PERCEPTIONS OF GREEN TARIFFS

Full Report

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Prepared for

ofgem

1 Summary

The research programme

- Ofgem commissioned Insight Exchange to carry out a programme of research with domestic consumers to understand their awareness, experiences and expectations of green tariffs. The overall aim of the research was to provide insight to help Ofgem in its review of the current Green Energy Supply Certification Scheme and Guidelines.

- Insight Exchange carried out research amongst consumers currently on green tariffs through a combination of mini-groups and depth interviews. In total 28 green tariff consumers took part in the research comprising consumers from each of the six large energy suppliers and five smaller suppliers.

- Research amongst consumers not on green tariffs was carried out primarily through three deliberative events held in Cardiff, Edinburgh and Manchester. Six depth interviews with vulnerable consumers who were unable to attend the events were also carried out. In total 76 non-green tariff consumers took part in the research.

- All the fieldwork was carried out in March 2013.

Context

- There are three contextual factors that heavily influence consumers' reactions to green tariffs:
    - The difficulty in pinning down what being 'green' means for consumers;
    - The lack of trust they have in the large energy companies – particularly in relation to what they see as excessive profits and bonuses; and
    - The complexity of energy – both in terms of a lack of understanding of how generation and distribution work, and in terms of the complexity of tariffs in the market.

- The combination of these factors represents the challenge to be overcome if green tariffs are to be properly understood and accepted by consumers. The complexity and lack of trust tends to lead to rejection of the concept of a green tariff by many – particularly if the tariff is provided by one of the large energy companies.

Awareness and knowledge of green tariffs

- Like other consumers, the majority of consumers who are on green tariffs are relatively disengaged from the energy market as a whole. Not everyone who is on a green tariff even realises that they are on one. Even those who consider themselves to be fairly green have a very low level of knowledge about the detail of their tariff and its relative benefits vs. standard equivalents. Few are able to identify exactly what it is that makes their tariff 'green'.

- Awareness of green tariffs amongst those consumers who are not on them is extremely low. Even those who have heard of them tend to have very scant knowledge about them, simply having seen a green tariff when looking on a price comparison website.

- As awareness is so low, knowledge and understanding of green tariffs amongst non-green tariff consumers is extremely low.

Expectations of green tariffs

- Consumers tend to associate the word tariff with a service that they directly receive. This is a reflection of the use of the word in other industries such as mobile phones and cable/broadband. This, in combination with a lack of understanding of the electricity distribution system, can lead many who have no previous knowledge of green tariffs to think that green tariffs must link to some green aspects of their own usage or home such as having solar panels or grants for insulation.

- This link that consumers make between green tariffs and energy production or energy saving measures in the home leaves many expecting that a green tariff should be cheaper than a standard tariff. Others also think that a green tariff should be cheaper because they see wind, sun and water as being essentially free resources that should be cheaper to use – at least once the initial investment has been made.

- Most of those consumers who are on green tariffs assume that by signing up to a green tariff their homes are being directly supplied with renewable energy. They believe that this is the main reason for any additional cost. Those not on green tariffs have a similar expectation. If the energy you receive does not actually differ from energy derived from more traditional sources, they struggle to see the point of having a green tariff.

- If a green tariff is more expensive than a standard tariff then consumers (both those on green tariffs and those who are not) generally expect that the additional money should be spent on investment in new renewables. They also think that suppliers themselves should generate this green electricity – 'buying in' green electricity from other producers is not seen as the same. The concept of matching where the supplier estimates the amount of electricity a green tariff customer uses and feeds the same amount of electricity from renewable sources into the distribution network is really too complicated and indirect for most.

- Consumers do not consider nuclear to be a renewable energy – it is broadly seen to sit somewhere between fossil fuels and renewables. Even those who are supporters of nuclear do not expect it to be part of a green tariff as they consider green tariffs to be about renewable energy.

- During the research, consumers were given information about the way in which renewable energy is financed in Great Britain including through the Renewables Obligation.[1] None of the consumers we spoke to were aware of the Renewables Obligation before taking part in the research. Learning about it led many to question why green tariffs are needed if the Government is already requiring energy companies to meet national renewable targets.

- The consumers that we spoke to were unaware that they already contributed to green energy through their bills. They are mostly happy with the circa £25 a year amount that they were told during the research was the approximate amount this costs them, but they feel that they should be informed about it.

- Knowing about the Renewables Obligation made little impact on how most green tariff consumers felt about their green tariff – and many were pleased to be doing even more than they had originally thought towards the green agenda. Some green tariff consumers however felt that the difference between this and the premium they were paying to be on a green tariff was ill defined and that they were being 'double charged'.

- Overall, once consumers understand what a green tariff is, then their expectations of green tariffs are primarily that:
    - The extra you are paying for the green element must be **clear.**
    - What that premium is being spent on must be **transparent,** and it should **be spent on investing in renewables**.
    - And this investment must be in **addition** to what the Renewables Obligation already covers.

[1] In order to meet domestic climate change commitments requiring the energy system to decarbonise (reduce carbon dioxide emissions) by 90% by 2050, the Government introduced a target to source 20% of the country's energy from renewable sources by 2020. To help meet these targets, energy suppliers are legally obliged to purchase an increasing proportion of their electricity from renewable sources under the Government's Renewables Obligation (RO).

Profile of customers on green tariffs

- Overall we can split green tariff consumers into three broad segments based on their attitudes to green tariffs and the decision-making journey that led them to being on that tariff.

- **Dark greens** – this is a relatively small group of consumers at the 'greenest' end of the spectrum. These consumers are fairly knowledgeable about their tariff. Some have actively chosen between green tariffs based on claims made by different suppliers. They are happy to pay a 'bit more' to be on a green tariff and know that they are doing so.

- **Passive greens** – this is the largest group. They are aware of and interested in the wider green agenda, are sometimes willing to pay slightly more for their energy to support it, but know very little about the green energy market and the tariffs that they are on. At the point where they signed up they made some effort to check that the tariff was green in some way but did not enquire in any great detail.

- **Accidental greens** - at the bottom end of the green spectrum are consumers who end up on a green tariff without making a conscious decision to do so. They either moved into a property and inherited the previous occupant's green tariff or switched to a cheaper tariff than their previous one, which happened to be green. Price is the most important - and often only - driver of their supplier and tariff choice.

Latent demand for green tariffs

- There is very little latent demand for green tariffs amongst those consumers who are not currently signed up to them. Crucially, the more they learn about what a green tariff is, the less interested and more negative they become.

- The major barrier – for many the only – is one of cost. They simply will not countenance paying any more for their energy than they need to. They feel that the large energy companies are just trying to get consumers to pay for what they are obliged to do anyway. They do not understand the rationale for green tariffs when the Government is legally obliged to achieve a certain level of renewable energy.

- A small number of consumers not currently on a green tariff expressed some potential interest in one. They had similar reasons for this interest to the 'dark greens' and 'passive greens' in that they were prepared to pay a small premium to help the environment in some way.

Information and accreditation

- The key pieces of information that consumers need when they are considering signing up to a green tariff are:
    - **How much extra does it cost**. They would like this to be expressed in pounds per month terms.
    - **What that extra money is spent on**.
    - That **a standard tariff already includes a yearly contribution towards green energy** and how much that contribution is.

- This information needs to be clearly stated at the initial point of sale – which for many is through a price comparison website.

- None of the consumers who took part in the research were aware of the Green Energy Supply Certification Scheme. This included those who were on an accredited tariff. When the Scheme was explained, both green and non-green tariff consumers were generally positive about it.

- Because of the low level of trust that they have in the large energy companies, consumers thought that accreditation, or some kind of rules, would be very useful to develop some consistency within the market and to ensure that the promised benefits were delivered. They would like to see rules or an accreditation scheme that is:
    - Compulsory;
    - Transparent, so that they can be sure that the energy companies are spending the green money on what they say they will;
    - Ensures investment in new renewables (over and above what the energy companies are already obliged to do);
    - Independent; and
    - Tiered in the way that energy efficiency labels for white goods are

Conclusion

- Overall, the more non-green tariff consumers learn about what green tariffs are, the less interested they are in signing up. This is largely because of:
    - The price premium involved;
    - The perceived lack of direct consumer benefit;
    - A dislike of the principle of matching rather than the premium necessarily being invested in new renewables; and
    - The fact that all consumers are contributing towards increased investment in renewables through their electricity bill.

- This makes the role of clear information at the point of sale crucial if consumers are going to make an informed decision that is right for them. It also suggests that if the information is as clear as it needs to be for consumers to make a properly informed decision then the number of consumers signing up for green tariffs is likely to decrease.

2 Introduction

2.1 Background and aims of the research

Domestic consumers have been able to choose both their electricity supplier and tariff since 1999. More recently their choice of tariff has included the ability to purchase a green tariff for their electricity supply. However, the precise nature of these green tariffs has been varied, ranging from schemes which simply assert that all of the electricity used is generated from renewable sources, to those which make contributions to funds that offset carbon emissions. The greenness of a tariff therefore depends on the definition and criteria used for assessing it.

Given the absence of any official definition of what constitutes green electricity, and concerned by the potential for consumers to be confused by claims of 'greenness', misleading use of statistics and, at worst, mis-selling, Ofgem produced guidance for suppliers in 2002, 2005 and 2008, culminating in 2009 with the publication of the guidelines governing the Green Energy Supply Certification Scheme. (GESCS)

The overarching aim of the Scheme is to provide clarity and certainty to consumers that the energy they are buying via green tariffs comes from a renewable source and that these tariffs have an environmental benefit over and above that covered by suppliers' existing government obligations.

At the launch of the guidelines in 2009, Ofgem committed to formally review the Scheme once a sufficient number of tariffs had undergone audit. Ofgem has also observed growth in non certified green tariffs in the market. It is concerned that a potentially diverging green tariffs market (between certified and non-certified tariffs) could lead to customer confusion and undermine progress to date.

Ofgem therefore commissioned Insight Exchange to carry out a programme of research with domestic consumers to understand their awareness, experiences and expectations of green tariffs. The overall aims of the research were to provide insights to help Ofgem in its review of the GESCS Scheme and Guidelines by identifying:

- Consumer awareness and understanding of green tariffs in the market, including what consumers believe the term 'green tariff' means;
- Consumer expectations of green tariffs, and their preferences/requirements of such tariffs;
- The key motivations and barriers to opting for green tariffs, and what influences choice of green tariff;
- How consumers expect to access information about green tariffs – what level of detail do they want/expect; how and at what point do they want access to this information?

- Consumer views on the effectiveness of the current Green Energy Supply Certification Scheme, including how the scheme could be improved;
- How views and expectations may differ among different segments of consumers, e.g. those currently on green tariffs, and others who are not.

2.2 Methodology

Insight Exchange carried out research amongst consumers currently on green tariffs through a combination of four mini-groups of 4-5 consumers and depth interviews over the telephone. The mixed approach reflected the low geographical incidence of green tariff consumers and a desire to include consumers from each of the six large energy suppliers and five smaller suppliers offering green tariffs. In total 28 green tariff consumers took part in the research.

Our research amongst consumers not on green tariffs was carried out primarily through three deliberative events held in Cardiff, Edinburgh and Manchester. Each event lasted for two and a half hours with between 22 and 24 consumers attending each one. The participants were recruited to represent a broad cross-section of Britain's electricity consumers with a spread of attitudes towards green issues. We also carried out six depth interviews with vulnerable consumers who were unable to attend the events. In total 76 non-green tariff consumers took part in the research.

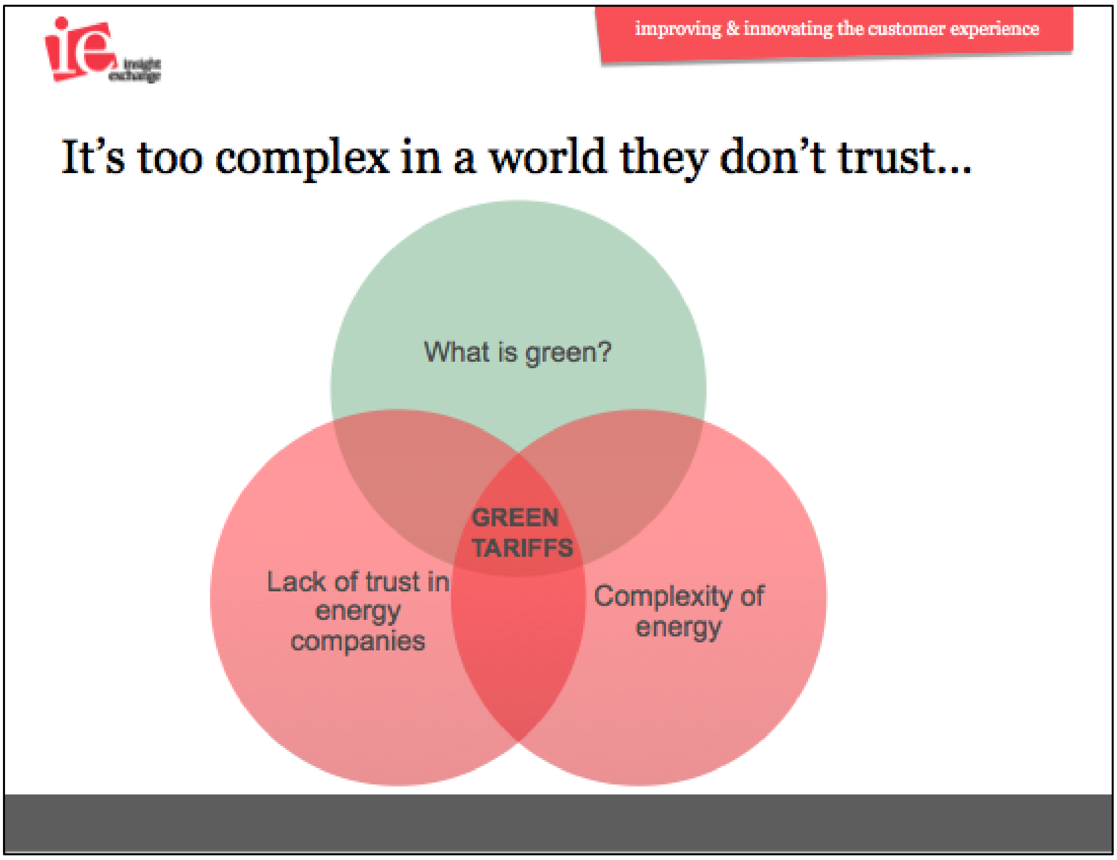
All fieldwork was carried out in March 2013.

3 Context

Discussions with consumers around green tariffs inevitably take place in the context of their views of the energy market, and of energy suppliers more generally. Whilst this research did not directly set out to explore these views, they came to the fore in consumers' responses throughout their discussions. There are three contextual factors that heavily influence consumers' reactions to green tariffs:

- The difficulty in pinning down what being 'green' means to them as consumers;
- The lack of trust they have in the large energy companies; and
- The complexity of energy – both in terms of a lack of understanding of how generation and distribution work, and in terms of the complexity of tariffs in the market.

Each of these factors is explored in more detail below. The combination of these factors represents the challenges to be overcome if green tariffs are to be properly understood and accepted by consumers. The perceived complexity in the market and lack of trust in the large energy companies overall also tends to lead to rejection of the concept of a green tariff by many – particularly if it is provided by one of the large energy companies. The interaction of these three contextual factors is illustrated in the following diagram.



3.1 What is 'green'?

The term 'green' is a very broad and vague term. This makes it very difficult for people to be confident that they know what it actually means in practice. Being green tends to be equated most readily with recycling - though many feel that recycling has now become so mainstream and the socially accepted thing to do that it is no longer a real mark of green behaviour. Other behaviours associated with being green tend to either be transport related (cycling or walking rather than driving; not flying) or related to energy efficiency in the home.

> *"Green-ness seems to have been captured by the marketing people and actually quite often it's just one product is less evil than something else"*
> Green tariff consumer

Some consumers also question whether it is worth them changing their own behaviour in an attempt to be green as they don't believe it will really make a difference. This is often in the context of believing that other countries such as

China, India and the USA make such a large contribution to emissions that their own efforts are worthless. There are, of course, also some who deny the existence of climate change and do not believe that it is necessary to reduce emissions at all.

> *"We recycle etc., but what are they doing in China? We are a drop in the ocean..."*
> Non-green tariff consumer

All this means that not only is the term 'green' a very complex one, but that 'green energy' is even more complicated and hard for most consumers to readily understand.

3.2 Lack of trust in large energy companies

Top of mind for consumers when thinking about energy and their choice of tariff is the cost. However it is not the cost itself that negatively affects their perception of energy companies but their view that the companies are making excessive profits and paying their senior management unreasonably high bonuses. This feels even worse at a time when finances for many are increasingly tight. Because of this, even amongst those who feel that green tariffs are a good thing, the thought of choosing a green tariff that requires you to pay more to an energy company than you have to is met by most non-green tariff consumers with incredulity even before they know that they are already contributing towards green energy through their normal electricity bill.

> *"For me it comes back to the profits they make - when they make that much I'm certainly not going to put my hand in my pocket"*
> Non-green tariff consumer

> *"If times were better, we'd all want to be more green, but people can't get enough food on their plates"*
> Non-green tariff consumer

> *"The way things are at the moment, a green tariff that saves the planet and costs more or a tariff that kills the planet but is cheaper, I'd take the cheaper one!"*
> Non-Green tariff consumer

Even those consumers who have actively opted for a green tariff, are finding it increasingly hard to justify the additional spend as their household budgets become ever more squeezed.

> *"I wouldn't want being green costing me more each month. It's important to be eco-friendly, but it's also important to be realistic"*
> Green tariff consumer

Their belief that the large energy companies are making excessive profits leads directly to a lack of trust in the companies. This is fuelled by the complexity of tariff offerings and, for some, poor experiences of customer service and negative experiences with door-to-door selling. The lack of trust in the large energy companies leads many to question whether the extra money that a green tariff costs will actually go where the company says it will. They are suspicious that it will just go into company profits instead.

> *"Look at their profits – you just realise that they don't really care about it [green energy]"*
> Green tariff consumer

> *"If I saw on a website that this bit you pay is going to renewables, to renewable energy, I wouldn't believe it because I don't trust any of the power companies anymore"*
> Non-green tariff consumer

Those who are customers of the smaller suppliers tend to trust them far more. These newer entrants to the energy market are not tainted with the perceptions of excessive profits and bonuses. Many of their customers also feel that they receive better customer service from these suppliers than from the large energy companies. Consumers who are aware of the smaller energy companies also feel that these companies have far more of a legitimate claim to the ethical stance that a green tariff suggests, as it is considered to be an integral part of the way that they do business. In contrast to how they feel about the large energy companies, consumers do not believe that the smaller companies exist purely to make as much profit as possible. That these smaller companies are thought, or sometimes known, to be UK owned also adds to this overall more positive feeling about them.

> *"You want the company to have some sort of commitment to green issues - the whole company - otherwise it's a token thing"*
> Green tariff consumer

> *"In their marketing, they made a big deal about how proactive they were investing in renewables….And I remember thinking that puts them in a slightly different category than say a major company that happens to have a green tariff but then buys that from somewhere else"*
> Green tariff consumer

Consumers are far more likely to trust smaller suppliers to offer tariffs that are green in a meaningful way, and to believe that any extra cost is being channelled towards investment in more renewable energy and other green projects.

3.3 The complexity of energy

Only a very small proportion of consumers have a good understanding of how energy generation and distribution works. This lack of knowledge extends to having a very vague or non-existent understanding of the term 'renewable energy' amongst many. Not understanding how the distribution networks operate makes understanding how a green tariff works very difficult. The expectation of many consumers is that if they sign up for a green tariff then all, or at least most, of the electricity coming into their home will be from a green source such as solar or wind.

> *"I'd expect that I'm on a green tariff and therefore I'd have green electricity coming into my house"*
> Green tariff consumer

The complexity of the energy market in terms of the number of tariffs on offer also adds to a general suspicion around green tariffs and whether they really are offering something different. Consumers find it difficult to tell the difference between the multiple tariffs on offer. The more tariffs there are the more difficult it is for them to understand how they differ and what the best choice is.

> *"It's another way for energy companies to make more money by giving something a green friendly badge"*
> Non-green tariff consumer

4 Awareness and knowledge of green tariffs

4.1 Green tariff consumers

Previous research conducted on behalf of Ofgem has shown that a large number of consumers are currently disengaged from the energy market. This is true for the majority of consumers on green tariffs that we spoke to as well. Not all consumers on green tariffs are aware that they are even on one. This may be partly due to the fact that 'green tariff' is not a recognised label as well as the fact that for some the choice was about moving to a cheaper tariff and they did not realise that it was a green tariff. People refer variously to 'green energy companies', 'environmentally friendly tariffs', 'renewable energy tariffs', 'alternative energy tariffs' as well as to 'green tariffs'.

Even those who consider themselves to be fairly green have a very low level of knowledge about the detail of their tariff and its relative benefits vs. 'standard' equivalents – largely due to the perceived complexity of tariffs in general.

> *"I don't consider myself to be that thick, but I very quickly start floundering once conversations move on to tariffs, stepped tariffs, green tariffs etc."*
> Green tariff consumer

Most have selected their tariff because of a desire to 'do their bit' for the environment or because it happened to be a cheaper option for them than their previous tariff. Very few consumers have more than a cursory knowledge about their green tariffs – and few are able to identify exactly what it is that makes their tariff green. They have no awareness of the current accreditation system and their expectations of how the tariffs work and benefit the environment are largely based on assumptions rather than information or communication from their supplier.

Most consumers on green tariffs make a link between 'green' and the electricity supply to their own home – expecting that they will directly receive the renewable energy that they believe they have paid for. They have a limited understanding of how distribution networks function. Whilst the majority understand that they are paying a little more to be on a green tariff they aren't able to clearly identify what they are contributing towards. They assume that it is for 'more renewable energy' or 'investment in green projects' but are unaware of differences in green tariffs offered by different suppliers.

4.2 Non green tariff consumers

Awareness of green tariffs amongst those consumers who are not on them is extremely low. For example, of the 22 consumers attending the Manchester workshop only one person said they had ever heard of green tariffs. The numbers were slightly higher in Cardiff and Edinburgh, but even those who have heard of them tend to have very scant knowledge about them, simply having seen a green tariff when looking on a price comparison website.

> *"I didn't look at it in much detail because it was more expensive. I went with a fixed term instead"*
> Non-green tariff consumer

As awareness was so low, actual knowledge about green tariffs amongst non-green tariff consumers was virtually non-existent. A very few knew (or possibly guessed) that a green tariff was linked somehow to renewable energy.

> *"Maybe it means, if you are on a green tariff, something is paid towards renewables or sustainable energy?"*
> Non-green tariff consumer

5 Expectations of green tariffs

5.1 Expectations of green tariff consumers

The low understanding of how the green energy market works inevitably has a major impact on how consumers view green tariffs.

The next three sections look at what consumers expect of green tariffs in relation to the fuel mix of the energy that they receive; the cost of green tariffs; and what they expect in relation to additional investment in renewable energy.

5.1.1 Fuel mix expectations

Most of those consumers who are on green tariffs assume that by signing up to a green tariff they are receiving a renewable energy supply direct to their home. They're not sure how this works, and have limited understanding of electricity distribution networks, but they think that this is what they're paying extra for.

> *"I just assume…. that the energy that's coming into my house is from this source"*
> Green tariff consumer

These consumers have often not looked into the fuel mix that their tariff provides – their expectation is that if they have signed up to a green tariff, they will be receiving a very high percentage (usually 100%) renewable energy themselves. Where they have looked into the information available and found that this isn't the case, they are often confused about where the additional energy comes from and how it affects the 'green-ness' of their tariff.

> *"I'm confused about how much [green electricity] you might potentially be getting because it can vary can't it?"*
> Green tariff consumer

Others vaguely understand that their homes aren't powered directly by green electricity but this generally creates further confusion about how the system actually works.

> *"Does it come from a different place or is it sourced differently? But I can't see how it can be because it's all the same electricity that comes through the wall"*
> Green tariff consumer

Most consumers believe that delivering green electricity to their home is the main reason for any additional cost incurred through being on a green tariff. They also think that suppliers themselves should generate this green electricity – 'buying in' green electricity from other producers in order to match the amount of electricity green tariff customers are using with renewable energy is not seen as the same. The majority of consumers don't recognise the concept of suppliers 'matching' the energy a consumer uses with a similar amount of renewable energy.

5.1.2 Cost Expectations

Most green tariff consumers (other than those who have picked a green tariff because it happened to be cheaper than their previous tariff) are prepared to pay a little more to be on a green tariff. They are aware that green tariffs tend to be more expensive than standard ones – but they don't necessarily agree that this should be the case or understand why.

> *"You are paying a little bit extra for the green tariff….I think it was probably an extra £13 [per year] or something, not a great deal extra"*
> Green tariff consumer

Some green tariff customers think that the tariffs are more expensive because the cost of generating renewable energy and investing in renewable sources is higher. Others note that whilst this may make sense in the short term, the source of renewable energy (e.g. sun, water and wind) is free and therefore the cost of a green tariff should be reduced over time.

> *"If more people are on a green tariff you're encouraging – however it happens – more renewable resources"*
> Green tariff consumer

Part of the frustration around cost for many green tariff consumers is the sense that the shift towards green energy is being led by consumers rather than by energy suppliers. Some feel that by being on a green tariff they are playing their part, however small, in making their suppliers become greener. Whilst this is the reason that some sign up, they also feel that the large energy suppliers should already be increasing their investment in renewables regardless of the number of people who sign up for green tariffs.

5.1.3 Expectations of additional investment in renewable energy

Most consumers on green tariffs expect that all electricity suppliers (especially the larger ones) should be demonstrating their commitment to the green energy agenda through further investment in renewable energy.

> *"I would hope that in the process of existing as a large money making organisation that they were actively investing in renewable resources themselves"*
> Green tariff consumer

"It would be useful to know that they were actively investing in a renewable infrastructure that would allow production to increase"
Green tariff consumer

"I was specifically worried about investment in renewable energy, because I see that as a more long term solution – so that's what I was looking for when I switched"
Green tariff consumer

Some consumers who have looked into what their green tariff offers are aware that their supplier invests money towards 'green causes' but they aren't clear what these projects are and how much is being invested in them. Their sense is that investment in renewable sources is more tangible and provides for a longer term contribution to combating climate change. However, they would be interested in finding out about other investment in green initiatives carried out by their supplier.

5.2 Initial expectations amongst non green tariff consumers

Consumers tend to associate the word tariff with a service that they directly receive. This is a reflection of the use of the word in other industries such as mobile phones and cable/broadband as much as its use in the energy industry. They are familiar with choosing tariffs based on their own usage (e.g. being a 'light user' or an 'economy 7 user'). This leads many who have no previous knowledge of green tariffs to think that the term means that a green tariff must link to some green aspects of their own usage or home. Some examples of this are:

- Lower bills because they are generating electricity through solar panels. There is some confusion here with Feed In Tariffs, which some people are aware of because of recent media coverage around changes in rates;
- Money coming to you as a customer through grants to help make your home more energy efficient such as for insulation or new boilers;
- Or lower bills because you are being energy efficient (through using energy at different times or having a limit on the amount of energy you can use).

" I think it's about government giving grants for things like insulation and solar panels and boilers"
Non-Green tariff consumer

"People with solar panels having a different tariff and getting something off their bill?"
Non-Green tariff consumer

5.2.1 Fuel mix expectations

Like green tariff consumers, those not on green tariffs assume that if they were on a green tariff then they would be receiving electricity to their home from one or more renewable sources. Their initial assumption is certainly that their personal electricity supply would be greener if they signed up for a green tariff than if they stayed on a standard tariff. On reflection however, some think this might not always be the case and that they might be switched over to other fuels when there is no renewable energy available.

5.2.2 Cost expectations

The linking of green tariffs to energy production or energy saving measures in the home leaves many expecting that a green tariff should be cheaper than a standard tariff. Others also think that a green tariff should be cheaper because they see wind, sun and water as being essentially free resources that should be cheaper to use – at least once the initial investment has been made.

> *"Surely there are no running costs with a wind farm, once it's there … so spend 10 million putting it up, then why do I have to keep paying for it?"*
> Non-green tariff consumer

Some also feel that green tariffs should be cheaper to encourage more people to sign up and 'do the right thing'. This comes from the belief that by signing up to a green tariff you get energy from renewable sources coming into your home, or at the very least you increase the absolute amount of renewable energy being produced.

However others think a green tariff could be more expensive because they link 'green' with paying a premium in a similar way to organic food being more expensive than non-organic. They also appreciate that a green tariff is a niche product and tend to associate this with it being more expensive.

5.2.3 Expectations of additional investment in renewable energy

If a green tariff is more expensive than a standard tariff then consumers generally expect that the additional money should be spent on investment in new renewables. The concept of matching is really too complicated for most. Matching is also rather indirect and consumers do not like the idea that their energy consumption is estimated for the matching to happen. This is largely bound up with their dislike of estimated bills but also suggests to consumers that the energy companies may be able to fudge the amount of renewable energy that is put into the system on green tariff consumers' behalf.

Investing directly in new renewables is equated far more readily with investing for the future. Consumers are also able to more easily make a connection between the additional money they are paying and investment in new renewables. This gives the potential for 'emotional ownership' of specific renewable projects along the lines of ‘my green tariff helped to pay for that wind farm’ and thus gives consumers a sense of a more tangible benefit (though still not a benefit direct to them).

5.3 Technologies

Before exploring their understanding of green tariffs in any detail, consumers were first asked to briefly talk about their understanding of different types of energy sources. All consumers on green tariffs felt they understand the term ‘renewable sources’. They understand that ‘renewable sources’ generally means solar, wind and hydro-electric power and that the green energy agenda is about producing and supplying more energy from these sources. Some are also able to reference geo-thermal, tidal and biomass as alternative options – but this is largely limited to the most engaged consumers. Beyond this, consumers have a range of different expectations and understanding of how green electricity works and what their tariff offers.

> *“It should be supporting alternative energy sources…and just using new technology and new innovations in a positive way to lessen the impact on the environment”*
> Green tariff consumer

Some of those consumers not on green tariffs are vague as to what renewables are and what the opposite of renewables might be. Others articulate renewables as being about wind, solar, tidal and/or hydro and a few have more sophisticated definitions.

> *“Not something that you are ripping from the earth that is never going to come back again”*
> Non-green tariff consumer

> *“Not burning – though what about wood burners? Are trees renewable?”*
> Non-green tariff consumer

Once the term ‘green’ is explained, most people see renewables as ‘a good thing’ and believe that this is where the future lies. The most common association is either with having solar panels on your own roof or with wind farms. Whilst the majority see these as positives, they do attract some negative comment. With solar panels this is linked to the issue of payback periods for the initial investment and also some knowledge about reductions in Feed In Tariff payments. Those in Scotland in particular also thought that the lack of sunlight would be problematic. In addition those living in flats, which was particularly common amongst the Edinburgh group, did not really have the option of solar panels unless they clubbed together with the other residents. Comments about wind farms tend to be polarised around whether people think they are visually attractive or not. There was also some minority comment about them being unreliable and inefficient and some very limited comment about their detrimental effect on migratory birds.

> *"Then there's a quandary, I suppose, with the government fiddling around with the feed-in tariffs; do you actually get a good deal or not?... And it's things like, how long do you have to do it for before you get a return?"*
> Green tariff consumer

5.3.1 Nuclear energy

Introducing the idea of nuclear energy into the debate around green tariffs brings in a further level of complexity for consumers. There was some concern amongst both green and non-green tariff consumers about waste and nuclear accidents. However, there were some advocates of nuclear as being a clean energy source. Nevertheless, it is clear that consumers do not consider nuclear to be a renewable energy, it is broadly seen to sit somewhere between fossil fuels and renewables. Even those who are supporters of nuclear do not expect it to be part of a green tariff as they see green tariffs as being about renewable energy.

5.4 Informed expectations (green and non-green tariff consumers)

5.4.1 The Renewables Obligation

During the research, consumers were given information about the structure of green tariffs, including Government obligations and the Renewables Obligation placed on energy companies to drive investment in renewables. None of the consumers we spoke to were aware of this Obligation. Learning about it led many to question why green tariffs are needed if the Government is already requiring the energy companies to meet renewable targets.

> *"They're* [the energy companies] *trying to make us pay extra to meet their legal goals."*
> Non-green tariff consumer

Consumers are unaware that they already contribute to green energy through their bills. They are mostly happy with the circa. £25 a year [2] amount with some even feeling good about 'doing their bit'. Some also have the view that as investing in green energy is about the future, and there is no immediate benefit to those paying, it's fairer for everyone to share the cost.

> *"I'm pleased to hear that everybody has to pay for it, to be honest. I think that's very good, because at the end of the day, regardless of where you are*

[2] The actual range is £21-£25 per annum. Consumers were told circa £25 during the research

> *in the financial scale of things, everybody has to pay for electricity and gas, so if they've got to pay for it as much as we do, then that makes me happy."*
> Green tariff consumer

Knowing about the Renewables Obligation made little impact on how most green tariff consumers felt about their green tariff – and many were pleased to be doing even more than they had originally thought towards the green agenda.

However, some green tariff consumers felt that the difference between the Renewables Obligation and the premium they were paying to be on a green tariff was ill defined and that they were being 'double charged'. Whilst this knowledge would make very few green tariff consumers more likely to switch back to a standard tariff, many would feel more comfortable doing so in the future if they knew that they were still 'doing their bit' towards the green energy agenda.

Regardless of their feeling towards everyone making a contribution towards green energy, consumers are displeased that they do not know that they are already paying towards renewable investment. The fact that they do not know only serves to bolster their distrust in the energy companies. On reflection, whilst they do want to be informed, many realise that this is most likely to happen through information that they get with their bill, which they tend not to read.

> *"Even if they did tell you – I don't think anyone reads their bill that closely – it's just I owe £60 this month"*
> Non-green tariff consumer

Some liken it to the information that they get with their Council Tax bill (a reflection of the timing of the research during March when the yearly bills get sent out), which show a breakdown of what Council Tax money is spent on. Like energy bills consumers have little, or no, choice about this but they feel that having the information available is important.

5.4.2 Overall expectations

Overall, once consumers understand what a green tariff is, then their expectations are primarily that:

- The amount extra you are paying must be **clear.**
- What that premium is being spent on must be **transparent** and it should **be spent on investing in renewables**. They expect this to be direct investment, not buying renewable energy from existing sources. Consumers are adamant that none of the additional money must go to company profits – though many believe that will be the case.
- What suppliers spend on renewables and other green initiatives as a result of receiving extra money from green tariffs, must be in **addition** to what the circa. £25 a year, that everyone is paying already goes towards.

6 Demand for, and engagement with, green tariffs

6.1 Existing green tariff consumers

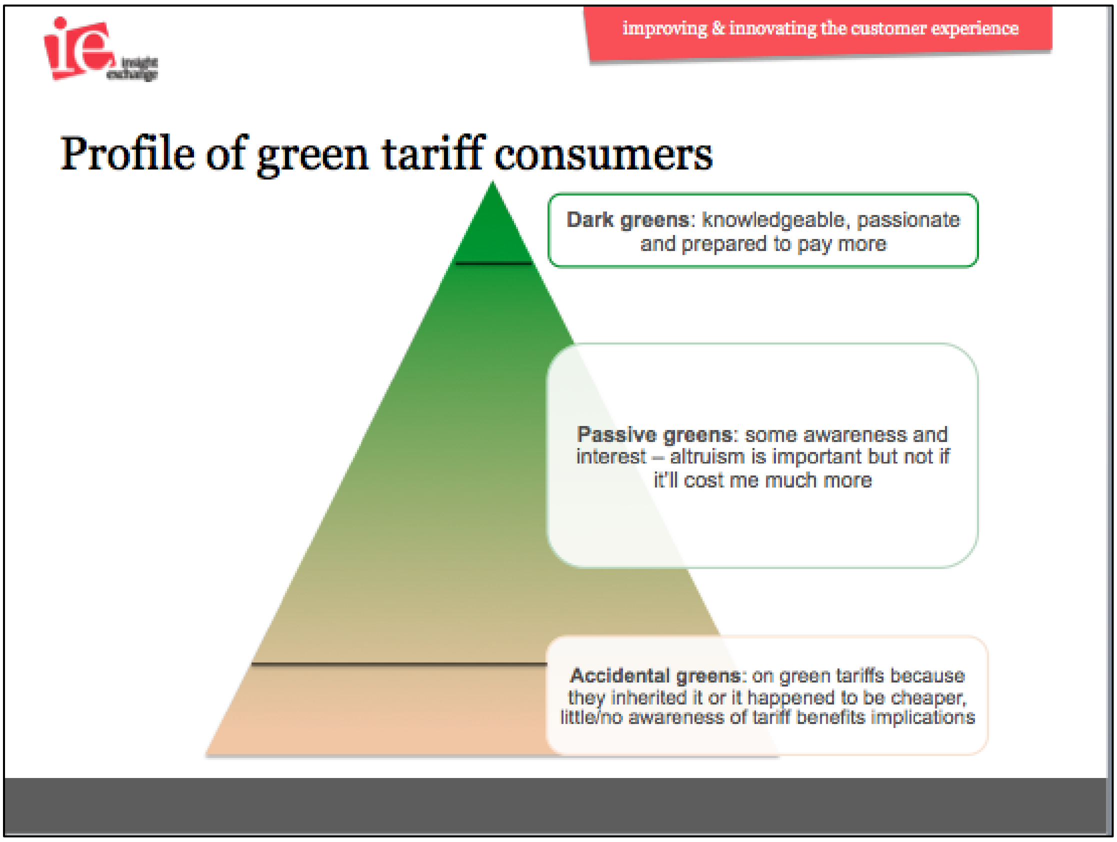
6.1.1 Green tariff consumer profiles

Consumers currently on green tariffs have taken a variety of routes – ranging from active choice following comparison of relative benefits between green tariffs through to no awareness of being on one. They also have a broad spectrum of attitudes towards the green agenda as a whole. This inevitably influences their engagement with, and understanding of, their tariffs and the green energy market.

Overall, based on their attitudes to green tariffs and the decision-making journey that led them to being on that tariff, we can split green tariff consumers into three broad segments. Our sample size is too small to quantify the size of the segments but we are able to give an indication of their relative size. The majority of consumers on green tariffs sit towards the middle of this spectrum. They are aware of and interested in the wider green agenda, are sometimes willing to pay a fraction more for their energy to support it, but know very little about the green energy market and the tariffs that they are on. The primary driver for their choice of a green tariff is a sense of a desire or obligation to 'do something good' for the environment without the cost impacting on their overall lifestyle. We have called this group the 'passive greens' – their passivity is in relation to their engagement with the green agenda, not in relation to their engagement with the energy market overall.

Across all three segments there is a variety of switching behaviour ranging from recent proactive switchers through to reactive switchers who have switched in response to a sales approach and those who have not switched recently.

The three segments are illustrated in the following diagram and then explained in more detail.



Dark greens

For consumers at the greenest end of the spectrum, being green is a fundamental part of their lives. The consumers falling into this category tend to be those who are in their 30's and 40's with young families. They are passionate about, and highly engaged in, the green agenda. They tend to be actively purchasing sustainably sourced food with a low carbon footprint, encouraging green behaviours at work, and looking to ensure that their homes are as green as possible. They do all this mainly for environmental reasons. The increasingly wide use of the word 'green' within society does make them a little suspicious though, and they are more likely than others to research the 'green' credentials of any product or service in order to ensure that it matches up to their personal expectation and perceptions of being green.

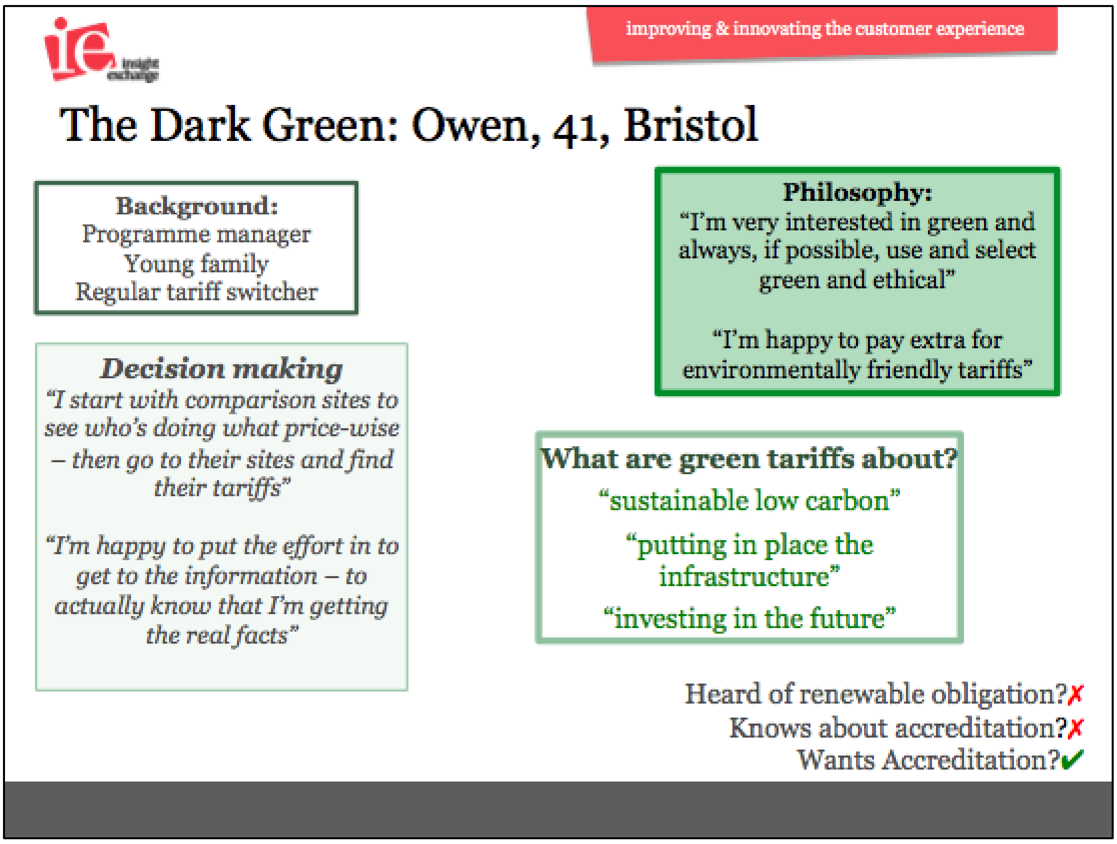
> *"I get quite cross if something is labelled green or organic, it's kind of chucked around like confetti a bit - I'm a bit wary of it"*
> Green tariff consumer

By their very nature 'dark green' consumers tend to be energy efficient and very aware of not wanting to waste energy. Even though the tariffs they are on may be relatively expensive, their overall energy bills are therefore likely to be lower than other families with similar housing and demographics. Whilst they generally see being green as a cheaper way of life, they are prepared to pay extra for the green option where necessary because of their commitment – and perceived moral obligation – to 'helping the planet' wherever they can. Green energy is therefore an ethical choice for these consumers.

> *"I suppose…we were making the decision to pay a bit extra for something that had broad benefits in other ways – as in not directly to our bank account"*
> Green tariff consumer

These consumers are relatively knowledgeable about their tariff on the whole. Some have actively chosen between green tariffs based on the 'green' claims made by different suppliers and the perceived benefits. The complexity of the market and the perceived proliferation of similar tariffs means, that even amongst this group, no consumers were able to accurately define their tariff or outline what they thought the criteria ought to be for a tariff to count as being green. Nevertheless, they are more engaged around green energy than most consumers and would be interested in understanding their tariffs and their relative benefits in more detail. They are aware that they are paying more to be on a green energy tariff and have a greater understanding of the connection between their tariff and investment in renewable energy. But they still don't know where their energy comes from, and most aren't aware of the differences between the various green tariffs offered by suppliers.

A pen portrait of a typical 'dark green' consumer is shown below.



Passive greens
The largest group of consumers on green tariffs are engaged with the green agenda and understand that they are on a green tariff. They are most likely to have switched reactively in response to a sales approach although some have switched proactively. At the point where they signed up they made some effort to check that the tariff was green in some way but did not enquire in any great detail.

> *"I just try to be as green as I can without it running my life"*
> Green tariff consumer

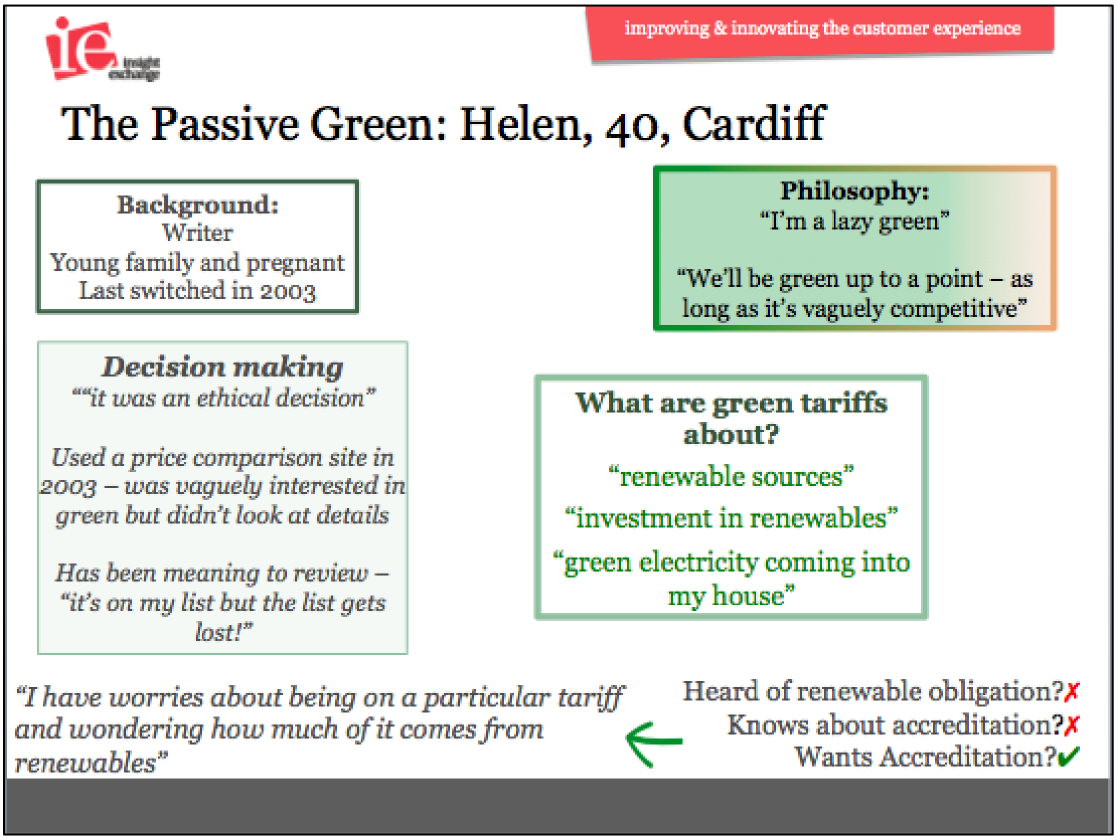
They understand that these tariffs are likely to cost them more than their standard equivalents but believe in being green in their general lives and are willing to pay a few pounds extra to be green in their energy consumption. However, many of them have very little sense of what benefits their green tariff actually delivers. The sense of contributing towards renewable energy in some way is more important than the detail of what that contribution is and how it works in practice. They did not spend a great deal of time choosing their energy tariff and a sense of it 'being green' was more of a tick-box 'nice to have' rather than an absolute requirement.

Whilst these consumers like the feeling of making a positive contribution to the environment, in the context of rising energy prices across the market, they are not averse to reverting to a standard tariff if they perceive the price of being green as disproportionate. Being green matters up to a point – but maintaining their existing standard of living is more important and many of these consumers are increasingly feeling the pressure that rising energy prices are putting on their overall finances. They are the group most likely to question why they are paying more to be on a green tariff once they find out about the Renewables Obligation.

> *"I definitely have this green agenda. But there's this line somewhere, I don't know where it is, that I'll pay a bit more, and then I think that I can't justify spending above that"*
> Green tariff consumer

> *"If there wasn't a huge difference [in price] between a green tariff and a normal one, I'd stick with green"*
> Green tariff consumer

To illustrate these points, a pen portrait of a 'passive green' is given below. As with many 'passive greens' this consumer actively switched but her attitude towards the green aspects of the tariff is fairly passive and un-informed.



Accidental greens

At the bottom end of the green spectrum are consumers who end up on a green tariff without making a conscious decision to do so. There are two main reasons for this:

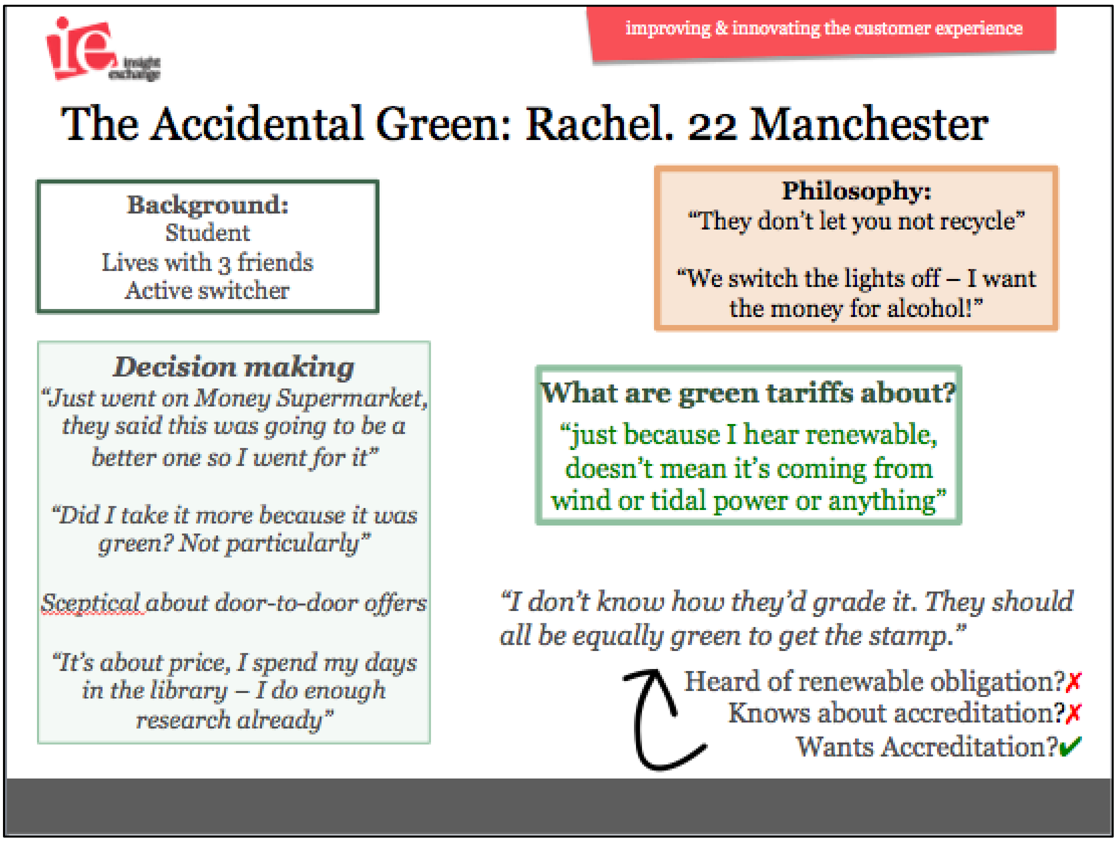
- Moving into a property and inheriting the previous occupant's green tariff;
- Switching to a cheaper tariff than their previous one, which happened to be green.

Whilst most of these consumers are interested in the green agenda in the broadest sense, price is the most important - and often only - driver of their supplier and tariff choice, particularly in the current economic climate. Similarly, behaviours like switching lights and appliances off when not in use are not as much about 'being green' for these consumers but more about saving money.

We heard from some consumers in Manchester about a scheme run by Greater Manchester local authorities to increase consumer buying-power by joining thousands of interested domestic consumers together to purchase their tariff as a group (collective purchasing). The local authorities put the opportunity to supply energy to this group out to tender and the winning supplier was a smaller supplier that provided green energy tariffs. The consumers who signed up to this collective switching deal were therefore on a green tariff without necessarily having any interest in green energy.

'Accidental greens' are therefore relatively disengaged from their tariff and know very little about green electricity – any 'green' features or benefits of their tariff are secondary. They welcome these benefits where they know about them, but would generally not be prepared to pay extra for green electricity. As with non-green tariff consumers a few would be more actively interested if they thought there were clear and tangible benefits both for the environment and for them as consumers.

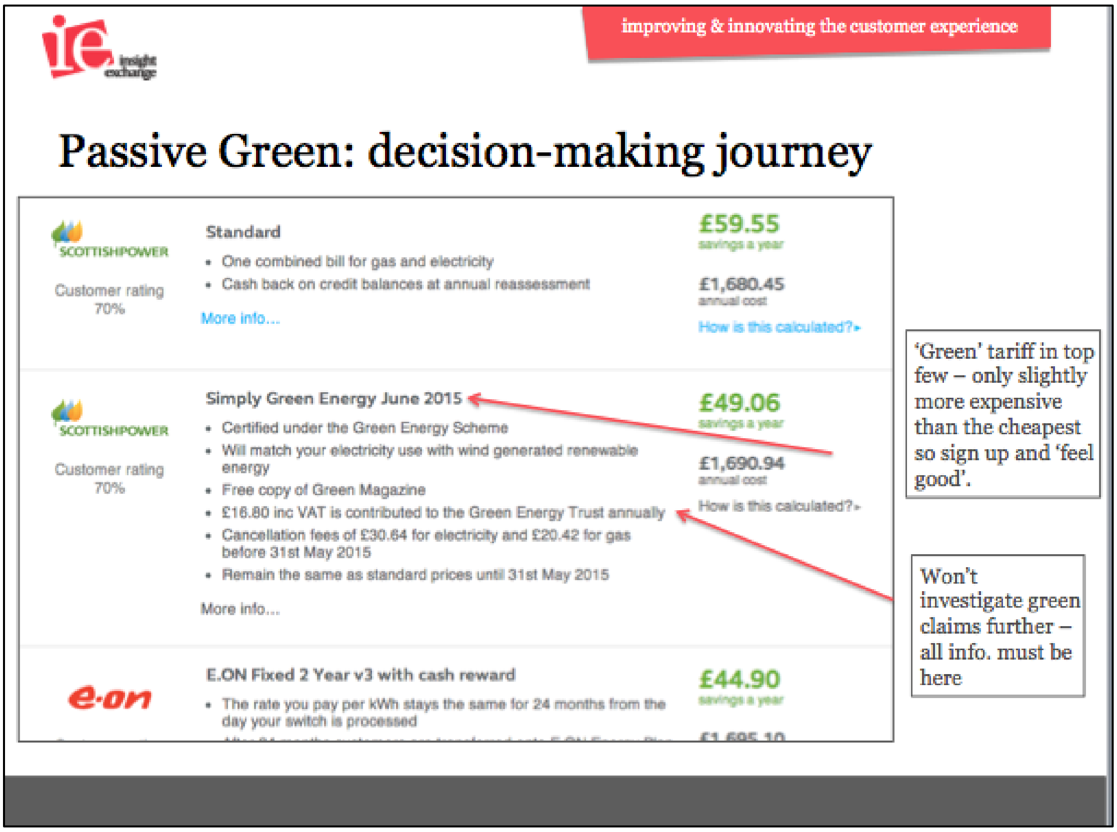
A pen portrait of an 'accidental green' consumer is shown below illustrating their lack of engagement with the green part of their tariff.



6.1.2 The decision-making process

For many consumers on green tariffs, the only point at which they give any consideration to what their green tariff involves is when they are making the decision to switch. Energy tariffs overall remain an area of very low engagement and interest for consumers. For the majority of those signed up to green tariffs, price and a broad sense of doing something positive for the environment are the main requirements of green tariffs.

Although a few consumers recognise that some price comparison websites offer opportunities to filter by green tariffs only, consumers looking to switch will mainly find green tariffs amongst the rest of their search results. As shown in the diagram below, if the name of the tariff contains ‘green’ or similar wording (e.g. ‘eco’) and the price is relatively similar to the cheapest tariffs being offered, ‘passive greens’ tend to switch and feel good about themselves without investigating further. They would be open to receiving more communication about what the green part of the tariff actually means at this point – but choosing an energy tariff is considered a hassle in the first place so they feel that this information needs to be readily available rather then the consumer having to search for it themselves.



‘Accidental greens’ who have switched (as opposed to those who have inherited green tariffs and therefore not made an active choice) make their decisions through a number of channels with the common denominator being that the green tariff happened to be a cheaper option than their current tariff – and in some cases the cheapest. We heard these consumers talk about:

- Using price comparison websites;
- Phoning suppliers to investigate tariff options;
- Being phoned by their - and competitor - supplier to renegotiate tariffs;
- Face to face conversations with suppliers in shopping centres or on the high street.

In all of these interactions, the green aspect of the tariff was not important or something that the consumer was actively looking for but the price made the tariff attractive.

> *"They said you can change to a green tariff and this is what it'll cost – about the same, it wouldn't affect your bills – so that's why I changed"*
> Green tariff consumer

'Dark green' consumers tend to take a more proactive approach to their decision-making. They are more engaged in the green agenda, so as well as price comparison sites they are more likely to use supplier websites in order to establish the detail – and offer themselves reassurance – around a suppliers' green credentials and tariff features. Often these consumers will be looking for specific things from the information based on their personal perceptions of what green means (e.g. 100% renewables, carbon offsetting, investment in renewable energy) and will make their decision accordingly.

> *"One of the ones I was with before, I was on their green tariff but then I found out on the website their green tariff wasn't quite as green as some of the other ones by their carbon content, so that information would be useful so that I would know that when I'm buying green I'm getting green"*
> Green tariff consumer

Some are also beginning to use social media to direct them towards best options in terms of both price and 'green-ness'

> *"On Facebook [I] put up a casual: has anyone switched suppliers recently? Where did you go to? Particularly anyone using green energy. And I got quite a lot of answers, everyone coming back with price comparison websites; some different recommendations. I thought okay, I should look into that."*
> Green tariff consumer

Variation between suppliers
Some of the most engaged consumers had chosen between green tariffs offered by a range of different suppliers based on their personal preferences and beliefs about what constitutes the 'greenest' tariffs. Amongst the criteria used to define this were:

- Percentage renewable energy provided in the tariff and fuel mix;
- Investment in renewable projects;
- Carbon dioxide produced per kwh of power;
- Overall ethics and 'green-ness' of the supplier.

As discussed in 6.1.2, the more engaged 'dark green' consumers will actively look on supplier websites to inform their decision making. They are prepared to spend a bit more time doing this research if it helps them feel confident that they have found a tariff that fits their interests or preferences. A couple of consumers had even produced their own spreadsheets to help them compare equivalent tariffs based on green criteria and cost. For the majority of 'passive green' consumers however, deciding on an electricity tariff is still a chore - and therefore clear, concise information around tariff benefits needs to be more readily available as they won't be prepared to look hard for it.

> *"I don't want to be bombarded with gumpf. I just want them to say look: this is cheaper, this is what it's doing for the environment, and this is what's going to make your life happy"*
> Green tariff consumer

Less engaged green tariff consumers were confused by the concept that different suppliers could offer tariffs that were green in different ways. They felt that this made their decision making process even harder by complicating an already convoluted marketplace.

6.2 Latent demand amongst non-green consumers

There is very little latent demand for green tariffs amongst those consumers who are not currently signed up to them. Crucially, the more they learn about what a green tariff currently is, the less interested and more negative they become.

> *"The more you know the worse it gets!"*
> Non-green tariff consumer

6.2.1 Barriers

The major barrier, and for many the only barrier, to considering green tariffs is one of cost. Consumers simply will not countenance paying any more for their energy than they need to.

Coupled with their innate distrust of the large energy companies, the initial expectation from many that a green tariff should be cheaper than a standard tariff means that when they find out that it is more expensive that they are very suspicious of it being a 'con'.

> *"What are the ethics of the company? …How committed are they in going green? What investment are they making in green or is it a marketing ploy?"*
> Non-green tariff consumer

They feel that the large energy companies are just trying to get consumers to pay for what they are obliged to do anyway and do not understand why something that the Government is legally obliged to achieve should be driven by consumers through green tariffs. Once they find out about the Renewables Obligation and the fact that they are already contributing to green energy obligations through their bill, signing up for a green tariff becomes even less attractive. For some it also confirms their suspicions that energy companies are charging too much. They feel that the companies should be paying the contribution towards the green obligations themselves rather than making vast profits and passing on the green obligation charge to consumers as a 'hidden tax'.

> *"I'm a bit shocked about the £25 stealth green tax, if they didn't tell us that, what else are they not telling us?"*
> Non-green tariff consumer

> *"I feel I'm being used to prop up the government's commitment and the energy companies' commitment to get these targets by 2020"*
> Non-green tariff consumer

A further barrier related to cost occurs with many consumers also not trusting the large energy companies to do what they say they will with the additional funds. This is generally not an issue with the smaller energy companies.

> *"It's like Fair Trade - I want to know that with the extra money I am paying, they are paying fair wages, if they can prove that to me, fair enough"*
> Non-green tariff consumer

Even if the additional cost itself is not prohibitive, consumers simply cannot see what the benefits to them of signing up are. This is particularly true once they realise that they will still get the same energy coming into their home. The lack of tangible benefits means that signing up for a green tariff is seen by most as solely an altruistic move.

> *"You think you're paying more to get green energy. But you're not getting green energy"*
> Non-green tariff consumer

> *"You want something back, otherwise why bother? Maybe money off getting solar panels fitted?"*
> Non-green tariff consumer

In addition consumers feel that there is relatively little 'kudos' in signing up to a green tariff, as it is an invisible behaviour unless you choose to tell people about it. This is in direct contrast to recycling where many feel it has become the socially acceptable thing to do and they do it because others do (and because councils have made it easy for them or altered habits through changing ordinary rubbish collections to once a fortnight).

Finally, even though they accept that having a green tariff is of no direct benefit to them, many consumers query whether signing up to a green tariff will really make a difference, even to future generations. They feel that efforts to reduce carbon emissions through increasing renewable energy use in Great Britain is unlikely to be sufficient in the face of a growing population and the emissions of other countries with large populations and developing economies.

6.2.2 Motivations

The small number of consumers not currently on a green tariff who expressed some potential interest had similar reasons for being interested to the ‘dark greens’ and ‘passive greens’.

They tend to only be interested if they know exactly where the extra money is going to – and preferably have a choice of what it funds. For most, this needs to be clearly different to the type of charitable donation that they can make without going through an energy company. For example, they generally feel that investing in carbon off setting schemes or environmental funds to carry out initiatives such as installing solar panels on the roofs of schools and hospitals does not need an energy company as an intermediary. It only makes sense to consumers to channel a premium for greenness through an energy supplier if it is spent on something that only an energy supplier is able to do. The types of initiatives that make sense for the additional green money to be spent on are primarily around direct investment in renewable generation and, for some, research into alternative energy sources. Investment in local renewable generation is particularly attractive. This is partly about wanting to have a sense of a direct benefit so that, for example, they could drive past a local wind farm and think ‘I contributed to that’.

Previous research carried out by Ofgem, and backed up by this piece of work, shows that price is the overwhelming factor driving switching behaviour. If green tariffs were cheaper than other tariffs then people would sign up to them but for most this would be because of the price, not because of their green nature.

7 Information requirements

The key pieces of information that consumers need when they are considering signing up to a green tariff are:

- **How much extra does it cost**. They would like this to be expressed in pounds per month terms.
- **What that extra money is spent on**.
- That **a standard tariff already includes a yearly contribution towards green energy** and how much that contribution is.

“I think it’s reasonable to expect a certain level of information on how your contribution is benefitting the environment”
Green tariff consumer

This information needs to be clearly stated at the initial point of sale – which for many is through a price comparison website. Beyond these key pieces of information about what the green part of the tariff means, consumers also want to know how long they are locked in to the contract for and whether the additional premium will increase in line with the supplier's standard tariffs or at a different rate.

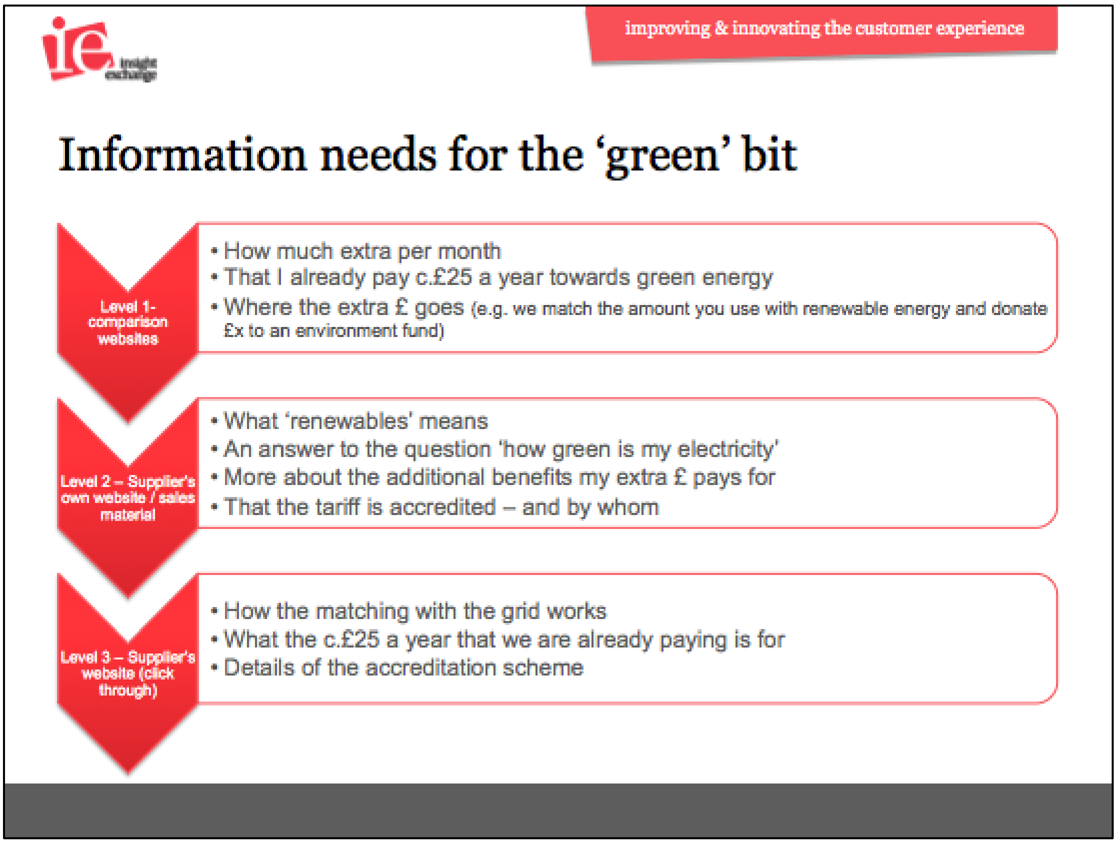
Other levels of detail need to be readily available too but these can be on the supplier's website rather than at the initial point of sale. Most of the consumers we spoke to use the Internet to search for any information they need when buying an energy tariff or any other similar purchase such as insurance. Other sources include friends and family, suppliers' own websites, forums such as Martin Lewis' and consumer groups such as Which? or, for green tariffs in particular, Friends of the Earth.

Many consumers on green tariffs also recognise that their suppliers may be sending them this information already. However, some are not actively engaged enough to read it and some find it too complicated or not tied enough to tangible benefits to be of interest.

> *"I'd like them to illustrate better how much carbon dioxide we're not producing now"*
> Green tariff consumer

> *"If it's not my bill I just put it in the bin"*
> Green tariff consumer

The diagram below illustrates the type of information required and the level at which consumers should be able to access it from different points.



8 Views on accreditation

In the wake of the recent banking and horsemeat scandals, consumers are increasingly looking for reassurance that what they are buying is what they actually <u>think</u> they are buying.

None of the consumers we spoke to were aware of the Green Energy Supply Certification Scheme. This included those who were on an accredited tariff. When the Scheme was explained, both green and non-green tariff consumers were generally positive about it. This is largely because they feel that some kind of rules are necessary to check that the large energy companies are doing what they say they will with the additional money they receive from green tariffs.

> *"I would presume that everybody had some accreditation if you were peddling something that was saying it was Green."*
> Green tariff consumer

> *"I have worries about being on a particular tariff and wondering how much of that comes from renewables – an accreditation system would be some place to start"*
> Green Tariff consumer

Consumers therefore thought that accreditation or some kind of rules would be very useful to develop some consistency within the market and to ensure that the promised benefits were delivered. They would like to see rules or an accreditation scheme that is:

- Compulsory;
- Transparent;
- Guarantees investment in new renewables (over and above what the energy companies are already obliged to do);
- Independent; and
- Tiered.

Each of these criteria is explained below.

Compulsory
Consumers feel that any accreditation scheme, or rules, should be compulsory for all green tariffs. The current voluntary nature of the Scheme concerns them. They feel that because green tariffs are generally more expensive than standard tariffs that assurance is needed. This reflects their overall lack of trust in the large energy companies, which puts green tariffs in consumers' minds alongside other aspects of the energy market that they feel needs rules. Whilst few are aware of Ofgem's role in regulating the energy companies, they see any accreditation as being along these lines.

> *"They should all be in it – so no-one's doing it wrong, everyone's doing it right"*
> Non-green tariff consumer

Transparent
Consumers want any accreditation scheme, or rules, primarily to check that the companies are doing what they say they will with the additional funds and that it is not just going into company profits.

Guarantees additional investment in renewables
Consumers feel that any accreditation should be focused around the provision of additional investment in renewable energy. Other features and benefits that added value to a tariff would be welcomed, but having a reliable guarantee around investment in renewables is key for consumers.

There is some concern that not all the smaller suppliers currently fall under the existing scheme. Consumers feel that 100% renewable energy companies should automatically qualify for accreditation as they see these smaller companies as being the really green companies who behave more ethically than the large companies.

> *"They're the good guys but they're not part of the scheme"*
> Non-green tariff consumer

Independent
The cost of accreditation is a concern and consumers are keen that any accreditation scheme is truly independent. They are therefore uncomfortable that companies have to pay to be part of the current scheme as they wonder if this compromises its impartiality.

Few consumers had any knowledge of Ofgem before taking part in the research. However once they learnt about Ofgem they saw Ofgem as being the type of organisation that they would want to oversee the Scheme. Their views here however are likely to be influenced by the fact that they knew it was Ofgem asking who the most appropriate body would be. The key for consumers is that the organisation overseeing the scheme it is an independent organisation with some legal clout or is part of Government.

> *"Like with anything, there should be a governing body like an environment agency, who is regulating these things to say that that company is actually telling you the truth. Or like Trading Standards basically saying you have to tell the truth if you're selling that as environmentally friendly."*
> Green tariff consumer

A tiered system
A tiered system of rating different green tariffs as to how 'green' they are would be welcome. Consumers are familiar with this type of tiering through energy efficiency labels on white goods and Energy Performance Certificates for homes and offices, and it was suggested by some as a good way to help consumers choose between tariffs. Consumers thought that the ranking should be on the proportion of the energy that was renewable but this was largely based on a belief that the fuel mix of the supply to their own home would change if they signed up to a green tariff. The greenest tariffs would be those from suppliers who had 100% renewable energy and were either continuing to invest in more renewables and/or investing in other green initiatives such as research into alternative energy sources.

9 Conclusions

The backdrop of a belief that the large energy companies are making excessive profits means that consumers are very sceptical about anything that results in them paying more for their energy. They already find energy tariffs confusing and find 'green' a vague and confusing concept too. The marrying of energy tariffs with green therefore results in a complex offering that is easy for consumers to mis-understand or be confused by. Coupled with the fact that green tariffs from the large energy companies cost more than their standard tariffs, this means that there is very little latent demand for green tariffs.

It is also worth noting that many green tariffs do not actually have 'green' in their title or are not overtly labelled as green tariffs. Inevitably this will contribute to the low level of awareness and demand that exists, even amongst some of the consumers who are actually on a green tariff.

There is even less demand for green tariffs from those not currently signed up to them once people understand that they are already paying a contribution towards green energy through their electricity bills. This therefore becomes a crucial piece of information in ensuring that those signing up for green tariffs are able to make an informed decision.

Many consumers, including those who are currently on green tariffs, erroneously believe that if they sign up for a green tariff then the electricity supply to their home changes and comes from renewable sources. Very few understand how energy distribution networks function. This makes the whole concept of matching a very complicated one for consumers to understand. There is also a feeling that it would be very easy for the energy companies to avoid putting the required additional renewables into the energy networks. Direct investment in new, preferably local, renewables is more appealing as consumers are then more easily able to make a connection to the additional money they are paying. However, once consumers realise that the actual electricity that they receive will remain the same as if they were on a standard tariff few consumers are really interested in signing up for a green tariff. They simply cannot see what is in it for them.

Even those who are on green tariffs are mostly not big advocates apart from a few that have very actively chosen the tariff that they are on. Few really know what they are paying the extra for, although they believe that it must be 'a good thing'. Only a small proportion are really active in their choice and understand the details. An accreditation scheme or some kind of rules surrounding what a green tariff should be would be welcome. None of the green tariff consumers we spoke to are aware of the existing Scheme.

Consumers expect that if green tariffs are more expensive then the additional money will be spent on direct investment in new renewables. For green tariffs to have any validity this needs to be over and above energy suppliers' Renewables Obligations.

Overall, the more non-green tariff consumers learn about what green tariffs are, the less interested they are in signing up. This is largely because of: the price premium involved, the perceived lack of direct consumer benefit, a dislike of the principle of matching rather than the premium necessarily being invested in new renewables, and the fact that all consumers are contributing towards increased investment in renewables through their electricity bill. This makes the role of clear information at the point of sale crucial if consumers are going to make an informed decision that is right for them. It also suggests that if the information is as clear as it needs to be for consumers to make a properly informed decision then the number of consumers signing up for green tariffs is likely to decrease.

10 Appendices

10.1 Sample breakdown

<u>Green tariff consumers</u>

Age

Age	20-29	30-39	40-49	50-59	60-69	70-79
Number	6	7	6	4	3	2

Socio-economic group (SEG)

SEG	AB	C1	C2	D	E
Number	7	10	5	4	2

Ethnicity

White (British and other)	British Asian	Black British	Other
24	1	2	1

<u>Non-Green Tariff consumers</u>

Age

Age	20-29	30-39	40-49	50-59	60-69	70-79
Number	15	16	16	18	7	4

Socio-economic group (SEG)

SEG	AB	C1	C2	D	E
Number	13	32	13	13	5

Ethnicity

White (British and other)	British Asian	Black British	Other
65	3	4	4

Health or mobility issues

Yes	7
No	69

By Supplier

Consumers on green tariffs (including mini-groups and depth interviews)

Supplier	*Number*
British Gas	2
Co-op	1
Ecotricity	2
EDF	1
EON	2
Good Energy	4
Loco2	1
Npower	3
Ovo	5
Scottish Power	2
SSE	5
TOTAL	**28**

Consumers NOT on green tariffs (including deliberative events and depth interviews)

Supplier	*Number*
British Gas	16
Co-op	1
EDF	9
EON	14
Npower	10
Scottish Power	12
SSE	12
Ovo	2
TOTAL	**76**

10.2 Research instruments

<u>Green Tariffs – Discussion Guide</u>

Deliberative Events (non green tariff customers)

Objectives:
To understand consumers' awareness, understanding, expectations and preferences around "green tariffs" in the energy supply market

Discussion Guide assumes a Panel session of some 20 participants, 3 facilitators and some client presence

1. Introduction **5 minutes**

Welcome and introduction to IE and Ofgem people present.
Explain broadly the topic and how the session will go, plus any housekeeping points

2. Warm-up session – how green am I …? **15 minutes**

Plenary
Move to sides of the room to indicate how green you feel you are (participants to judge by themselves)

Place yourself on a spectrum from –
'I'm extremely green'
'I'm not that green at all'

People range themselves along the spectrum by sharing info with other participants and inquiring into what being green means in practical terms. Facilitators rove and assist, divide into 3 or 4 clusters
Ask each cluster to identify things they have in common e.g. lifestage; whether they have children living at home; type of home they live in; comparing what constitutes green behaviour and attitudes

Informal presentation back of what the groups feel they have in common.

3. Awareness and expectations of green energy tariffs **20 minutes**

Split into three groups – 1. Heard of green tariffs and have looked into them / know quite a lot about them 2. Heard of green tariffs but only have a vague idea of what they are 3. Not heard of green tariffs [we will need to be flexible as to how we split the groups on the night]

In small groups:

<u>Awareness:</u>

- Wondering what people have heard about green energy tariffs before today?

IF NOT HEARD

- What do you imagine they are? Who would provide them? Who are they designed for? What might they be designed to achieve? What might they be based on?

IF HEARD OF THEM

- What do you know about green energy tariffs? Are there any particular green energy tariffs that you are aware of?
- Who has considered a green energy tariff? Why? Who has ruled out getting a green energy tariff or decided it's not for them? Why?
[*probe beyond features/rational benefits*]

<u>Expectations:</u>

ALL

- Spontaneous: If an electricity supplier offers you a green tariff what would you think it would be? What would you WANT it to be? (please write down)

Discussion:

- If an electricity supplier was offering you a green tariff what would you want to know about the green part?
  - What would like to see / what benefits
  - What fear/suspicion/resistance
  - What, if anything, would you do to check the green tariff met your expectations? Where would you get the information from? How does this compare to how you would research other similar purchases such as insurance or a mobile phone contract?

4. Finding out about green energy tariffs 20 minutes

Stimulus: 3 optional green tariff descriptions, with varying amount of detail or 'layers'

1. *Short, least detail*
2. *Medium level of detail*
3. *The most detail*

In 3 mixed break out groups:

Each group to begin with a different description:

- Explore what has most resonance, what questions there are, what is odd or irrelevant, what appeals etc.
- If you were looking into signing up for a green tariff where would you expect to get information about it from? Anywhere else? At what stage in the process of deciding whether or not to sign up would you look for information?

<u>Break</u> **10 minutes**

People encouraged to carry on talking about each 'package' over the break, what they understood and did not, what was missing, appeal, stumbling blocks etc.

5. Feedback, interaction **25 minutes**

Plenary feedback on 3 levels of green tariff description. Invite people from each group to sum up what they understand and how it sounds; ask those from other groups for more details

- Co-create the key principles of green tariffs (in 2 or 3 groups) – what is going on here (in own terms)
- What does it boil down to?
- Note the main areas of appeal/relevance and also confusion/any gaps

- What emerges about green energy tariffs 'A green energy tariff should/should not…'
- Which of these are absolutely key / non-negotiable?

6. Information session **15 minutes**

Plenary

Short presentation by facilitator outlining existing European targets and government schemes to help support 'green energy' and the existing accreditation scheme for green tariffs i.e. some of the detail that will not be immediately clear

BACK INTO OPTION GROUPS

- Is there anything about the information you heard that surprises you?
- Does knowing that everyone already pays a contribution towards green energy through their electricity bill change what you think about green tariffs in any way? Does it change what you would expect a green tariff to be?
- Now you have heard more of the detail, which bits are helping you to understand/make informed choice about green tariffs, which bits are not helping or are not clear

- What would you want a green tariff energy provider to be offering/not saying/not doing?
- What is the key information that you think people need in order to decide whether to switch to a particular green tariff or no?

7. Awareness and expectations revisited **10 minutes**

- Anything that consumers would add or change to principles list in light of the new information?
- Are principles enough? Is some form of 'safety net/guarantee' required? For example should there be a 'quality mark' (like the Fair Trade mark or similar?

- What would expect of such a scheme? Who should run it? (Spontaneous suggestions. Then probe Government body; consumer organisation; green organisation; independent panel)

8. Thanks and close
Feedback forms including interest in green tariff and incentive payment

Green Tariffs – Discussion Guide

Customers on Green Tariffs

Objectives:
To understand consumers' awareness, understanding, expectations and preferences around "green tariffs" in the energy supply market

1. Introduction **10 minutes**

Explain that research is being carried out on behalf of Ofgem to help ensure that people interested in choosing green energy tariffs have all the information they need to make an informed decision. Ofgem's interest is primarily about protecting consumers so they are interested in how energy suppliers are selling green tariffs.

Explain that the interview is being recorded for use by Insight Exchange only. No one will be identified to Ofgem.

2.Green behaviours **10 minutes**

- Before talking about green energy tariffs: How green do you consider yourself to be? What sort of green behaviours do you adopt?
- Are there any other green behaviours you really think you should adopt? Why don't you?
- [if not already mentioned] Are there any green behaviours you adopt in relation to energy? (probe e.g. turning heating down/off; only heating some rooms; turning appliances off etc.)
- Have you ever considered having solar panels? Why/not? [for those who do have solar panels briefly explore the reasons for this and the benefits and drawbacks]

3. Green Tariffs – decision making journey **25 minutes**

- What energy company are you with and which of their tariffs are you on? How long have you been with that company? On that tariff? Which company and tariff were you with before?
- What were your main reasons for switching? Was there a particular trigger that caused you to switch?

- How did you decide which company and tariff to switch to? (probe for use of price comparison websites; phone companies directly; respond to advertising; recommendation from friend/family)
- How important was it to you to be on a green tariff?
- Why did you choose a green tariff?
- Did you consider more than one green tariff? Why did you choose the one you ended up on?

4. Green tariffs – understanding what they are 30 minutes

- When you decided to choose a green tariff, what did you think made it different from a standard or "non green" tariff? What makes it green?
- What are the key features of the green tariff you are on?
- What information did you have about this when you were making your choice? Where did you get the information from? Did you check it out in any way? Did you feel you had all the information you wanted or was there more you would have liked to know?
- In general how do you expect green tariffs to be different from standard tariffs? [In mini-groups draw up a list of Principles – 'a green tariff should….' 'a green tariff should not…']
- Have you heard of something called the Renewables Obligation? If yes – what do you understand it is?

As a country, we have policies and legislation in place to help combat climate change, ensure we continue to have secure energy supplies and meet our domestic and European [legal] obligations. For example, we have a target (alongside other European countries) to source 20% of the country's energy from renewable sources such as wind, solar and water by 2020

To help meet these commitments, the government places obligations on the energy industry. One of these obligations requires energy companies to increase the proportion of the renewable energy they supply to customers. This proportion increases each year (it started in 2002 at 3%) and stands at 20% in 2013.

The costs of meeting this obligation (along with other, non-'green' cost such as shipping gas around the country, or distributing electricity) are passed onto all consumers as part of your electricity bill, regardless of whether you are on a green tariff or not. The average cost to each household is approximately £25.

- Is there anything about this that surprises you? [check whether they were aware that everyone contributes to green energy through their electricity bill]

- How do you feel about everyone contributing to the obligation through their bill?
- Does knowing that everyone is already making a contribution to green energy through their electricity bill change what you think about having a green tariff in any way?
- Does it change what you would look for from a green tariff ? [in mini-groups revisit and amend principles if groups wish to]

6. Accreditation **10 minutes**
[If not already mentioned]

- Are you aware of any form of accreditation, certification or quality stamp for green tariffs? If yes – explore what they know. What effect it had on their choice of tariff.
- Is there a need for some form of accreditation or quality stamp for green tariffs or is the information provided by suppliers sufficient for you?
- If interested in accreditation / quality stamp – what are the key things it should guarantee? Who should oversee it? Should anyone else be involved?

8. Thanks and close **5 minutes**
Pay incentives / Check details for incentive payment

10.3 What should a Green Tariff look like – post it note exercise

Following discussions about their expectations of green tariffs and some explanations as to how green tariffs currently work, consumers were asked to write on post it notes what they thought a green tariff should look like. This was before the existing Renewables Obligation had been explained.

The post it notes have been grouped into the three predominant themes: Cheaper/same cost; Renewables; and Transparency.

<u>What should a Green Tariff look like? (Manchester)</u>

Cheaper/Same Cost

- No extra cost – companies should be responsible for being environmentally friendly without further charging customers
- Not rip people off
- No extra cost for 'green electricity'
- Same cost – if anything you should get something back for 'going green'
- Same cost or cheaper
- Initially cheaper – incentive to change
- The same amount
- Affordable – because everything these days goes up in price but not general wages!
- Eventually cost effective for the consumer
- Should be an investment. Start off high but drive bills right down once the renewals system is in place – can never see it happening though!
- A green tariff should be funded primarily or all by the energy company that make massive profits
- Cheaper than current tariff – clear cost
- Competitively priced
- Cheaper
- Cheaper tariff – green for customer and for environment
- Cheap
- Cheaper or the same price
- Cheaper
- Cheaper to make more people become interested
- Cheaper
- Universal

Renewables

- Energy from solar panels, wind power etc.
- Renewable
- 100% green
- Ethical

- Renewably sourced
- Sustainable
- Equitable
- Localised – community driven
- Renewable for the future
- Efficient
- Pure

Transparency

- Explained more
- Transparent

<u>What should Green Tariff look like? (Cardiff)</u>

Cheaper/Same Cost

- A tariff you aren't penalized for, for trying to be too eco friendly
- Cheaper
- Cheap energy for all
- Should be cost effective for me, cheaper than standard
- As cheap (or as expensive) as non-green
- Cheaper
- Equal price
- Cheaper and easy access

Renewables

- Sourced from renewable only
- Extra money should go to R&D
- A guarantee of investment in renewable energy production and carbon reduction measure
- All the electric I use has been created by a renewable source and not damaging to the environment
- Should be alternative energy
- Sustainability
- Wind, wave, tidal, solar, hydro or geothermal
- UK / Local projects
- A tariff which is sourced from renewable energy
- A tariff which benefits the clients which is also sustainable
- Reason for the green tariff is 100% for environment reasons
- A tariff where you pay more but the energy company gives a large portion of the profit to renewable energy sources

Transparency

- Depictive of the energy companies caring about consumer
- More specific in what the green energy means

- An incentive to change
- Understandable / explicit
- Jargon free
- Needs to be regulated
- Should not be related to Government taxes or to meet company targets
- Name should mean same to all e.g. Alternative energy
- Tariff transparent re cost & benefit to whom
- Not adding to company profit
- Needs to be clear investment in projects
- What proportion comes from nuclear etc.

<u>What should a Green Tariff look like? (Edinburgh)</u>

Cheaper/Same Cost

- Affordable
- Clear what you are buying into and should not be more expensive
- A green tariff should be a cheaper tariff to incentivise people to go that way and grow renewable energy
- A green tariff should be a tariff that you get something back from i.e. money off solar panels after a certain time on a green tariff
- Cheaper
- Cheaper
- Cheaper, better, no off peak

Renewables

- 100% renewable – helping a power company research a % target for renewable compared to standard
- Should be clear that we are not buying green energy on the green tariff
- A definitive source of green energy that will contribute to the preservation of the environment
- A genuine attempt to be environmentally friendly – not a 'gimmick'
- Non-polluting. Funding innovation of renewable fuel technology. Cheaper
- Non carbon producing in manufacture
- Energy purely from 'renewable' sources e.g. water/wind
- Clean and friendly
- To be much cleaner on the planet plus cheaper
- Customer should be able to choose which form of renewable energy they are using
- Non carbon producing in manufacture

Transparency

- It should not boost profits of provider
- Better explained
- Benefits to customers if price rise – explained fully

- Message should be clear and the benefits measurable! Non profit making!
- Removed from the generators marketing strategy
- What exactly suppliers incentive is to customer
- Shouldn’t be explained in units
- Transparent, unambiguous, not blatant profiteering. How the consumer benefits

10.4 Feedback questionnaires

Deliberative Event Feedback Form Cardiff

Content and facilitation

	Good	OK	Poor	No answer
Introduction	22	1		1
Session 1: how green am I?	11	10	1	2
Session 2: awareness and expectations of green energy tariffs	17	5	1	1
Session 3: finding out about green energy tariffs	19	5		
Session 4: information session	17	4	2	1
Quality of facilitation	23	1		

Arrangements and facilities

	Good	OK	Poor
Arrival and welcome	23	1	
Event organisation	24		
Venue and catering	23	1	

Taking part

	Yes- fully	Yes- partly	No
I feel that I understood the issues being discussed	18	6	
I feel that my views have been heard	23	1	
Taking part in the event was worthwhile	22	2	

Green Tariffs

I feel more informed about green tariffs:

Yes	*No*	*Unsure*
20		4

How likely are you to seriously consider switching to a green tariff during the next 2 or 3 years:

Very likely	*Quite likely*	*Quite unlikely*	*Very unlikely*	*Don't know*
3	3	6	9	3

Are you more or less likely to consider a green tariff next time you switch as a result of this event?

More likely	*Equally as likely*	*Less likely*	*Don't know*
3	8	9	4

Deliberative Event Feedback Form - Edinburgh

Content and facilitation

	Good	OK	Poor	No answer
Introduction	19	1	1	2
Session 1: how green am I?	10	9	2	2
Session 2: awareness and expectations of green energy tariffs	14	5	4	
Session 3: finding out about green energy tariffs	15	7	1	
Session 4: information session	17	5		1
Quality of facilitation	22	1		

Arrangements and facilities

	Good	OK	Poor
Arrival and welcome	21	2	
Event organisation	23		
Venue and catering	21	2	

Taking part

	Yes- fully	Yes- partly	No
I feel that I understood the issues being discussed	18	5	
I feel that my views have been heard	23		
Taking part in the event was worthwhile	19	4	

Green Tariffs

I feel more informed about green tariffs:

Yes	*No*	*Unsure*	*No answer*
21	1	1	

How likely are you to seriously consider switching to a green tariff during the next 2 or 3 years:

Very likely	*Quite likely*	*Quite unlikely*	*Very unlikely*	*Don't know*
1	9	4	5	4

Are you more or less likely to consider a green tariff next time you switch as a result of this event?

More likely	*Equally as likely*	*Less likely*	*Don't know*
7	12	2	2

Deliberative Event Feedback Form - Manchester

Content and facilitation

	Good	OK	Poor	No answer
Introduction	18	3		1
Session 1: how green am I?	6	14		2
Session 2: awareness and expectations of green energy tariffs	7	7	8[3]	
Session 3: finding out about green energy tariffs	7	11		4
Session 4: information session	16	6		
Quality of facilitation	18	4		

Arrangements and facilities

	Good	OK	Poor
Arrival and welcome	20	2	
Event organisation	21	1	
Venue and catering	16	6	

Taking part

	Yes- fully	Yes- partly	No
I feel that I understood the issues being discussed	17	5	
I feel that my views have been heard	22		
Taking part in the event was worthwhile	20	2	

Green Tariffs

I feel more informed about green tariffs:

Yes	*No*	*Unsure*	*No answer*
20		1	1

[3] Where scores of 'ok' or 'poor' have been awarded, respondents explained to us that they were often reflecting their own knowledge of the subject area or feelings about the content discussed – rather than the way the format or facilitation of the discussion.

How likely are you to seriously consider switching to a green tariff during the next 2 or 3 years?

Very likely	*Quite likely*	*Quite unlikely*	*Very unlikely*	*Don't know*
2	6	5	8	1

Are you more or less likely to consider a green tariff next time you switch as a result of this event?

More likely	*Equally as likely*	*Less likely*	*Don't know*
3	6	10	2