental contributions are customers already paying?

	Renewables Obligation	Carbon Emissions Reduction Target
What is it?	A requirement on suppliers to buy a certain percentage of the electricity that they sell to consumers from renewable sources. They receive a subsidy from customers to support this.	A target for reduction of household carbon emissions which suppliers must meet through energy efficiency measures.
How much does it cost me?	In 2008, the cost to customers was about £10 , but this will increase for each year that the scheme is in place. It is scheduled to run until 2027.	In 2008, the cost to a customer using gas and electricity was about £38 . The CERT helps to reduce bills over time.

Customers are also paying the costs of the European Union Emissions Trading Scheme (EU ETS) in their standard electricity bills. The EU ETS puts a price on carbon dioxide emitted by power stations and other major industries.

This cost is reflected in the wholesale price of electricity. Suppliers pass this on to customers. A typical customer paid about **£31** a year for the ETS in 2008.

► What has Ofgem done to cut customer confusion?

Ofgem has been working to cut customer confusion by revising its green supply guidelines, which set out how suppliers should market green tariffs to customers.

The big six energy suppliers and Good Energy have so far signed up to the guidelines and Ofgem welcomes their participation. Ofgem will work with suppliers to set up an accreditation scheme that will be run by an independent body. It will enable householders and small businesses to easily compare green offerings based on the carbon emissions they reduce. The revised guidelines and accreditation scheme will reassure customers that if they choose a green tariff they will be supporting extra activity to reduce carbon emissions. Suppliers will have to show that this activity is additional to what they are obliged to do under the RO and the CERT.

Suppliers signed up to the guidelines will have to provide the following marketing information to customers:

- a fuel mix disclosure chart displaying the percentage of each energy source used by the supplier to give customers an idea of the environmental credentials of the supplier;
- a description of the additional environmental activity that the supplier is undertaking, on behalf of the customer, to

demonstrate an environmental benefit over and above what suppliers are already required to do to meet the RO and CERT. Examples include supporting community-based renewable projects, carbon offsetting, and installing energy efficiency measures.

- a quality mark that certifies that environmental activity as part of the green tariff will abate a minimum level of carbon dioxide equivalent emissions. For domestic green tariffs, the minimum will be equivalent to one tonne of carbon dioxide emissions a year - if the environmental activity is carbon offsetting - and a lower amount for other environmental activities such as supporting community renewable schemes. For small business green tariffs, the thresholds will be higher. If the environmental activity is carbon offsetting then it must comply with the Government's Quality Assurance Scheme for Carbon Offsetting.

The green tariff scheme is expected to be operational by summer 2009 and Ofgem envisages that information on accredited green tariffs will be available online. Only tariffs accredited under the scheme will be regarded as green.

► Scope of Ofgem's green supply guidelines

The guidelines and accreditation scheme will only apply to tariffs for domestic and small business customers. They will not apply to green supply offered to the industrial and commercial (I&C) sector. Respondents to Ofgem's July 2008 consultation on revising the guidelines considered that Ofgem should focus on establishing an accreditation scheme for domestic and small business customers first. The I&C sector can look to Defra's Guidelines for Company Reporting on Greenhouse Gas Emissions for how green supply contracts

should be treated. These guidelines enable businesses to report the impact they are making on the environment.

In general, green electricity contracts that are currently offered to the I&C sector will not necessarily reduce greenhouse gas emissions or lead to more renewables being developed. Ofgem advises I&C customers to focus first on energy efficiency. Those who want to do more should consider on-site renewable or low-carbon energy production.

For further information please contact:

Trevor Loveday, Head of Communications

020 7901 7288

email trevor.loveday@ofgem.gov.uk

Chris Lock, Communications Officer

020 7901 7225

email chris.lock@ofgem.gov.uk