

Improving Consumer Protection in the Green and Renewable Energy Offers Market

Consultation

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Contact: Natasha Smith

Team: Sustainable Energy Policy

Tel: 020 7901 1821

Email: Sustainable.Energy@ofgem.gov.uk

Overview:

Green and other renewable energy retail offers form a small part of the electricity retail market. While consumers are expressing a choice to buy these products they can find the products and choices in the market confusing. This can potentially lead to consumers not fully understanding the products that they are buying. In response to this, we set out proposals in this document to improve consumer protection in this market by providing greater clarity.

In 2009 we published voluntary guidelines for suppliers selling green tariffs to domestic and micro-business electricity consumers. These guidelines set out principles to which a green tariff should conform. We consider that the principles of transparency, evidence of supply and additionality remain appropriate for green tariffs. But we now consider that changes to how these guidelines are applied will make the market clearer for consumers. In this document, we consult on the potential scope of the guidelines, and on possible implementation options.

We also recognise the growing availability of tariffs which offer consumers the chance to purchase renewable energy, but which do not offer additional tariff-level environmental benefits. We set out proposals for improving transparency for consumers in this part of the market. This consultation is aimed at electricity suppliers and consumers, consumer groups and other interested parties in the electricity retail market.

Context

The way we generate our electricity is changing. By 2020, the government has committed that around 30% of our electricity will come from renewable sources. By 2030, most of the electricity produced in the UK is expected to come from low carbon sources. Government policies and support for renewable generators are key drivers for meeting these targets.

Some electricity consumers are interested in purchasing an electricity tariff that directly supports an environmental cause. However, in this market, it can often be difficult for consumers to understand the environmental credentials of different tariffs. To support consumers, in 2009 we published a set of voluntary guidelines for 'green' tariffs. When a consumer buys a green tariff that meets these principles, they are assured that their supplier is delivering an additional environmental benefit as well as assigning a portion of the renewable energy in their portfolio to the tariff.

Since 2009 there have been a number of developments in the electricity supply market. We have seen growth in the amount of renewable electricity being generated, changes in the way consumers engage with their energy supplier, and new types of electricity products on offer. However, these developments do not appear to have reduced consumer confusion in the green offers market.

Ofgem's Retail Market Review (RMR) is making changes to improve Britain's energy market for the benefit of consumers. The RMR aims to increase consumer confidence and engagement in energy markets, and enable consumers to choose the deal that best suits them. Similarly, the proposals set out in this document aim to increase confidence and engagement in the retail energy market by creating a clearer, simpler and fairer market for green and other renewable energy offers.

Associated documents

All documents are available at www.ofgem.gov.uk

- The Retail Market Review – Final proposals for domestic customers, June 2013, Reference: 95a/13 [\[LINK\]](#)
- The Retail Market Review – Final domestic proposals, March 2013, Reference: 40/13 [\[LINK\]](#)
- The Retail Market Review – Final Impact Assessment for domestic proposals, March 2013, Reference: 41/13 [\[LINK\]](#)
- Insight Exchange, Perceptions of Green tariffs, May 2013 [\[LINK\]](#)
- Ipsos MORI, Consumers' views of price comparison guides and tariff structures, September 2012 [\[LINK\]](#)

- Ipsos Mori, Consumers' views on renewable and low carbon supply tariffs, January 2008 [\[LINK\]](#)

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Executive Summary

Green and other renewable energy retail offers form a small part of the electricity retail market. While consumers are expressing a choice to buy these products, the market can prove to be difficult for consumers to understand. This document sets out Ofgem's proposals for improving consumer protection in this market by supporting better information provision.

Our aim is for a future in which consumers will be better able to make informed choices about the green and other renewable energy offers they are buying. Our proposals will help to make the market 'simpler, clearer and fairer' for consumers, in line with the objectives of our Retail Market Review.¹ This will engender greater consumer confidence as the potential of this market develops.

Our proposals have been informed by early stakeholder consultation, market developments and consumer research.

Context

In 2009 we introduced the "Green Supply Guidelines"² into the market. This helped provide certainty to consumers that the product they were buying was truly 'green'. The guidelines were implemented by the formation of the "Green Energy Supply Certification Scheme" (the GESCS).

Over the past three years the green tariffs market has diverged into an accredited and non-accredited market, as not all suppliers have joined the GESCS. In addition, we have recently seen growth in the number of tariffs that offer to supply consumers with renewable energy, without providing additional environmental benefits driven by the consumer's purchase of the tariff. The existence of these different tariffs in the market can be confusing for consumers.

We propose that green and other renewable energy offers are marketed more clearly so that consumers are better informed. In achieving this objective, we are also aiming to build upon the environmental benefits of the existing market and green supply guidelines and create a framework that supports tariff innovation and competition between suppliers in this market.

Proposals for green tariffs

We propose that our Green Supply Guidelines should apply across the whole green tariffs market. They will cover all electricity tariffs that offer an environmental benefit in addition to the supply of renewable energy.

¹ Link to RMR final proposals: <https://www.ofgem.gov.uk/ofgem-publications/39350/retail-market-review-final-domestic-proposals.pdf>

² Link to Green Supply Guidelines: <https://www.ofgem.gov.uk/publications-and-updates/final-green-supply-guidelines-proposals-open-letter>

We propose to keep and update the principles of transparency, evidence of supply and additionality, building upon our experience since 2009.

Our main area of consultation for green tariffs is around how the guidelines should be implemented across the market, to achieve greater transparency. We set out different implementation routes in this consultation, and we welcome stakeholder views in this area.

We are also consulting on the future scope of our Green Supply Guidelines as follows:

- We propose these should apply to all electricity tariffs that offer an environmental benefit in addition to the supply of renewable energy, not just those explicitly marketed as 'green'
- We are consulting on whether the principles should be extended to cover larger non-domestic consumers.

Increasing transparency in the renewable energy market

We also set out proposals for tariffs that offer to sell renewable energy without additional tariff-level environmental benefits.

We have differentiated these tariffs from green tariffs due to their lack of additionality. These tariffs give consumers the option to express a choice for renewable energy, but we believe that they should not be sold as green products. This is because the renewable electricity they offer already exists in the system, or has been driven primarily by Government support, rather than by the consumer's decision to purchase of the tariff.

Our research shows it is difficult for consumers to differentiate between these tariffs and green tariffs. So, our proposal for these tariffs is that they should follow the updated transparency principle for green tariffs and include a clear message at the point of sale to differentiate them from green tariffs. This message should make it clear that the consumer's decision to purchase the tariff will not directly drive additional environmental benefits.

These tariffs should also follow the evidence of supply principle, to prevent any 'double selling' of renewable energy.

We are consulting on how best to implement this proposal.

Next steps

This consultation and other stakeholder views will help us ensure that we make the right decisions for consumers. We welcome comments from all stakeholders and interested parties on the questions set out in this consultation by 14 February 2014. After fully considering responses we will implement any changes as soon as possible.

1. Introduction and background information

Background

1.1. This chapter provides some background to the consultation and outlines the purpose of this document. We also explain the process we have followed to date and provide a summary of relevant research on the domestic market and supplier engagement.

Our Green Supply Guidelines

1.2. We have published voluntary guidelines on green supply since 2002. These aim to reduce consumer confusion in this market by setting clear principles for tariffs. Consumers who buy green tariffs meeting these principles can be assured that their choice of tariff is driving an environmental benefit over and above activities that a supplier would have done anyway, or that are driven by government support.

1.3. The scope of the guidelines has evolved over time to reflect market conditions. Our most recent guidelines, published in 2009,³ cover both domestic and micro-business non-domestic customers.^{4,5}

1.4. At the heart of our guidelines are the three principles of transparency, evidence of supply and additionality.

- **Transparency** - tariffs need to be clear and consistent with public expectations and understanding of what constitutes green supply.
- **Evidence of supply** - suppliers need to have and retain evidence to verify all claims regarding both the source of electricity supply and additionality in the tariff.
- **Additionality** - customers choosing a green tariff need to be satisfied that their support is contributing to additional environmental benefits. Consumers must be assured that their decision to buy a particular tariff has driven an environmental benefit that would have not been brought about otherwise.

³ Link to Green Supply Guidelines: <https://www.ofgem.gov.uk/ofgem-publications/57771/green-supply-guidelines-final-proposals-open-letter.pdf>

⁴ Consumers with an annual electricity consumption of less than 55,000 kWh. From 31 March 2014 the annual electricity consumption threshold to define a micro-business has been raised to 100,000kWh.

⁵ Link to Ofgem Key terms containing Micro-business consumer definition <https://www.ofgem.gov.uk/information-consumers/domestic-consumers/key-terms-and-issues-explained?alpha=M>

1.5. Our green supply principles do not cover good quality Combined Heat and Power (CHP) or nuclear tariffs.

1.6. In our 2009 guidance we added a new principle of accreditation. This led to the creation of the Green Energy Supply Certification Scheme (GESCS), a scheme overseen by an independent panel. The GESCS gives consumers more assurance that suppliers are meeting the commitments which are outlined in their marketing materials.

1.7. Our new policy proposals aim to build on our experience in developing principles for the green tariff market to date, as well as considering how best to respond to the evolution of this market.

Developments in the green and other renewable energy offers market

Current green offers

1.8. Accredited green tariffs exist in the market that follow our Green Supply Guidelines and give consumers the option of buying a robust green tariff. These are products that include an additional environmental benefit driven by a consumer's decision to purchase the tariff, which would not have occurred otherwise. This additionality element is provided alongside the supply of renewable energy.

1.9. However, not all tariffs marketed as 'green' currently available on the market adhere to the principles set out in the guidelines. Tariffs may make environmental claims and offer to supply renewable energy but they may not adhere to one or more principles in our guidelines.

1.10. This has led to the emergence of an accredited and non-accredited green tariff market.

1.11. Under our reforms to the retail market, we have received enquiries about the possibility of offering 'green' or environmental bundles.⁶ Bundles are different to tariffs, see Chapter 2 para 2.36 for further details.

Other renewable energy offers

1.12. There are also a growing number of other tariffs that offer consumers renewable energy without additional environmental benefits. In this document we refer to these tariffs as "other renewable energy" offers.

⁶ A bundle is a product or service that can be provided in addition to the supply of energy.

1.13. Green and other renewable energy offers represent only a small proportion of the electricity retail market. Over the last 12 months, the number of accredited green tariffs has dropped significantly. Non-accredited green tariffs and tariffs offering renewable energy without additionality now make up the dominant proportion of this market. As a result, the market currently lacks consistent principles. Our consumer research shows that it is difficult for consumers to differentiate between the different offers.

Retail Market Review (RMR)

1.14. Our RMR policy aims to ensure a simpler, clearer and fairer electricity market for consumers. So, from 31 December 2013 suppliers will only be able to offer four core tariffs. Green tariffs and other renewable energy offers will fall within this cap. As these tariffs have traditionally only attracted a small proportion of consumers, we have seen some suppliers choose not to include green tariffs in their core selection.

1.15. The RMR also introduces new rules around bundles. A bundle is any product or service that can be provided in addition to energy. In March we said that suppliers could not create a “greener” retail offer by attaching a bundle to one of their core tariffs. This applies to tariffs that are not based on renewable energy which meets the “volume test” (see paragraphs 2.23-2.25), as a key component of a green tariff is that the energy supplied is renewable and in line with our evidence of supply principle. We set out further detail on this in chapter 2.

1.16. RMR also introduced enforceable standards of conduct (SOC) which came into force on 26 August 2013. The domestic SOC is an obligation on suppliers (and their representatives) to treat consumers fairly in all interactions. The non-domestic SOC is an obligation on suppliers to treat consumers fairly in interactions relating to billings, contracts and transfers. The SOC was introduced as a principles-based approach to regulation which allows some flexibility to suppliers in the way they meet the outcomes of fair treatment.

1.17. The SOC covers three broad areas: behaviour, information and process. The onus will be on suppliers to embed fair treatment of consumers in every level of their organisation so that they behave in an honest, fair, transparent, appropriate and professional manner. Suppliers will also have to provide information that is clear, accurate, complete, appropriate, relevant and not misleading. They will have to ensure that they are easily contactable, act promptly and courteously to put things right. A supplier’s customer service arrangements and processes must be complete, thorough, fit for purpose and transparent.

Interactions with Ofgem and government policy

1.18. The government’s aim is that around 30% of our electricity will be supplied by renewable sources by 2020. To deliver against these aims the government has introduced several policies to subsidise the generation of renewable energy and currently, these subsidies are driving the increase in renewable energy on the grid. The costs of these subsidies are currently recovered through consumers’ bills, across

the GB energy consumer base. In future renewable energy will become a bigger proportion of the UK fuel mix. The government is also committed to reducing energy consumption by improving energy efficiency.

Renewable Obligation (RO) and Contracts for Difference (CfDs)

1.19. The government has supported the growth of renewable energy in the UK through the RO. This scheme provides a subsidy for renewable energy projects and the cost of this subsidy is shared between UK energy consumers through their energy bills. The RO is set to be replaced by CfDs. Again CfDs will provide a subsidy for renewable energy and this cost will be shared between UK energy consumers in a similar way to the RO. Our research has shown that consumers are not always aware of the important role these policies play in driving investment in new renewable generation, or that they already contribute to this as part of their energy bill.

Feed in Tariffs Scheme (FITs)

1.20. The Feed in Tariffs Scheme is a government programme designed to promote the uptake of a range of small-scale renewable and low-carbon electricity generation technologies. The scheme provides a subsidy for this renewable energy and the cost of this subsidy is shared between UK energy consumers through their energy bills.

Energy Companies Obligation (ECO)

1.21. This is a government scheme which supports energy efficiency for UK domestic consumers. It also has social aims to target vulnerable consumers.

Smart Metering

1.22. Smart Metering presents an opportunity for suppliers to innovate in the products and services they offer. Through our Smarter Markets Programme, Ofgem is taking steps to help use the opportunity that smart metering presents to make retail energy markets work more effectively for consumers. This includes work to create the right conditions to enable efficient use of demand-side response.

Fuel mix disclosure (FMD)

1.23. At its simplest, FMD is a graphical representation that illustrates the sources of a supplier's electricity, such as coal, gas and renewables. The FMD arrangements are based on suppliers licence condition 21 and the associated guidance⁷. The scheme was introduced in the UK by the government following the adoption of

⁷ Licence conditions can be obtained by going to the Electronic Public Register (<https://epr.ofgem.gov.uk/Document>). The associated guidance can be found here: <https://www.ofgem.gov.uk/ofgem-publications/57972/12340-28205.pdf>

relevant EU Directives.⁸ In our February 2013 open letter⁹ we signalled our intention to review our policy on FMD and we continue to monitor internally whether these arrangements are working.

Our research

The domestic market and supplier engagement

1.24. Earlier this year we commissioned independent consumer research into the awareness, experiences and expectations of domestic green tariffs consumers. A total of 104 consumers¹⁰ participated in this qualitative research study, including those on accredited green tariffs, non-accredited green tariffs and those on a range of “non-green” tariffs recruited to be reflective of a broad cross-section of Britain’s electricity consumers. A qualitative approach was adopted to explore the extent to which consumers understand the choices available to them in this part of the market. The research considered their motivations and barriers to choosing green tariffs and their expectations of green tariffs and the information attached to them. The study included consumers supplied by the six major energy suppliers and five smaller suppliers. The full report is published on our website.¹¹

1.25. While we recognise that this is a qualitative study which cannot offer statistically robust findings about the *proportions* of consumers holding particular views. Instead the research presents some important insights into consumer perceptions of green tariffs. We provide a summary below.

1.26. **Consumer awareness** – our research suggests that consumer knowledge of what makes a green tariff “green” remains low. This was common across consumers on green and “non-green” tariffs, with those on green tariffs sometimes unaware their tariff was green and/or unable to explain why their tariff was green.¹²

⁸ EU Directive 2009/28/EC:

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=Oj:L:2009:140:0016:0062:en:PDF>

EU Directive 2003/54/EC:

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003L0054:EN:HTML>

EU Directive 2001/77/EC:

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2001:283:0033:0040:EN:PDF>

⁹ View our February open letter here: <https://www.ofgem.gov.uk/ofgem-publications/57751/greenenergysupplyschemereview-openletter.pdf>

¹⁰ The sample breakdown was as follows: 28 green tariff (accredited and non-accredited) customers from across the six large suppliers and five smaller suppliers; and 76 non-green tariff consumers recruited to be reflective of a broad cross-section of Britain’s electricity consumers with a spread of attitudes towards green issues.

¹¹ Research report can be found at: <https://www.ofgem.gov.uk/ofgem-publications/84932/perceptionsofgreentariffs.pdf>

¹² The limited knowledge and lack of engagement demonstrated by both groups reinforces previous research carried out by Ofgem that shows a large proportion of energy consumers are disengaged from the energy market more generally.

1.27. Further, most consumers had a very limited understanding of how the electricity system works, leading many to assume that “green” meant that renewable energy was being supplied directly to a green tariff customer’s home. Another common finding was the low level of knowledge and awareness as to how government policies are supporting renewable generation.

1.28. **Consumer experience** – our research suggested that consumers on green tariffs are often uninformed or confused about what makes their tariff green. As such, greater transparency at the point of sale was welcomed. Although initial confusion was common, when new information was presented about how green tariffs work in practice as part of the research process, those who had chosen a green tariff because of a personal commitment to the environment were generally happy to continue doing so. For example, although many had not realised they were already contributing to the growth of renewable generation through government policies, most were still happy to continue to pay a little more to be on a green tariff as long as this brought additional benefits to the environment. Indeed some were pleased to be doing more than they had originally thought towards the green agenda.

1.29. **Consumer expectations** – consumer expectations of “green” varied significantly across the various segments of consumers engaged in the research. However, two common themes included investment in renewable generation and the supply of renewable generation. On understanding the features of a green tariff, if the tariff includes a premium consumers expect that the “extra” that they are paying for the green element must be clear; it must be transparent what this premium is being spent on, and the expectation is that it should be spent on investing in renewables; and this investment must be in addition to investment already covered by the Renewables Obligation set by the government.

1.30. Following our open letter in spring/summer we held a workshop for suppliers and other interested parties. In this workshop we discussed our expectations for the future of green and other renewable energy offers. Some early feedback from suppliers at this stage also suggested that currently allowable forms of additionality under GESCS may not be meeting consumers’ expectations.

The non-domestic market

1.31. Drivers for purchasing green tariffs and buying renewable energy are different for domestic and non-domestic consumers. Domestic consumers most commonly purchase these tariffs because they want to drive environmental benefits or show their support for renewable energy. While non-domestic consumers may also share these interests, there are also further drivers such as reputational reporting and climate change levy exemptions.

- Climate change levy exemptions – UK businesses above a certain size pay a levy (£5.24/MWh from 1 April 2013) on the energy they consume. However, this levy is not applied to renewable energy. The aim of this exemption is to drive demand for renewables from non-domestic consumers.

- Reputational incentives – businesses may want to buy green and other renewable energy tariffs for reporting reasons or for CSR purposes with their customers.

1.32. Consumer awareness and expertise is also often different in the domestic and non-domestic market. Larger businesses are more likely to have greater awareness of government policies and the electricity market. This is due to the fact large electricity customers often have all charges itemised on their bill (including those related to transmission and distribution) and may also use a broker and/or have a dedicated employee to manage their energy contract. These differences were a key driver in setting the scope of our 2009 guidelines to include only domestic and non domestic consumers with an annual electricity consumption of up to 55,000 kWh.

Further links and dependencies

1.33. This document sets out our proposals for protecting consumers buying green tariffs and other renewable electricity tariffs. Our proposals are in addition to existing rules and regulations on advertising. This includes the UK Advertising Codes as set out by the Committees of Advertising Practice and administered by the Advertising Standards Authority, which are intended to ensure that marketing claims are legal, decent, honest and truthful, and help to ensure that suppliers make honest and credible claims about the features of their tariffs. The UK Advertising Codes apply to all advertisers, and cover advertising in broadcast and non-broadcast media, including marketing on companies' own websites and in other space they control like social networking sites, regardless of any other industry codes of practice or best practice principles.

1.34. As set out above, one of the key drivers for non-domestic consumers to purchase renewable energy is for reputational reasons. One method of communicating this is through voluntary business carbon reporting. We recognise that the GHG Protocol and Defra are currently refreshing their guidance on how companies should report the purchase of renewable energy.

1.35. We also recognise that some large non-domestics are exploring new options for how to communicate the source of their energy to their end customers, including energy labels. These developments are relevant when considering the benefits and disadvantages of extending the scope of our policy proposals to cover the larger non-domestic market.

2. Our Policy Proposals for Green Tariffs

Chapter Summary

This chapter sets out our policy proposals for green tariffs. We set out details of changes to the existing principles in our Green Supply Guidelines and initial thinking on implementation options. We propose that a 'green tariff' should conform to the principles set out in this chapter.

Chapter Questions

Question 1: Do you agree with our proposed updates to the principles of transparency and additionality?

Question 2: Is the current CO₂e abatement threshold of 1tonne of CO₂e emissions abated per tariff per annum (or broadly equivalent materiality depending on the additionality type) appropriate?

Question 3: Do you agree that our updated green supply guidelines should apply to any electricity tariff whose proposition relates to the supply of renewable energy alongside additional environmental benefits at tariff level?

Question 4: Do you agree with our proposals for nuclear and CHP tariffs?

Question 5: Do you agree that environmental bundles should avoid broad terms such as green or environmentally friendly when marketed to consumers?

Question 6: What do you think are the pros and cons of all, or some, of our proposed principles for green tariffs being extended to large non-domestic consumers? Is 100,000 kWh an appropriate threshold?

Question 7: Do you have a preferred implementation and verification option? Why?

Question 8: What is the best method of ensuring that the principles are consistently applied in the market?

Question 9: Do you agree that a prescriptive approach should be applied to the additionality principle for green tariffs? If so what activities should be included? Please provide evidence to support your answer.

Introduction

2.1. In 2008, research carried out by Ipsos MORI on our behalf¹³ showed that consumers expect that, if they signed up for a green tariff, this would lead to an environmental benefit that the supplier would otherwise not have pursued. This was also reflected in the consumer research conducted by Insight Exchange earlier this year.¹⁴

2.2. We maintain our position that, in choosing to purchase a green tariff, a consumer should be assured they are driving an environmental benefit that is beyond a supplier's 'business as usual' activities and would not have occurred otherwise. This principle of additionality is at the core of our current green supply guidelines.

2.3. In the past, we have excluded renewable energy delivered under the Renewables Obligation (RO), along with other environmental benefits driven by government policies, from being considered as meeting the additionality principle. We consider that the environmental benefit associated with renewable energy that receives this support is driven primarily by government, not by a consumer's decision to purchase a particular tariff.

2.4. Our existing Green Supply Guidelines were introduced in 2009, to help reduce consumer confusion in the green tariffs market. Since then, there have been several developments in this market. We have recently reviewed the current state of the green and other renewable energy offers market and we set out a summary of our findings in the previous chapter. We are looking to ensure that the principles remain appropriate given these results.

2.5. This chapter sets out our policy proposals to ensure that the green and other renewable energy offers market is simple, clear and fair for current and future consumers.

Issues to be addressed

2.6. Our research has identified that there is still confusion in the green tariffs market. This research, along with stakeholder views suggests that there are several issues that should be addressed:

2.7. **Consumer knowledge of the electricity network and market remains low** – our research revealed that consumers have a low level of understanding of

¹³ Link to 2008 Ipsos Mori consumer research: <https://www.ofgem.gov.uk/publications-and-updates/consumers%E2%80%99-views-renewable-and-low-carbon-supply-tariffs-report-conducted-mori>

¹⁴ Link to Insight Exchange Consumer Research: <https://www.ofgem.gov.uk/ofgem-publications/84932/perceptionsofgreentariffs.pdf>

how the electricity system works. This may lead to expectations that cannot be matched by a green tariff. For example, some consumers may think that a 100% renewable energy tariff means that the energy that they physically consume in their home is made up only of renewable energy, rather than the grid average fuel mix.

2.8. It is difficult for consumers to engage with the features of a 'green' tariff and therefore differentiate between a green tariff and a renewable tariff – our market analysis, combined with low consumer knowledge of green tariffs evidenced in our consumer research, suggests it may be difficult for consumers to differentiate between green and other renewable energy tariffs. This could be due to a lack of consistent principles across green tariffs.

2.9. The additionality element of a green tariff may not be easily identifiable or may not match expectations - our research showed that many consumers expect to be able to identify the exact environmental benefit that will be delivered by buying their green tariff. Some currently eligible forms of additionality within green tariffs may be quite different from consumers' expectations.

Our policy objectives

2.10. As with the current green supply guidelines, the overarching objective of our policy proposals is to reduce customer confusion in the green tariffs market.

2.11. In the future, we want consumers to find it easy to purchase and engage with a green tariff in an informed way.

2.12. In achieving our policy objective, we are also aiming to:

- Build on the benefits of the existing market and green supply guidelines. The current market is already helping consumers to support environmental causes and helping to reduce global carbon emissions through the purchase of green tariffs.
- Create a framework that supports tariff innovation and competition between suppliers. The transition to a low carbon economy will bring new opportunities for electricity products. These could include local energy tariffs and time of use tariffs where prices vary with renewable outputs. Our proposals aim to enhance consumer confidence in this market without reducing the potential for this innovation.
- Avoid unnecessary regulations and burdens on suppliers and other market participants, consistent with better regulations.

Our proposals

2.13. Since their introduction in 2002, our principles for green supply have evolved following engagement with consumers, consumer groups and industry. Our proposals

continue to build on our past work and experience in this area, whilst ensuring our approach remains fit for purpose in the changing energy market.

Summary of our proposals

2.14. Our proposals for green tariffs cover three broad areas:

1. Updates to the principles of transparency, evidence of supply and additionality, building upon what we have learnt since the 2009 guidelines.
2. The future scope of our green supply principles.
 - a. We consider that consistent application of our updated green supply principles across the market would have significant benefits for domestic and small non-domestic consumers. We propose that our updated principles cover all electricity tariffs that offer the supply of renewable energy alongside additional environmental benefits at tariff level.
 - b. We consult on the potential to extend our updated principles to cover larger non-domestic consumers.
3. We also consult on options for implementing our updated principles in order to introduce consistency across the green supply market.

Proposed updates to our green supply principles

2.15. In this section we set out our proposed updates to the principles of transparency, evidence of supply, and additionality. We build upon our experience to date and respond to changes in the market. We consider options for implementation and verification later in this chapter.

2.16. For further details on our existing requirements please refer to our current guidelines.¹⁵

2.17. We do not include any detailed drafting changes in this section. We will include these in our final proposal document.

Transparency

¹⁵Green Supply Guidelines: <https://www.ofgem.gov.uk/ofgem-publications/57771/green-supply-guidelines-final-proposals-open-letter.pdf>

2.18. The aim of this principle is to enable consumers to make informed decisions when purchasing an electricity tariff. This is achieved by ensuring that key information is clear and accessible.

2.19. We understand that the green tariffs market is a particularly complex area for consumers. Our consumer research suggests that there is confusion and a lack of understanding around how the electricity system works in practice, along with the role and existence of government renewable policies. We consider that a renewed emphasis on the principle of transparency, along with consistent application across the green tariff market can help to reduce this consumer confusion and improve understanding.

2.20. Our current green supply guidelines establish three 'tiers' of information to support consumers in this market. We provide a summary of the purpose of each of these tiers below, along with our proposed updates.

Tier 1 information – this tier outlines key information that consumers should be aware of in advance of signing up to a green tariff. We consider that the information set out in our guidelines remains important for consumers. In addition to the current requirements (see Appendix 2) we also consider that consumers should be provided with a link to tier 2 and 3 information when the point of sale is online (including on switching sites).

Tier 2 information – this tier sets out further information that suppliers should make available from a publically accessible resource (eg the supplier's own website). It includes further details on the fuel mix disclosure and on the environmental measure the consumer is supporting through their purchase of the green tariff. We think that these requirements remain appropriate. In addition, we consider that it is important to also include information on how the electricity system works in practice. This information should include that purchasing renewable energy will not change the electricity delivered to the consumer's home, which will always represent a mix of sources regardless of which tariff a consumer chooses.

Tier 3 information – this tier sets out further information that suppliers should make available from a publically accessible resource or printed materials, as well as in marketing information or correspondence relating to the green tariff. This tier sets out details of relevant government schemes and policies. We consider that this information remains important for consumers; in particular it is important that consumers are made aware that they are making a contribution to renewable energy regardless of the tariff they purchase.

In addition to the current requirements, we consider that this information should also include the following information.

- A clear description of the supplier's adherence to the volume test.
- Where renewable generation has received government support, it was driven primarily by government policies, not by the consumer choosing this tariff.

2.21. We will update tier 3 to account for new government schemes and policies including CfDs and ECO.

2.22. Later in this chapter we consult on options for implementing these principles. As part of this we consider whether greater standardisation of these key messages/presentation can help to improve transparency for consumers.

Evidence of supply

2.23. We consider that evidence of supply as set out in current guidelines remains appropriate. The volume test remains important in ensuring that renewable energy is not 'double sold' to consumers (see para 3.11 for details). This is important to match consumers' expectations that they are purchasing renewable energy.

2.24. A supplier must hold the requisite number of Renewable Energy Guarantee of Origins (REGOs) to support the volume of renewable supply in a green tariff/contract. The supplier must also either retire or redeem any associated Levy Exemption Certificates (LECs) to ensure that they are not later sold on to other customers.

2.25. Imports of renewable generation from outside of the UK are treated as follows under the volume test;

If the electricity is from a generator that has been issued with LECs then the supplier must retire the LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem. If the electricity is from a generator that has not been issued with LECs then the supplier must purchase and retire LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem.

Additionality

2.26. Consumers choosing a green tariff need to be satisfied that their support is contributing to additional environmental benefits or "additionality". As such, they must be assured that the environmental benefit secured through their decision to sign up to the tariff would not have occurred in the absence of this decision.

2.27. In the past we have not considered the supply of renewable energy and other environmental benefits driven by government policies as the additionality element of a green tariff. We consider that this rule should continue and should include future government policies. We recognise that this is a complex area and that there have been arguments put forward as to why consumer demand also plays a role in supporting these government targets. However, we consider that these environmental benefits are currently being primarily driven by government policies, rather than by an individual consumer.

2.28. Given that the primary driver of the transition to a low carbon economy is climate change, in line with our current guidelines we consider the most appropriate measure of additionality is carbon dioxide (equivalent) abatement (CO₂e abatement). This provides consumers with extra assurance in this complex market that they are making an additional environmental contribution. We see benefits from keeping a minimum threshold. The average carbon footprint of electricity consumed by an average GB electricity consumer is currently 1.8 tonnes per year.¹⁶ The current additionality threshold of 1 tonne CO₂e abatement per tariff per annum (or broadly equivalent materiality depending on the additionality type) represents carbon abatement of over half of this. We are interested in stakeholder views on whether the current threshold is set at an appropriate level.

Question 1: Do you agree with our proposed updates to the principles of transparency and additionality?

Question 2: Is the current CO₂ abatement threshold of 1 tonne of CO₂e emissions abated per tariff per annum (or broadly equivalent materiality depending on the additionality type) appropriate?

Scope of the green supply guidelines

2.29. We propose that our green supply guidelines should apply across the green supply market and cover domestic and non-domestic electricity tariffs that offer the supply of renewable energy alongside additional environmental benefits at tariff level. For example, this would include tariffs marketed as sustainable, low carbon and eco-friendly etc.

2.30. We consider that the consistent application of updated principles on transparency, evidence of supply and additionality across this market will help to create a clear market for consumers.

2.31. We do not intend to define all marketing terms that may be used for green tariffs. This would be for suppliers to interpret. For the purposes of this document any reference to 'green offers' and 'green tariffs' includes any tariff where the proposition is based on renewable energy plus environmental claims made at tariff level.

Question 3: Do you agree that our updated green supply guidelines should apply to any electricity tariff whose proposition relates to the supply of renewable energy alongside additional environmental benefits at tariff level?

Nuclear and good quality CHP

¹⁶ This is calculated by multiplying 3800kWh (average domestic electricity consumption as defined by Ofgem) by 470g/kWh (grid average emissions as used by DECC for [FMD](#) purposes).

2.32. Our current guidelines do not cover the sale of electricity sourced from nuclear and good quality CHP. However, we recognise that both nuclear and good quality CHP could be associated with low carbon claims.

2.33. We do not intend to include nuclear tariffs in our updated guidelines as consumers do not consider nuclear to be a renewable energy source. Instead, it is broadly seen to sit somewhere between fossil fuels and renewable. Even those consumers who support nuclear generation do not expect it to be part of a green tariff.

2.34. However, to avoid consumer confusion, we consider that 'nuclear' should be highly visible at the point of sale, whenever making any low carbon claims for these tariffs.

2.35. Similarly we are proposing that the sale of electricity sourced from good quality CHP energy remains outside the scope of our proposed guidelines, but that 'CHP' should be highly visible at the point of sale, whenever making any low carbon claims for these tariffs. However, we welcome views on whether investment in new good quality CHP (as long as it does not fall under any government schemes) should be eligible as the additionality element of a green tariff.

Question 4: Do you agree with our proposals for nuclear and CHP tariffs?

Bundles

2.36. Our retail market review (RMR) has introduced new rules around bundles, to be effective from 31 December 2013. For the purposes of this document a bundle is defined as any product or service that can be provided in addition to energy.¹⁷ In March 2013 we set out that suppliers would not be able to "green up" one of their core tariffs by attaching a 'green bundle'.¹⁸ This means that by attaching a bundle that contains environmental benefits to a tariff that is not based on a supply of renewable energy that meets the "volume test", the tariff does not become green.

2.37. However, we do recognise that there are some bundles that may offer customers an environmental benefit, such as carbon offset and charitable donations to environmental bodies. We think there is benefit in these continuing to be available for consumers to purchase. However, we think that marketing under broad terms such as green or environmentally friendly could be confusing for consumers. In particular consumers may confuse these with green tariffs or they may think that there is some element of renewable energy involved. We consider that these should be marketed using more accurate and descriptive terminology such as 'offset bundle'.

¹⁷ For the full definition of bundles, please see p. 181 of our RMR Final Proposals Document: <https://www.ofgem.gov.uk/ofgem-publications/39350/retail-market-review-final-domestic-proposals.pdf>

¹⁸ See RMR Final Proposals from 27 March 2013.

Question 5: Do you agree that environmental bundles should avoid broad terms such as green or environmentally friendly when marketed to consumers?

Potential to extend our principles to cover larger non-domestic consumers

2.38. Our current guidelines cover the domestic and micro-business sector (consumers with an annual electricity consumption of less than 55,000 kWh). The definition of a micro-business will change on 31 March 2014 when the electricity consumption for a micro-business will be defined as up to 100,000 kWh.

2.39. However, in 2009 we said that we would consider benefits of extending the coverage of our guidelines in the future. We are considering whether the principles should be extended to the non-domestic sector above the current threshold.

2.40. Benefits of doing this for these consumers would include consistency of understanding of green offers across the market and improved clarity for non-domestic consumers not captured under the current threshold. However, as noted in the introduction chapter, knowledge levels and incentives to purchase green tariffs in the non-domestic market differ to the domestic market. In particular larger firms may have dedicated energy managers.

2.41. We are not aware of any barriers to extending the principles to large non-domestic consumers. However, we welcome evidence on the pros and cons of extending all or some of these principles.

Question 6: What do you think are the pros and cons of all, or some, of our proposed principles for green tariffs being extended to large non-domestic consumers? Is 100,000 kWh an appropriate threshold?

Implementation of the principles

2.42. If these principles are consistently applied across the market, we will help consumers to benefit from reduced complexity and confusion.

2.43. In 2009 several suppliers signed up to join the GESCS. To date our guidelines have been voluntary and these principles have not covered the entire market. However the number of accredited tariffs available to purchase has recently reduced. As a result the current coverage of our guidelines is low.

2.44. We are considering removing the principle of 'accreditation' from the green supply guidelines. While there are benefits to independent accreditation – such as increasing trust for consumers and specific criteria to which tariffs/offers need to conform - we do not feel that this is the only way that the principles could be implemented to the best effect. We are keen to explore a range of implementation options as part of this consultation. In considering future options, we maintain that verification of claims remains important. This is supported by our consumer research.

The options we are currently considering for implementing the guidelines are set out below, along with our preliminary assessment.

2.45. Supplier verification outside an accreditation scheme could be achieved through various options. For example, an annual independent audit report published on the supplier’s website or submitted to Ofgem.

2.46. We do not currently have a ‘preferred option’ but we are aware that the current voluntary approach has not achieved our aim for consistent application of the principles. We welcome views on the options set out below, including on the ease of implementation, along with any other options that may be appropriate.

Question7: Do you have a preferred implementation and verification option? Why?

Question 8: What is the best method of ensuring that the principles are consistently applied in the market?

Implementation Option	Potential market coverage	Potential for consumer assurance
1. Voluntary guidance + supplier-led verification	Dependent on supplier appetite (current and new entrants).	Dependent on supplier uptake of guidelines across the market and how verification is implemented.
2. Voluntary guidance + accreditation scheme (status quo)	Dependent on supplier appetite (current and new entrants).	Dependent on supplier uptake of guidelines across the market. Greater opportunity for consistent messaging and developing industry standards.
3. Ofgem-led regulation (Standards of Conduct/specific license condition) + supplier led verification	Consistent across market.	Full supplier uptake. Greater consumer assurance than voluntary guidance but implementation of verification may differ among suppliers.
4. Ofgem-led regulation (SoC/license + accreditation scheme)	Consistent across market.	Full supplier uptake and greater opportunity for consistent messaging and developing industry standards.

2.47. In implementing the additionality principle in the green supply guidelines, the GESCS sets out a list of eligible activities. We have received feedback from suppliers that some of these activities may not be in line with consumer expectations. Whether a similar prescriptive approach is taken this time will depend on how the principles are implemented.

Question 9: Do you agree that a prescriptive approach should be applied to the additionality principle for green tariffs? If so what activities should be included? Please provide evidence to support your answer.

3. Increasing transparency for consumers purchasing renewable energy

Chapter Summary

This chapter sets out further policy proposals to enable a clearer market for consumers. Our proposals focus on greater differentiation between green tariffs and tariffs that do not conform to the green supply principles but that differentiate their proposition based on the sale of renewable energy. Our proposals also aim to increase transparency in the renewable energy market.

Chapter Questions

Question 10: Do you agree that there is a need for increased transparency around the sale of other renewable energy tariffs?

Question 11: Do you agree that other renewable energy tariffs, without any tariff level environmental benefits, should follow our 'transparency' principles for green tariffs (excluding requirements relating to additionality)?

Question 12: What is the best way to convey to consumers at the point of sale that purchasing the tariff will not drive additional environmental benefits? If this is a message, what should it be?

Question 13: Do you agree that other renewable energy tariffs should also follow the 'evidence of supply' principle?

Question 14: What do you think the pros and cons of our proposals for other renewable energy tariffs being extended to large non-domestic consumers are? Is 100,000 kWh an appropriate threshold?

Question 15: Do you have a preferred implementation option for our proposal for other renewable energy tariffs? Why?

Introduction

3.1. As set out in the previous chapter, a 'green' tariff is an environmental product. It should provide an environmental benefit that is driven by a consumer's decision to sign up to the tariff, and which would not have occurred otherwise.

3.2. In addition to the green tariffs market, some suppliers also offer tariffs that allow consumers to buy renewable energy, but do not offer any environmental benefits beyond a supplier's business as usual activities. These tariffs allocate consumers a 'portion' of the renewable energy purchased by a supplier that year. This portion could include renewable energy driven by government policies as well as

other renewable generation that already exists in the market. In this chapter, we refer to these tariffs as 'other renewable energy' tariffs.

3.3. This includes the use of product-level Fuel Mix Disclosure to indicate the proportion of renewable energy allocated to the tariff, when the renewable proportion of the tariff is greater than the proportion of renewable energy in a supplier's licence-level fuel mix.

3.4. We acknowledge that there has been an extensive debate about the benefits and disadvantages associated with these tariffs. A disadvantage of these tariffs is their potential to mislead consumers. The complexity of the electricity system and consumers' low understanding of the role of government incentives in driving renewable energy can in some cases mean consumers think they are purchasing something they are not. In particular, consumers may think that in buying these tariffs, they are driving investment in new renewables more (or receiving more renewable energy to their home) than if they were purchasing any of the other tariffs offered by their supplier.

3.5. We recognise that there are benefits for consumers from suppliers communicating the source of energy. This includes engaging consumers in the transition to a low carbon economy and potentially enabling new opportunities for tariff innovation. For example, in future these tariffs may help to support innovation in areas such as local tariffs. If enough customers express a preference for renewable energy this could potentially drive a change in the grid fuel mix in the future.

3.6. Our position remains that tariffs comprised of (only) renewable energy incentivised by government targets and support should not be sold as a green product. We set out our rationale for this in the previous chapter. In short, we consider that where the renewable energy has received government support, that energy has been being driven primarily by the government, not by a consumer's decision to purchase the tariffs. In addition, the subsidies associated with the renewable energy currently available in the energy system are spread across the bills of consumers more generally, not just the consumers buying green and other renewable energy tariffs.

3.7. More broadly, where a supplier is already buying renewable energy as part of their business as usual activities (regardless of whether it is receiving government support) this should not be marketed as a green tariff. This is because a consumer choosing this tariff is not driving an environmental change beyond the suppliers' business as usual.

3.8. Some consumers may want to purchase energy from a supplier who is committed to sourcing renewable energy as part of their business as usual activities. This may be because arguably these suppliers are making a contribution to the delivery of government climate change targets. We consider that it is more appropriate for the supplier to message this at the supplier level, rather than by apportioning energy at the tariff level.

Issues to be addressed

3.9. In our consultation in 2008, we expressed our concerns that customers may mistakenly purchase a renewable tariff thinking that this purchase is driving an environmental change above other tariffs offered by a supplier. Our recent research suggests this confusion still exists and that **it remains difficult for consumers to differentiate between a green tariff and a renewable energy only tariff**. This is still preventing consumers from selecting an electricity tariff that matches their needs and expectations.

3.10. In addition, as set out in the green tariffs chapter, **consumer knowledge of the electricity network and market remains low**. For example, some consumers may think that a buying a renewable energy only tariff means that their home is physically being supplied with only renewable energy, rather than energy with grid-average carbon intensity.

3.11. We also recognise that there is **potential for double selling units of renewable energy in this market**. This is because a single unit of renewable energy can receive multiple certificates to evidence its origin. More specifically, a single unit of renewable energy can be sold to non-domestic consumers through a LEC-backed contract and then to a domestic consumer through a REGO-backed contract. We do not think that this practice would match the expectations of a consumer buying a REGO-backed supply, as they would not expect the units of energy associated with those REGOs to be also sold to a non-domestic consumer.

Our policy objectives

3.12. The overarching objective of our policy proposals is to increase transparency in the domestic and micro-business market. It important that consumers are supported in differentiating between a green tariff and other tariffs offering renewable energy. Changes to the way the supply of renewable energy is communicated to consumers can support consumers in selecting a product that better matches their needs and expectations.

3.13. We also want to understand the potential for a clearer market for larger non-domestic customers.

Our proposals

3.14. First and foremost we maintain that renewable energy only tariffs do not offer consumers an environmental benefit beyond a supplier's 'business as usual' activities and therefore they should not be marketed as an environmental product.

3.15. We have explored a number of potential options for further increasing transparency in this market.

3.16. One option is that claims on the source of renewable energy in a particular tariff should not vary from the national grid average. Instead, a supplier would differentiate based on their corporate level strategy. The benefits of this approach are that this broadly mirrors the physical reality of the electricity delivered to a consumer's property. In addition, this may better reflect how the costs of renewable support are shared between consumers. However, we recognise that this option also may have its own confusing elements. In particular, a consumer may be confused when a supplier's FMD does not match the tariff level claim.

3.17. A further option is that claims on the source of renewable energy in a particular tariff should not vary from a supplier's FMD.

3.18. Our preferred approach to addressing the issues set out above is to introduce similar information requirements as in the green tariffs market (excluding the information requirements relating to additionality). The benefits of this are that consumers are able to make informed decisions at the point of sale when purchasing other renewable energy offers, while still allowing suppliers to innovate. Further information on the impacts of our proposals can be found in Appendix 3.

3.19. We believe that consumers should be in no doubt about what their tariff is delivering. **We think that renewable energy only tariffs should follow the tier 1-3 information requirements set out in the previous chapter. In addition, these tariffs should include a message at the point of sale, which clearly conveys that the tariff is not driving additional environmental benefits.** This message could be simple such as "this is not a green tariff". When the point of sale is online this message should include a direct link to tier 3 information.

Question 10: Do you agree that there is a need for increased transparency around the sale of other renewable energy tariffs?

Question 11: Do you agree that other renewable energy tariffs, without any tariff level environmental benefits, should follow our 'transparency' principles for green tariffs (excluding requirements relating to additionality)?

Question 12: What is the best way to convey to consumers at the point of sale that purchasing the tariff will not drive additional environmental benefits? If this is a message, what should it be?

3.20. Renewable energy only tariffs should also follow the evidence of supply requirements for green tariffs, for the reasons set out in paragraph 3.9. Any tariff offering the sale of renewable energy should robustly evidence this in this way.

Question 13: Do you agree that other renewable energy tariffs should also follow the 'evidence of supply' principle?

Question 14: What do you think the pros and cons of our proposals for other renewable energy tariffs being extended to large non-domestic consumers are? Is 100,000 kWh an appropriate threshold?

Implementation Options

3.21. Implementation options are similar to those set out in the previous chapter for green tariffs. We are keen to explore stakeholder views on how best to implement our policy for renewable energy only tariffs, again to achieve consistency of application in the market (see Ch 2 paragraph 2.49).

Question 15: Do you have a preferred implementation option for our proposals for other renewable energy tariffs? Why?

4. Next steps

Summary of work to date

4.1. The proposals set out in this document build on our ongoing work and discussion on consumer protection in the green and other renewable energy offers market. Ofgem's Retail Market Review (RMR) set out some of our high level thinking, on 'greening up' tariffs, in line with making the energy market simpler, clearer and fairer for consumers.

4.2. Following our open letter in February we held a workshop for suppliers and other interested parties, where we discussed our expectations for the future of green tariffs. This workshop and subsequent engagement with stakeholders provided further evidence that the current green and other renewable energy offers market is complex and confusing for consumers.

4.3. Over the summer we also commissioned independent research into green and non-green tariff consumers' awareness, experiences and expectations of green and other renewable energy offers. This research revealed that consumer's knowledge of green tariffs and the generation and supply of renewable energy is low.

4.4. This combination of previous work, market developments, consumer research and stakeholder engagements have helped to inform our thinking in this consultation. We believe our proposals incorporate the key issues that our research and work have exposed to date and will help to create a clearer, simpler and fairer green tariffs market.

Ongoing engagement and future timeline

4.5. We are consulting on our proposals until **14 February 2014**. We have decided upon a ten week consultation to allow stakeholders the maximum opportunity to consider any potential implications of our proposals.

4.6. During this consultation period we welcome comments from all stakeholders. We are happy to engage with stakeholders in whichever way is most appropriate.

4.7. While further developing this policy we hope to work constructively with energy suppliers, and other external stakeholders, to put these arrangements in place as soon as possible.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. We would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 14 February 2013 and should be sent to:

Sustainable.Energy@ofgem.gov.uk
Sustainable Energy Policy Team
Ofgem
9 Millbank
London
SW1P 3GE

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: having considered the responses to this consultation, we intend to implement necessary changes as soon as possible. Any questions on this document should, in the first instance, be directed to:

Natasha Smith
Sustainable Energy Policy
Ofgem
9 Millbank
London
SW1P 3GE
020 7901 1821
Sustainable.Energy@ofgem.gov.uk

Chapter two questions

Question 1: Do you agree with our proposed updates to the principles of transparency and additionality?

Question 2: Is the current CO₂e abatement threshold of 1tonne of CO₂e emissions abated per tariff per annum (or broadly equivalent materiality depending on the additionality type) appropriate?

Question 3: Do you agree that our updated green supply guidelines should apply to any electricity tariff whose proposition relates to the supply of renewable energy alongside additional environmental benefits at tariff level?

Question 4: Do you agree with our proposals for nuclear and CHP tariffs?

Question 5: Do you agree that environmental bundles should avoid broad terms such as green or environmentally friendly when marketed to consumers?

Question 6: What do you think are the pros and cons of all, or some, of our proposed principles for green tariffs being extended to large non-domestic consumers? Is 100,000 kWh an appropriate threshold?

Question 7: Do you have a preferred implementation and verification option? Why?

Question 8: What is the best method of ensuring that the principles are consistently applied in the market?

Question 9: Do you agree that a prescriptive approach should be applied to the additionality principle for green tariffs? If so what activities should be included? Please provide evidence to support your answer.

Chapter three questions

Question 10: Do you agree that there is a need for increased transparency around the sale of other renewable energy tariffs?

Question 11: Do you agree that other renewable energy tariffs, without any tariff level environmental benefits, should follow our 'transparency' principles for green tariffs (excluding requirements relating to additionality)?

Question 12: What is the best way to convey to consumers at the point of sale that purchasing the tariff will not drive additional environmental benefits? If this is a message, what should it be?

Question 13: Do you agree that other renewable energy tariffs should also follow the 'evidence of supply' principle?

Question 14: What do you think the pros and cons of our proposals for other renewable energy tariffs being extended to large non-domestic consumers are? Is 100,000 kWh an appropriate threshold?

Question 15: Do you have a preferred implementation option for our proposal for other renewable energy tariffs? Why?

Appendix 2 – Current Green Supply Guidelines

Aims of the guidelines

2.1. The key aim of these guidelines is to provide clarity to customers on whether green tariffs are truly 'green'. This in turn requires that, where tariffs are marketed as 'green' by suppliers, they must apply the following principles:

- **transparency:** tariffs need to be clear and consistent with public understanding and expectations as to what constitutes green supply. Customers should have easy access to specific information regarding the tariff as well as more general information regarding the way that the electricity market, supplier obligations and green tariffs interact. The requirements on transparency, under these guidelines, are discussed in further detail in Sections 0 to 0 below;
- **evidence of supply:** suppliers will need to have and retain evidence, for the duration of the relevant compliance period, to verify all claims regarding both the source of electricity supply and additionality (as described in the next bullet) so that this can be made available to the public or an external verifier. The requirements on evidence of supply, under these guidelines, are discussed in further detail in Sections 0 to 0 below;
- **additionality:** customers choosing a green tariff need to be able to be satisfied that their support is contributing to additional environmental benefits or additionality. As such, they must be assured that the environmental benefit secured through their decision to sign up to the tariff would not have occurred in the absence of this decision. Benefits derived from existing support schemes, e.g. through the Renewables Obligation (RO) or under the Carbon Emissions Reduction Target (CERT), are not included. For example, assigning renewable electricity supported by the RO to a green tariff is not, in itself, evidence of additionality under these guidelines. A minimum requirement in demonstrating additionality should be met by suppliers to achieve accreditation under the scheme. The requirements on additionality, under these guidelines, are discussed in further detail in Sections 0 to 0 below; and
- **accreditation:** suppliers who have signed up to the guidelines will be required to agree and develop an accreditation scheme within given time periods. This process may result in detailed accreditation scheme rules which could be appended to these guidelines. The scheme will require the employment of an independent accreditation body (details to be agreed). The aim of having the tariffs accredited will be to provide assurance to consumers that suppliers are actively engaging in the activities in which they claim they are undertaking within their marketing materials. The presence of an independent third party at the centre of the scheme will facilitate the feeling of assurance achieved by consumers and ensure that there is no bias, towards any one supplier, within the scheme itself. The development of the scheme will be overseen by Ofgem to

ensure that its structure adheres to the key principles outlined in these guidelines.

2.2. These guidelines place additionality as a core principle. As a result of these guidelines, it must be clear to customers whether their tariff provides additional environmental benefits or not. This is consistent with consumer expectations of what a green tariff should constitute¹⁹. It is also crucial that customers are able to understand clearly and easily what they are getting in terms of environmental benefits.

Status of the guidelines

2.3. These guidelines are voluntary in nature and, given the high level nature of the principles contained within them, the green tariff products supported should be capable of evolving over time in line with the evolution of the market. However, where a signatory or other interested party considers that certain provisions within these guidelines need to be revised, they should notify Ofgem. Ofgem will subsequently consider whether a consultation regarding this proposed amendment is required.

Scope of the guidelines

2.4. The guidelines apply to green tariffs targeted at both domestic and Small and Medium Enterprise (SME) customers that are offered by suppliers who are signatories to the guidelines. For the purpose of these guidelines, SME is defined as having an annual electricity consumption of less than 55,000 kWh²⁰.

2.5. Further, the guidelines cover renewable tariffs only not low carbon tariffs such as good quality Combined Heat and Power (CHP) or nuclear.

Transparency

General requirements

2.6. All marketing material and related information should be based on correct, up-to-date and specific information about the product that is being offered. Information

¹⁹ This is consistent with the conclusions reached through our consumer research, carried out in December 2007, which highlighted that the key motivation for consumers in signing up to green tariffs is to facilitate additional environmental benefits. The conclusions of the research are available at:

<http://www.ofgem.gov.uk/Sustainability/Environment/Policy/Documents1/Final%20Report%20from%20Mori%20re%20Consumers%20Views.pdf>

²⁰ Follows the definition used as part of the Energy Ombudsman

provided regarding the market more generally and the obligations with which suppliers must comply should also be up-to-date and accurate.

2.7. The use of images and symbols should reflect the product being offered; for example, the use of images of wind generation should only be used where a supplier sources a substantial portion of its generation from wind. The exact detail of these arrangements will be agreed through the discussions that take place to establish the accreditation scheme.

Provision of information on a tiered basis

2.8. In recognition of the different needs of consumers regarding the provision of information, suppliers must provide information to consumers on a tiered basis. The first tier of information will outline some of the key information which consumers should be aware of in advance of signing up to a green tariff. The second tier of information will provide an explanation of these symbols and the third will provide general contextual information regarding green tariffs and the electricity market. The requirements for the provision of information under the first, second and third tiers are outlined in more detail in paragraphs 0 to 0 below.

Tier 1 information

2.9. The supplier must provide tier 1 information to customers at the point of sale²¹. The supplier should also include tier 1 information regarding green tariffs on its website and in all marketing material. This information must include:

- **a Fuel Mix Disclosure chart** illustrating the relevant fuel mix of the supplier²² which shows the different energy sources used and the percentage of each source making up the fuel mix. This will provide an indication to customers of the environmental credentials of the supplier. This requirement is in line with legal obligations on active suppliers to provide information to each customer that has received a bill or statement, in the 12 month period commencing 1 October, regarding the contribution of each energy source to the total amount of electricity purchased for supply by the licensee²³;
- **an additionality description**, in plain language, briefly outlining the environmental measure/activity that the supplier is undertaking on behalf of the customer to demonstrate additionality. If the activity is carbon offsetting, then this must be explained very clearly and the carbon offsetting product used by the supplier must be compliant with the government's Quality Assurance Scheme for Carbon Offsetting²⁴; and

²¹ Before a customer enters into contract for a green tariff

²² If a supplier has multiple licences then it must use the FMD chart specifically related to the relevant licence.

²³ The requirement is contained at paragraph 4(a) Standard Supply Licence Condition 21

²⁴ <http://offsetting.defra.gov.uk/>

- **an additionality symbol/mark** demonstrating that the environmental measure/ activity as part of the green tariff results in the abatement of at least a minimum level of Carbon Dioxide equivalent (CO₂e) emissions.

2.10. Where it is not possible to provide a pictorial representation of these attributes of the green tariff at the point of sale, consumers must be made aware of this information prior to entering into a contract for a green tariff.

Tier 2 information

2.11. The second tier of information should be available from a publicly accessible resource (e.g. the supplier's website) or in printed materials and must explain the symbols presented in the first tier. As such it should provide details of:

- the key messages that the fuel mix chart is seeking to convey;
- the specific fuel sources that are referenced in the fuel mix and the key attributes of these fuel types;
- a website link or reference to the information that the supplier produces regarding their overall fuel mix;
- the environmental measure that has been supported as a result of the purchase of this particular tariff, specifically what this will mean in practical terms; and
- an explanation of the minimum threshold for additionality and how it was met and derived for the tariff in question.

Tier 3 information

2.12. Tier 3 information should also be available from a publicly accessible resource or in printed materials and suppliers should ensure that customers are made aware of this information in any marketing material or correspondence relating to the green tariff. This information must include the following:

- suppliers have a Renewable Obligation (RO) under which they have to either pay a fee to Ofgem and/or buy Renewable Obligation Certificates to fulfil their annual obligations;
- the government's ongoing aim of the RO is to encourage an increased amount of electricity to be generated from renewable technologies;

- the average amount that domestic/SME (as appropriate) customers on a standard electricity tariff are already contributing to renewable energy as a result of the RO²⁵;
- a description of suppliers' Carbon Emissions Reduction Target (CERT) obligations;
- the government's ongoing aim of the CERT is to encourage an increased amount of energy efficiency by domestic customers;
- the average amount that average domestic/SME (as appropriate) customers on a standard electricity tariff are already contributing towards the supplier's CERT obligations²⁶;
- for SME tariffs, a description of the Climate Change Levy (CCL) and levy exemption regulations; and
- for SME tariffs, the average contribution that SME customers make to support renewables through the CCL.

2.13. The measures that will be applied, including possible sanctions, in the event that suppliers are not compliant with these requirements will be determined through the development of the accreditation scheme. Furthermore, the way in which tier 1, 2 and 3 information is presented will also be agreed and standardised through the development of the accreditation scheme to ensure consistency and facilitate greater customer understanding.

Evidence of supply

2.14. Suppliers will need to conform to the legal requirements relating to Fuel Mix Disclosure, as set out in Standard Supply Licence Condition 21 (Fuel mix disclosure arrangements), when making any claims regarding their overall generation portfolio.

2.15. Evidence of supply should be retained for the suppliers overall fuel mix and this evidence should follow the requirements of paragraph 8 of the Electricity (Fuel Mix Disclosure) Regulations 2005. Where particular generation sources are specified, the supplier should provide this evidence by category of generation source.

2.16. Evidence must also be retained (period to be agreed) regarding the environmental measure(s) in which the supplier has engaged in on behalf of its customers.

The volume test

²⁵ Figures to be provided by Ofgem

²⁶ Figures to be provided by Ofgem

2.17. To ensure that double or triple counting the 'greenness' of a green tariff does not occur and that there is consistency across the market, the following volume test applies:

A supplier must hold the requisite number of Renewable Energy Guarantee of Origins (REGOs) to support the volume of renewable supply in a green tariff/contract. The supplier must also either retire or redeem any associated Levy Exemption Certificates (LECs) to ensure that they are not later sold on to other customers.

2.18. Imports of renewable generation from outside of the UK is treated as follows under the volume test:

If the electricity is from a generator that has been issued with LECs then the supplier must retire the LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem. If the electricity is from a generator that has not been issued with LECs then the supplier must purchase and retire LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem.

2.19. Even once the volume test is met, a supplier cannot make claims that a green tariff is either carbon-free or "100% renewable electricity". However, a supplier can claim that it has matched the amount of electricity sold under its green tariffs with purchases of renewable electricity, if this is the case.

2.20. Furthermore, a green tariff must meet both the additionality²⁷ and volume tests to receive accreditation under the green supply guidelines. Fuel mix allocations will not be taken, by themselves, to imply that a green tariff is additional and therefore further measures are necessary to be accredited under the green supply guidelines.

2.21. Suppliers can sell Climate Change Levy (CCL) exempt supply or LEC-backed supply under the guidelines only if the tariffs meet both the additionality and volume tests as set out above. Suppliers can also sell unaccredited CCL-exempt supply but this should not be described as green supply.

Additional benefits associated with the tariff

2.22. For green tariffs to obtain accreditation under the scheme, suppliers must also demonstrate that the relevant tariffs incorporate a certain minimum level of additionality. In demonstrating this, suppliers must first show that they are undertaking an activity or measure that results in the delivery of an environmental benefit that would not occur under a "Business As Usual" Scenario, consistent with the description of additionality in paragraph 0 under these guidelines. The supplier must then demonstrate that the additionality measure/activity that it is undertaking

²⁷ As outlined in paragraph 1.23

results in the abatement of at least a minimum level of CO₂e emissions, as described below, and this must be certified through the accreditation scheme.

The additionality minimum threshold test

2.23. For measures of additionality to qualify under the guidelines it is necessary that they are not only compliant with the requirements outlined above but that they also result in the abatement of at least a minimum level of Carbon Dioxide equivalent (CO₂e) emissions. For domestic green tariffs, this minimum threshold level depends on the activity that the supplier is undertaking to demonstrate additionality:

- for carbon offsetting activities, the minimum threshold is currently set at 1 tonne of CO₂e emissions abated per tariff per annum. The carbon offsetting product used by the supplier must be compliant with the government's Quality Assurance Scheme for Carbon Offsetting²⁸; or
- for all other additionality activities, the minimum threshold may be a figure less than 1 tonne of CO₂e emissions abated per tariff per annum but must be of broadly equivalent materiality. The minimum threshold for all other activities shall be agreed by all signatories to the guidelines before the accreditation scheme is fully operational.

For SME green contracts, the thresholds should be scaled upwards based on the electricity consumption of the SME²⁹.

Assessment of whether a benefit is additional

2.24. A degree of responsibility and self-governance is required from suppliers in interpreting the additionality provisions and ensuring that something would not have happened under a "Business as Usual" scenario. This will be monitored as part of the accreditation scheme to ensure that suppliers that are signed up to the guidelines and accreditation scheme remain compliant.

Third part assessment of green tariffs

2.25. Implementation of these guidelines will require suppliers to agree a governance structure for the accreditation scheme for green tariffs.

²⁸ <http://offsetting.defra.gov.uk/>

²⁹ For example, if the electricity consumption of an SME is 25,000 kWh per year, then the green contract that it purchases should result in the abatement of about 7.6 tonnes of CO₂ emissions per annum (based on an average household electricity consumption of [3,300] kWh per annum) if the environmental measure is carbon offsetting.

2.26. The scheme should include provisions to ensure the auditing and verification of claims and the creation of an additionality symbol/quality mark which can be assigned to all tariffs that fulfil the requirements set out in these guidelines.

2.27. Once the accreditation scheme is in place and sufficient experience has been gained, Ofgem will review the guidelines to determine the possibility of extending them to include the I&C sector, low carbon tariffs and green gas. Ofgem will also revisit the additionality thresholds and consider the possibility of developing a ranking system, based on CO₂e emissions abated, that allows for greater differentiation between tariffs. However, where a signatory or other interested party considers that certain provisions within these guidelines need to be revised, they should notify Ofgem. Ofgem will subsequently consider whether a consultation regarding this proposed amendment is required.

Appendix 3 – Impact Assessment

3.1. In this instance we do not think an Impact Assessment is necessary or appropriate. We have considered section 5A Utilities Act 2000 and our Impact Assessment Guidance. The proposal does not involve a major change in the activities of the Authority. Nor does it have significant impacts on the environment, general public, gas or electricity market participants or those engaged in related commercial activities. We judge that there is no major change or significant impact because the consultation relates to a small section of the market. We welcome views on whether an Impact Assessment may be necessary at a later stage.

3.2 However, in the process of developing these proposals we have undertaken further qualitative analysis on a number of potential areas, set out below:

3.3. Our analysis focuses on the impacts of our policy proposals for the domestic and micro non-domestic market. This reflects the scope of the current green supply guidelines. However, we are also consulting on whether our proposals should also apply to larger non-domestic consumers. Where impacts relate specifically to large domestic consumers we set this out explicitly. We welcome comments on our analysis set out below as part of this consultation.

3.4. Our primary policy aim is to create a clearer market for consumers. As set out in the main body of this document, we are also aiming to build upon the environmental benefits of the existing market and green supply guidelines, and create a framework that supports tariff innovation and competition between suppliers.

3.5. The principal impact for consumers is that consistent application of our green supply guidelines will create a clearer, simpler and fairer market for consumers. Consumers will be assured that when they purchase any tariff that makes an environmental claim, their decision will be driving an environmental change which would not have happened otherwise.

3.6. Our proposals for the green tariffs market build largely on our existing policy in this area. However we recognise the need for a renewed emphasis on the principle of transparency, in particular to explain what “additionality” means in practice for each tariff. Our aim is to empower consumers to make better informed decisions about the tariffs they buy.

3.7. Price is a key factor for consumers when choosing an energy tariff, including green tariffs. We do not consider that our policy will lead to significant additional costs for consumers choosing to purchase green tariffs. Our more principles-based approach to additionality supports suppliers in delivering new and cost effective environmental measures as part of their green tariffs. (However, our proposal to maintain a minimum threshold for additionality also ensures that consumers remain protected by a credible minimum standard.) Our proposal to extend the evidence of supply principle (ensuring that units of green energy are not sold to both domestic and non-domestic consumers) to all green tariffs could lead to a small rise in the cost of a green tariff when compared to existing tariffs which do not adhere to this principle. However, we consider that this is justified as the evidence of supply

principle supports a consumer's expectation that a supplier has purchased enough energy from renewable sources to match their own personal consumption that year.

3.8. We have considered several different options for improving transparency around tariffs that sell renewable energy to consumers, but do not offer additionality. One option we have considered is for tariff level renewable source claims to be limited to either a) the grid average fuel mix or b) the supplier licence level FMD (see chapter 1.20 for further details). These options are likely to reduce the number of tariffs making renewable claims, making a simpler market for consumers. However, we recognise that the grid average fuel mix option may also cause confusion for consumers if they are presented with this claim alongside a supplier's licence level FMD. We also recognise that these options may reduce the potential for suppliers to bring new or innovative tariffs to the market.

3.9. Our preferred option is that these tariffs should follow the updated transparency principle for green tariffs and clearly include a message at the point of sale to differentiate them from green tariffs. These tariffs should also follow the evidence of supply principle, to ensure that "double selling" of renewable energy does not take place. This will create a clearer and fairer market for consumers. We consider this approach best supports consumers in making informed decisions in this market.

3.10. Our proposals could also support a clearer market for larger non-domestic consumers. We are inviting views on the benefits and disadvantages of extending our policy proposals to cover larger non-domestic consumers as part of our consultation.

3.11. A potential risk of our preferred policy approach is that greater transparency may not be sufficient to engage consumers in order that they can make informed choices. Monitoring the effectiveness of our policy proposals will be key to understanding whether our policy has achieved our primary aim or whether further interventions may be necessary.

3.12. Our proposals cover tariff level claims and do not extend to supplier's corporate level environmental claims. It is important that these claims are also clear, simple and fair for consumers. However, we do not consider a need to increase consumer protection in this area at present.

3.13. Our proposals will have a greater effect on suppliers who focus on selling green tariffs and renewable electricity. Our market analysis shows that these suppliers are often smaller independents.

3.14. Extending our green supply principles across the market will limit how suppliers can market their products as green. This is likely to lead to changes in the way the existing products are sold, or could lead to existing products being removed from the market altogether. Similarly, all of the options we have considered for improving transparency around the sale of renewable energy without additionality may lead to a lower demand for these tariffs, as consumers make more informed decisions. However, our preferred approach does not affect the ability of suppliers to compete on their environmental credentials at supplier level. Therefore, we do not consider that our proposals have unfair or significant competition impacts on suppliers.

3.15. It is possible that in buying renewable energy (without additionality), some consumers are paying more towards meeting government targets than consumers on

other tariffs. In principle, this could result in some consumers, such as vulnerable consumers, paying less towards the cost of meeting these targets. However, we are not aware of any evidence that this is occurring in practice. Furthermore, our consumer research showed that where consumers were paying a premium above other tariffs, they expected “additionality” above what was already being delivered under government targets. In summary, we consider there are potentially some distributional impacts associated with our policy proposals. However, the potential impacts would be a result of consumers making better informed choices when purchasing an electricity tariff. We welcome stakeholder views and evidence in this area.

3.16. Our proposals are primarily a reflection of the current market. At present investment in renewable energy is being driven by government targets and support schemes, and consumer engagement in the energy markets in general is low. Our proposals aim to create a clearer, simpler and fairer market for consumers within this context. However we also recognise that the green tariffs market and the sale of renewable energy has many interactions with longer-term sustainability aims, and that our policy should continue to be reviewed as the electricity market continues to evolve.

3.17. Currently, tariff level demand for renewable energy does not play a key role in driving the transition towards a low carbon economy. The primary driver is through government supply-side policies. However, we also recognise that some suppliers are making commitments to sourcing renewable energy and that they can play an important role as market makers for new renewable generation. Consumers may choose to buy their energy based on the actions of their supplier in these areas. Our proposals recognise this, and allow for suppliers to continue in differentiating their green credentials at the corporate level.

3.18. We also recognise that large domestic consumers can play a role in driving investment in new renewable generation. However currently this is achieved through the CCL, which is administered by HMRC.

3.19. We are also mindful that continuing consumer confusion in the green and other renewable energy retail offers market could lead to longer-term disengagement with the green agenda. Our proposals seek to address this through introducing changes incrementally.

3.20. Future tariff innovation and greater consumer engagement with renewable generation also has the potential to contribute towards the transition to a low carbon economy (eg local tariffs or time of use tariffs linked to the outputs of renewable energy). Our proposals seek to enable innovation in the green and other renewable energy offers market.

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk