

# ***Development of “strawmen” to demonstrate additionality for renewables and low carbon.***

## ***Introduction and background***

Following the publication of Ofgem’s “Developing Guidelines for Green Supply”, Ofgem in conjunction with the Energy Saving Trust have been hosting a series of workshops on the initial proposals set out in that document.

In response to comments raised in the seminar on 11 June 2007, Ofgem considers it may be appropriate to issue separate guidelines for renewable tariffs and low carbon tariffs. We have therefore considered issues in respect of additionality separately for these two areas.

## ***Strawmen for Renewable Additionality***

On 25 June 2007, we held a workshop on renewable additionality. At this workshop.

### OPTION 1

Suppliers are required to provide customers with greater information and within a specified format to enable customers to ascertain for themselves the benefits associated with the tariff. This information may include:

- details of the amount of a consumer’s bill that was funding renewable generation under standard tariffs;
- details of the amount of a consumer’s bill that was funding renewable generation under renewable tariffs; and
- information relating to the specific benefits arising from the tariffs.

As customer confidence in tariffs increases it is expected that there would be a steadily increasing number of domestic customers adopting renewable tariffs. It was suggested that this increased information would help comparison websites (such as U Switch) to compare green tariffs.

### OPTION 2

This approach identifies minimum standards that a tariff should meet in respect of additionality. It was suggested that this option could be used in conjunction with, or separately from, the above proposal.

When developing the above proposals volunteers were asked to approach the issue from the point of view of customers and hence to develop proposals that would be ‘customer friendly’. They were also asked to consider how tariffs involving renewable funds could be covered by the strawmen.

**Ofgem invites views of industry, customers and other interested parties on these strawmen, which will be discussed further at the workshop on the content of the guidelines scheduled for 16 July 2007.**

## *Strawman 1: Information in a specified format strawman*

Participants: Andris Bankovis (British Energy), Susan Hill, Nicki Small (Scottish and Southern Energy), Chris Wintle (Ecotricity) and Gaynor Hartnell (Renewable Energy Association)

***Please Note:*** This is a draft strawman as the group was unable reach consensus on a final model in the limited time provided. The group is aiming to finalise the strawman within the next week.

### Format for presentation

It is generally considered that the bill is not suitable for the provision of information as this is costly and complex and it should be noted that any additional cost would eventually be passed on to the consumer. The majority of the group is against the use of the bill as a vehicle to present information regarding the creditability of the tariff.

One suggestion is to present the information at the point of signing up to a renewable tariff either for an existing customer or new prospect. Hence this would enable a new consumer to make a choice before committing to the supply since they would have the usual 'cooling off' period within which to cancel.

As to the actual presentation of information, this should be supplier driven as there are costs associated to it.

### Possible Product Disclaimer information

A general view was that information should be industry standard and therefore some suggestions are included below but it must be noted these still require a wider audience to consult on :-

Information regarding a **Domestic Renewable Tariff** should explain the contribution the consumer is making by taking the tariff up and should use customer friendly non jargon terms. An example may be as follows: -

1. Certified Renewable Electricity to match part or all of your energy usage.
2. This means that the equivalent % of electricity based on your usage will be generated from renewable technologies and purchased by the supplier.
- 3 Suppliers have a renewable obligation under which they have to either pay a fee to Ofgem or buy a proportion of renewable electricity to fulfil their annual obligation.
4. The government on going aim of the obligation is to encourage an increasing amount of electricity to be generated from renewable technologies.
5. This product meets Ofgem's 'Green Supply Guidelines' and is accredited to guarantees that electricity equivalent to your % usage is generated from renewable technology.

## *Strawman 2: Minimum Bar*

Participants: Cassie Higgs (National Consumers Council); Sarah Merrick (Association of Electricity Producers); Nicki Small (Scottish and Southern Energy); Chris Welby (Good Energy)

The purpose of this strawman is to suggest a minimum requirement needed to meet Ofgem guidelines.

### Assumptions

- That renewable tariffs will be subset of Low Carbon tariffs.
- That customers expect renewable tariffs to equal renewable Supply

### Minimum Requirements

- Proof of green supply is REGOs, and the tariff should prominently display the percentage of energy supplied via the tariff which is REGO backed.
- The Supplier's overall Fuel mix should be prominently displayed

### Issues

- Currently REGOs are not available to microgenerators, unlike ROCs, this would need to be resolved.
- REGOs for fuel mix disclosure cannot be banked, so it has to be 100% precisely between 1<sup>st</sup> April to 31<sup>st</sup> March. There would need to be some flexibility to bank REGOs between periods.
- Additionality was considered, and depending on the outcome of other working group on this subject, there is a question of whether some sort of additionality should be in the minimum standard.

### Areas of disagreement

- The group disagreed whether the tariff should be LEC backed for 2 reasons. Firstly not all REGO accredited Generators get LECs. Secondly, should the guidelines permit LECs to be used for Non Green Business tariffs. If the REGOs are used for Green Accredited domestic tariffs.
- The group could not agree if Green funds deserved a renewable mark if the fund is used for renewable generation. Some members felt it should, others felt renewable tariffs should be restricted to renewable supply and funds were a matter for additionality.

## ***Strawmen for Low Carbon Tariffs***

On 3 July 2007, we held a workshop on low carbon additionality at which Ofgem agreed to develop two strawmen regarding the proposal to create bandings for low carbon tariffs. The bandings would be based upon the carbon intensity of the tariff and would enable customer choice, on the basis of their preferences with respect to carbon, in relation to these tariffs.

- **Option 1:** Under this approach carbon offsetting would be integral to the bandings. As such, if relative carbon emissions for a particular tariff were reduced as a result of a carbon offset scheme it would be possible for suppliers to move to a lower carbon intensity band.
- **Option 2:** Under this option the carbon intensity of the tariff, and therefore the band within which it falls, is based purely on the fuel mix used to generate the required electricity. However, if carbon offset schemes are included within tariffs, these could be recognised as an “added extra”.

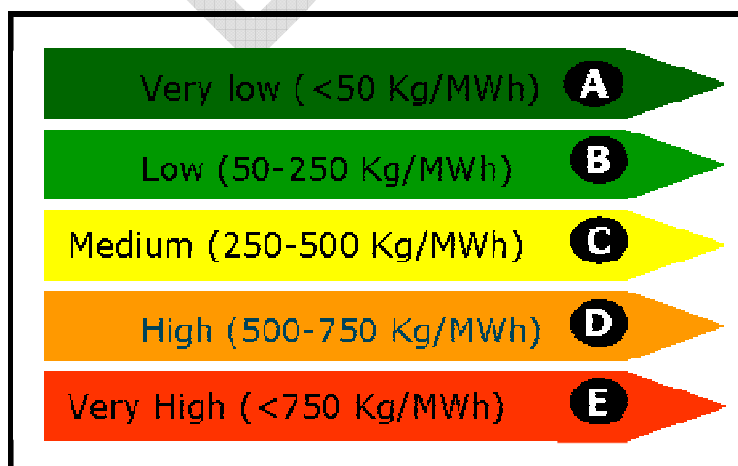
### ***Developing a strawman for low carbon: (carbon offsetting included within the band)***

#### **Information objectives**

1. To ensure customers can determine the level of carbon emissions associated with a supplier's low carbon tariff;
  2. To give customers' confidence that the low carbon benefits associated with the low carbon tariff are not being mitigated by higher levels of carbon in respect of supply to other customers of the supplier;
  3. To ensure customers are aware of the types of low carbon generation used for their supply.
- ***Are these the right objectives for the low carbon information requirements?***
  - ***Are there any other objectives that should be included?***

#### **Banding**

Suppliers marketing low carbon tariffs will need to identify (and be able to verify) the band in which the tariff falls. This will operate similarly to existing schemes regarding car efficiency / appliance rating schemes. Initial proposals are that the banding could take a form similar to the diagram below.



- *Are the proposed bands set at the right levels?*
- *Should there be a set of objective criteria to facilitate the setting of these bands?*
- *Are these band widths correct? Should there be a greater number of bands to allow suppliers to move their tariffs more easily?*
- *Should the bands change over time to facilitate the achievement of government targets regarding carbon reduction?*
- *Would there need to be a regular review of the bands to ensure they remain appropriate?*

### **Information flows**

#### **Fuel mix disclosure**

To ensure that customers can make informed choices regarding the relative mix of generation types used for the low carbon tariff as compared with the suppliers overall fuel mix, the supplier must provide:

- fuel mix charts for the low carbon tariff; and
- fuel mix charts for overall fuel mix.

The provision of these charts must be based on the fuel mix disclosure guidelines.

- *Are these requirements necessary to deliver the objectives above?*
- *Is it sufficient for suppliers to provide information for overall fuel mix instead of each individual tariff?*
- *As fuel mix disclosure requirements are ex post would it be appropriate for suppliers to forecast their forward looking fuel mix against which the low carbon tariff could be measured?*
- *What administrative costs are associated with the requirements?*

#### **Carbon emissions**

To ensure that customers can make informed choices regarding the relative carbon intensity of the low carbon tariff as compared with the carbon intensity of the suppliers overall fuel mix, suppliers must attribute the level of carbon emissions associated with:

- a. the low carbon tariff; and
- b. the overall fuel mix inclusive of the low carbon tariff.
- *Is it sufficient for a supplier to produce overall fuel mix disclosure charts or should the supplier produce individual charts for each tariff?*

#### **Applicable under Option 1: Low carbon tariffs including carbon offset**

Where the tariff includes carbon offsetting undertaken by the supplier, the level of carbon emissions associated with the tariff can be proportionately reduced by the level of carbon offset through a related scheme, if the following conditions are met:

- a. The carbon offsetting scheme is operated in accordance with Defra's Code of Practice on carbon offsetting;
- b. The supplier specifies the nature of carbon offsetting being undertaken;
- c. The supplier specifies the level of carbon offsetting included within the emission level in all marketing of the tariff; and
- d. The supplier shows the banding that would have been associated with the tariff if the carbon offsetting had not taken place.

- *Should carbon offsetting be taken into consideration for purposes of assigning bands to tariffs?*
- *Should there be a minimum level of carbon offsetting undertaken for it to be considered to be a low carbon benefit, if so, what should this level be?*
- *If carbon offsetting is included should there be a requirement re compliance with DEFRA's Code of Practice for carbon offsetting?*
- *Should suppliers be required to show which band the tariff would have been in, if carbon offsetting had not been included?*

**Applicable under Options 1 and 2: Low carbon tariffs including carbon offset**

Any carbon offsetting undertaken by the supplier, as part of a low carbon tariff, that does not fulfil the requirements of Defra's Code of Practice can not be considered as part of the banding of the tariff. Such carbon offset schemes can be specified as an additional benefit of the tariff if the following requirements are met:

- the nature of carbon offset being undertaken is specified; and
- the level of carbon offset is specified (both in real terms (MtC) and as a percentage of the carbon emissions from the customer's supply).

- *Should carbon offsetting that doesn't meet Defra's Code of Practice be considered as an additional low carbon benefit?*
- *Are the requirements specified above appropriate?*
- *How should energy efficiency carbon reductions be treated?*
- *How should renewable funds be treated?*

Minimum bar

For a tariff to be marketed as low carbon, the carbon emissions associated with the tariff must be within the "very low" or "low" band as set out in the diagram above.

- *Should the guidelines specify a minimum bar or is the increase in information sufficient to enable customers to choose?*
- *Is this bar appropriate?*