Response by Green Electricity Marketplace to Ofgem's Revision of Guidelines on Green Supply Offerings – Consultation Document

March 2005

Since 2002, Green Electricity Marketplace (GEM) has been providing information via the website www.greenelectricity.org on the green electricity supply offerings available to consumers in the UK. The website provides consumers with information that will help them make an informed decision about the green electricity supply offerings on offer. In the light of the revised guidelines from Ofgem and the introduction of electricity disclosure in the UK, the website will provide a comprehensive overview of the issues relating to green electricity in the UK. GEM is a subsidiary of IT Power, one of the UK's leading renewable energy consultancies. Over recent years IT Power has worked on numerous green electricity policy projects including:

- 4CE on electricity disclosure: www.electricitylabels.com
- RE-GO on guarantees of origin: www.re-go.info
- TRECKIN on green certificates: www.treckin.com
- GREEN-X on renewable energy support mechanisms: www.green-x.at
- ELGREEN, for which IT Power wrote about green electricity labels: www.green-x.at
- CLEAN-E on green electricity labelling: www.clean-e.org
- E-TRACK on tracking electricity attributes: www.e-track-project.info

GEM is of the opinion that:

1. (paragraph 2.1) Transparency, additionality and verification are essential for ensuring consumer confidence in green electricity supply offerings.
    1.1. A more structured auditing and verification system for green claims would help to provide transparency. The body should have various rules for different categories of green tariff, all of which it can verify, as opposed to just one definition. EST would be a suitable organisation, as would a well recognised NGO.
2. (2.3) Claims of supply from renewable energy generation that are based on the electricity disclosure statement would greatly help to avoid consumer confusion concerning what they are being supplied.
    2.1. REGOs should be required as evidence of supply of renewable energy and redeemed when used. It should be clearly stated that only one form of proof is accepted: REGOs.

3. (2.4) Suppliers should inform prospective purchasers of green supply offerings of the specific technologies of generation relevant to the green offerings, as proven by the REGOs in its possession.

    3.1. ROCs should be able to be sold to other suppliers to enable them to be used as part of their Renewables Obligation, without the need to transfer the REGOs with the ROCs. Otherwise a company such as Ecotricity that sells its ROCs to other suppliers would only be able to demonstrate that it is in possession of those REGOs that for which it had retained ROCs to meet its own obligation. ROCs should be seen as being a support mechanism for renewables and not the proof of supply of renewables; it should be clearly stated that ROCs cannot be used for this purpose. It would be helpful for the additionality claim if REGOs are earmarked for the issuance of ROCs, in addition to (or as opposed to) eligibility for the RO. Indeed, it would be even more helpful if the RO is based on REGOs as is the case for the obligation systems in some other European countries.

4. (2.5) Electricity supplied as Climate Change Levy (CCL) exempt energy in the commercial market should not be sold as "green supply" unless it is supported by REGOs. Otherwise a supplier could use the CCL for the business sector and sell "green" electricity to domestic consumers based on REGOs originating for the same generation. The current situation where suppliers retire LECs for their green supply offerings is one way to avoid double counting. As is the case with ROCs, it would be helpful if REGOs are earmarked for the issuance of LECs, or that the levy exemption for renewable generation be based on REGOs rather than LECs.
5. (2.7-2.8 & 3.34) One of the following two forms of additionality needs to be demonstrated: additional generation than would have otherwise occurred or ensuring investment in expansion of renewable generation that would otherwise not have occurred. Clearly identified environmental benefits not related to renewable energy supply should be able to be made, but this should not be considered to be a green electricity offering, but rather, perhaps, an environmental support offering. In all cases it is vital that suppliers should inform consumers which of these benefits form the basis of the claim. This increases consumer confidence and the credibility of supply offerings.
6. (2.10-2.12) Suppliers should hold and retain evidence to verify that the total amount of renewable energy sold under green supply arrangements does not exceed the amount of renewable generation claimed in the supplier's electricity disclosure.
7. (2.13) REGOs are the most appropriate evidence of renewable energy supply for the reasons put forward by Ofgem in the consultation document.

8. (2.13-2.15) If suppliers evidence their green supply on the basis of their electricity disclosure statement, which must be based on REGOs for renewables, this would present evidence averaged over the preceding year.
9. (2.15) Evidence for the preceding 1-2 years (not longer) is an acceptable measure to support marketing to future customers, but that once a time period is chosen by a particular supplier this should not be changed with the intention of manipulating the information to show an increase in the percentage of green electricity in the supply offering.
10. (2.16 & 3.34) Retiring ROCs does demonstrate additionality. The value of ROCs in the market is likely to increase as more ROCs are retired, which could lead to an increase in the value of co-firing at coal-fired power plants and so in the short term could lead to increased generation. In addition, in the medium term increased new build is likely if there is an increased shortfall in the ROCs available for meeting the RO, as the economics for new build will have improved. Even though ROCs may be banked for one year, the distortion that this will create is minimal and this should not detract from the fact that retiring ROCs demonstrates additionality. However, given the possibility to buy out, this does not guarantee that the RO is met or exceeded.

    If suppliers use the acquisition of ROCs beyond those required for their obligation for the verification of additionality, these ROCs should be deleted from the Register or held by other parties, such as third party accreditation bodies, in a dedicated retirement account.
11. (2.17) Premiums raised under green offerings should be paid into a fund that is completely and verifiably separated from the general accounts of the supplier. It is also important for the suppliers to demonstrate to domestic consumers what proportion of the average domestic electricity bill is going into this fund. It would not be appropriate for a supply offering to be marketing itself as green if it only contributed a very small amount of money into the fund. For example, many offerings contribute £10 plus per year into such a fund. It is recommended that this should be the lower limit (and increased in line with the RPI), as otherwise a supplier could contribute 1 pence per consumer (or indeed 0.01p/ customer) and claim that the tariff was green.
12. (2.19) In the case of commercial investment, the treatment of future benefits from ROCs needs to be addressed in detail, in particular consumers should know what the ROCs were used for. Indeed, green premiums should not be used by the supply companies to merely comply with the RO.
13. (3.10) Only the biomass component of waste-to-energy schemes should be considered to contribute to the green aspect of a green electricity supply offering.

14. (3.10) Nuclear power should not be considered to form the green component of a green electricity supply offering as this does not meet with the generally held perceptions of what is green held by the British public. If this were to be included on account of nuclear energy's lack of carbon dioxide emissions, this would undermine the whole of the green electricity credibility.
15. (3.10) Green offerings that are for off-grid systems that do not receive ROCs would also be considered additional. Such off-grid systems should request issuance of REGOs and redeem them towards the electricity disclosure statement.
16. (3.23) It is crucial to settle on an agreed standard of evidence. This standard of evidence should be and can be based on existing regulation. We believe that any renewable energy supply should be evidenced through the redemption of REGOs and that no other form of evidence can be used. This evidence needs to be submitted under electricity disclosure regulation. Green supply offerings, therefore, can be evidenced through electricity disclosure statements. Please note that any disclosure based on statistics or generator declarations would not comply with the first rule that all renewables must be evidenced through REGOs. It must also be stated that when an electricity disclosure statement highlights a green tariff, all non-green tariff consumers must receive a statement for their tariff which excludes this green supply.
17. (3.27) The alternative additionality claim of "other environmental benefit not directly related to renewable energy supply" is not a sufficient proof of additionality. An electricity product which invests in offsetting carbon or increasing biodiversity should be named accordingly, i.e. a 'zero CO_2 offset' or a 'biodiversity' label respectively.
    17.1. It is debatable whether this indicator of additionality would suffice as a minimum additionality standard, as renewable energy generation brings other benefits besides carbon emission reductions, such as reducing SO_2 and NO_x emissions, which mere offsetting of carbon emissions, e.g. through tree planting, does not.
18. (3.27) Energy efficiency certificates – if defined from an independently verified and conservative baseline, thus representing real energy demand reductions – may hypothetically be considered. Please note that no such conservatively defined 'white certificates' are currently being issued anywhere in Europe. Actual reductions in demand are at least as green, if not greener, than supply from renewable energy sources. However, this would require further detailed investigations, which are currently ongoing in the Clean-E project.
19. (Box 2) Note that the line of argument in Box 2, suggesting that retiring ROCs will not lead to additionality, could be equally applied to any supply offering that was designed to lead to new build of renewables, as such offerings would not lead to increased generation capacity being installed in the year in question, as all schemes

that could be built in that time would already have had to have been at an advanced stage of planning.

20. (3.34) Retiring EU-ETS allowances should not be sufficient to demonstrate additionality. This proposal would create linkages between the European carbon emission trading scheme and the UK green power market. These linkages provoke inherent difficulties in many respects, such as:
    20.1. This would infer that all the benefits of renewable electricity generation were subsumed in the retired EUAs, while, in reality, carbon emission reductions do not contain the additional benefits of renewable electricity generation. These include reductions of other emission types, such as SO_2 and NO_x, and socio-economic externalities, such as security of supply and the use of indigenous energy sources.
    20.2. The retired EUAs may have been generated by a different emission reduction process than renewable electricity generation, e.g. through energy efficiency measures, which do not imply additional renewable energy generation or capacity.
    20.3. The carbon emission reduction produced by a unit of renewable electricity generated is difficult to calculate. The conversion rate depends on the emission factor of the fossil fuel fired plant displaced by the renewable electricity generation and the emission factor, in turn, is dependent on various exogenous factors, such as the time, location, and type of technology used.
21. (3.39) The establishment of a third party accreditation and verification system would further the credibility of suppliers' claims by having them independently audited and verified. We strongly urge Ofgem to recommend the option of third party involvement in the shape of a labelling scheme, providing recognition and accreditation for products. We would back the application of a stringent labelling standard, such as the Eugene Standard, which is an international benchmark for green electricity tariffs.

Conclusions

- In summary, electricity disclosure statements are required for all electricity supplies. For green supply offerings, therefore, this disclosure statement must show the 'greenness'. With regards to renewable supply, REGO should be the only accepted evidence of this 'greenness'. ROCs, LECs, or other sources of evidence such as EU CO_2 allowances should not be accepted.
- Without replacing renewable energy LECs by REGOs it will be necessary to retire any issued LECs for the same unit of electricity used for green supply of energy that is not for business use in order to stop double counting.
- At this moment we consider ROCs to be separate from the green supply market, whereby ROCs act purely as a financial support mechanism for renewables. Integration of these markets (ROCs and REGOs) is possible, but would have far reaching effects on required legislation and regulation.
- We back the establishment of a third party accreditation and verification system. We strongly urge Ofgem to recommend the option of third party involvement in the shape of a labelling scheme, providing recognition and accreditation for products. We would support the application of a stringent labelling standard in the UK, such as the Eugene Standard, which is an international benchmark for green electricity tariffs.