

Submission to Ofgem's consultation: "Developing Guidelines for Green Supply"

Introduction

The Ofgem consultation document of 4th June 2007 "Developing Guidelines for Green Supply" provides a good basis for the agreement of accepted guidelines on the definition of 'green' (renewable or low carbon) electricity tariffs. However, the Carbon Trust is concerned that discussion in the consultation workshops has since deviated away from the original proposals on a number of key features, especially additionality. As such, our response focuses on the key criteria we think should underpin any tariff marketed as a renewables/low carbon tariff. We hope this is a useful overview to help focus the debate for the next round of consultations in September.

Key features of a renewables/low carbon tariff

Our own experience with business and public sector customers is inline with Ofgem's concern that there is considerable customer confusion and mistrust regarding the benefits associated with existing renewables/low carbon tariffs. It is unclear to consumers what they are paying for and the basis on which any environmental benefit has been evidenced. Furthermore many existing 'green' tariffs are unlikely to provide any additional environmental benefit and have the potential to mislead the consumer.

We welcome the fact that Ofgem is fulfilling both its duties to protect the interest of consumers and to contribute to the achievement of sustainable development by developing guidelines to ensure consumers can be confident of the benefits associated with such tariffs. We also agree that, as outlined in Ofgem's draft guidelines (p.38, section 1.1), the key features of a renewables/low carbon tariff to provide this consumer confidence are:

- **Transparency** - the tariff is clear on how the electricity is generated, provides evidence of the environmental benefit and ensures no double counting;
- **Additionality** - purchase of the tariff leads to additional emissions reductions over and above those created through existing regulation such as the Renewables Obligation;
- **Verification** - all claims to the source and benefits of the tariff have been verified; and
- **Accreditation** - tariffs are certified by an agreed accreditation body providing evidence of 3rd party validation of the environmental claims made.

Transparency

Suppliers must provide a clear explanation of what customers are purchasing, including information on the nature of the environmental benefit from purchase of the renewables/low carbon tariff. In particular all such tariffs should provide clear explanation of:

1. **Generation source:** what generation technology the electricity has been sourced from (including assurance that there has been no double counting of the electricity or the environmental benefit of the supply). At present three different certificates may be utilised to provide evidence of the environmental benefit of renewable generation (LECs, ROCs, REGOs). As a result there is potential for more than one environmental claim to be made for each unit of renewable electricity generated if different certificates from the same underlying electricity are presented as evidence of a renewable generation source to different customers;
2. **Additionality benefit:** information on how the tariff results in additional emissions reduction:
 - through provision of more renewables generation
 - through purchase of offsets
 - through other mechanisms such as ring fenced investment funds (see additionality section); and
3. **Emissions footprint:** quantitative evaluation of the emissions of the electricity being purchased and a comparison to the emissions from a standard brown tariff (potentially based on the UK's average grid mix).

Ofgem should consider the following points when establishing guidelines for the transparency in the market for these tariffs:

- Ensuring that renewable electricity supply is only certified by REGOs on the whole addresses point 1 - it verifies the source and prevents double counting. We support this minimum requirement for both consumer and business customers;
- Specifying REGO-certified electricity will not address point 2 - the additionality benefit. The tariff needs to clearly state how it will lead to additional emissions reduction. This is addressed further in the additionality section below;
- If offsets are used to reduce the emissions footprint, their contribution to the emissions footprint versus the underlying generation source needs to be transparent;
- Ensuring the emissions footprint is clear compared to the brown tariff, implies that emissions information needs to be provided in an easy to understand format for all tariffs. Furthermore, to fully address the double counting issue, emissions information for brown tariffs needs to net off the renewables electricity allocated to renewables tariffs by the supplier.

Finally, customers, especially businesses, need to know if they can use the tariff as evidence of zero emissions or not when reporting emissions in accordance with accepted methodologies (e.g. Defra's corporate emissions reporting guidelines). On this issue we suggest that Ofgem ensures it is joined up with Defra's policy - the emissions factor used for corporate reporting should reflect the additional, verified, carbon benefit of the tariff.

Additionality

The Ofgem draft guidelines define additionality as being fulfilled by:

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- ensuring additional generation from renewable sources than would otherwise have occurred;
- ensuring investment in the expansion of renewable generation capacity that would not otherwise have occurred; and
- a clearly identified environmental benefit not directly related to renewable or low-carbon energy supply."

with two proposed additions:

"

- ensuring generation from low-carbon sources; and
- ensuring investment in the expansion of low-carbon capacity"

The Carbon Trust agrees with the original guidelines. The proposed additions would need to specify that these are additional to existing capacity. For example it is hard to see how a hypothetical tariff selling nuclear generated electricity, potentially a low-carbon source, could be additional without a mechanism to ensure that funds from the tariff were ringfenced for future nuclear capacity.

Furthermore, we do not understand Ofgem's communication in the consultation that "the primary objective of the guidelines is to ensure that customers are given clear information as to the benefits associated with the tariff. Secondary to that, the guidelines aim to ensure that the benefits provided by a renewable tariff are over and above those provided by the RO."¹ Ofgem's additionality definition requires that the renewables tariff ensures additional generation/investment beyond that which is regulated, i.e. provided by the RO. This is integral to any tariff according to Ofgem's own definitions and as such can not be only a secondary objective.

The Carbon Trust agrees with Ofgem and the EST that retiring ROCs is a way of proving renewables additionality (or the purchase of renewable electricity that has not claimed a ROC in the first place). By retiring ROCs and passing this cost onto the consumer of the tariff, this consumer is in effect paying for the associated capacity and therefore can claim the environmental benefit. As Ofgem have suggested, by retiring the ROC the value of the buy out fund increases and hence so does the value of renewable energy, providing incentives for investment in additional capacity.

¹ Summaries of discussions at seminar and workshops, 25 June 2007 - Workshop 1: Renewable Additionality

We are concerned that there does not appear to be much progress towards agreeing ROC retirement as a basis of renewables additionality with suppliers, even if it is a minimum percentage of the ROCs.

Certifying renewables electricity through REGOs does not, by itself, ensure additionality. All the renewables capacity supported by the RO is financed by the general consumer base. This capacity should belong to that consumer base in general - not to the individual consumer purchasing a renewables tariff. In the summary of the workshop of 25th June Ofgem states there was a "general consensus that Additionality would occur when demand for renewable generation exceeded the supply". For demand for REGO-certified renewable electricity to exceed the supply, the price customers are willing to pay for this electricity would have to exceed the marginal cost of building the additional renewables generation.

Renewables investment funds could be a useful method to support increased renewables construction. As has been noted, it would have to be ensured that the funds were used for renewables construction. The associated ROCs would need to not be claimed or retired, for the some rationale as above.

An alternative approach to achieving additionality is the use of offsets. The offsets used in any low carbon tariffs will need to be of a high quality in accordance with Defra's guidelines and the Carbon Trust's "VALID" test (see appendix 1: the Carbon Trust VALID test).

Verification (backed by accreditation)

A requirement for the sale of any renewables/low carbon tariff should be that the environmental benefit has been verified (and potentially accredited) by an independent 3rd party, including:

- Verifying the renewables source can be achieved through checking that sufficient REGOs are held by the supplier (as long as LECs and ROCs are not used as evidence of renewable supply in other contexts);
- Verifying additionality of renewables electricity is possible through checking that the required level of ROC retirement has been undertaken; and
- Verification of offsets is possible through checking that sufficient quantities of offsets have been purchased and retired through a recognised registry, where the offsets conform to the quality standards set out by Defra.

Conclusion

The Ofgem draft guidelines and subsequent consultations aim to define the core features of a renewables/low carbon tariff: transparency, additionality and verification (backed by accreditation). The Carbon Trust's view is that these documents and subsequent workshops address two of these: transparency and verification.

Both the Ofgem and EST consultation documents put additionality at the centre of their guidelines and for renewables propose that retirement of ROCs be the process by which additionality is demonstrated. The Carbon Trust supports these proposals.

However, we are concerned that the consultation workshops have since moved from this position to implying that REGOs demonstrate additionality. REGOs address many of the transparency issues but not, by themselves, additionality.

Finally customers, especially businesses, need clarity on whether they can use these tariffs as evidence of zero emissions or not. On this issue we suggest that Ofgem ensures it is joined up with Defra's guidance as issued in the corporate environmental reporting guidelines.

Appendix 1: the Carbon Trust VALID test for Offsets²

- Verification:** compliance with recognised independent standards or another written standard together with a verification procedure for emissions reduction carried out by an accredited, recognised independent third party
- Additionality:** project is not regulated, is not contributing to achieve legally binding emission reduction targets, is not common practise in the relevant sector or region and does not face economic, investment or technological barriers that would prevent its implementation
- Leakages:** any upstream or downstream effects of the project do not have significant measurable impact(s) in GHG emissions beyond the project boundaries that have not been incorporated into the total emissions reduction calculation
- Impermanency:** the offset seller has a strategy to deal with permanency of the emissions reductions over the lifetime of the project and provides some sort of guarantee to deal with underperforming projects
- Double Counting:** the seller operates a registry where credits get accounted, registered to buyers and retired and if the project is developed in an Annex I country the seller has a strategy to discount the credits from the national GHG inventory

² Source: "The Carbon Trust three stage approach to developing a robust offsetting strategy" - Carbon Trust, 2006