

# Green Guideline Requirements

Gearoid Lane

17<sup>th</sup> September 2007

**British Gas** 

# Magnitude of the moment

- “64% of consumers are considering green issues whenever possible however almost as many are cynics about companies green efforts”

Source: Green & Ethical Consumers, Mintel, January 2007

- Despite growing consumer interest in green products and services, low confidence that products being supplied by industry are trustworthy
- We must not lose the opportunity to provide clarity and consumer confidence in green energy
- Must move quickly – consumer confidence is evaporating as we speak

## Press Headlines

- “Many green supply tariffs mislead UK consumers”  
Source: NCC & energywatch 14/12/06
- “I saw red trying to go green”  
Source: The Observer 12/08/07
- “Consumer groups question the credentials of UK utilities”  
Source: Datamonitor 14/12/06
- “Green energy tariffs not what they seem”  
Source: The Times 04/06/07
- “Many ‘eco-friendly’ energy tariffs do no more than dress up suppliers statutory environmental duties”  
Source: The Observer 17/12/06

# Industry consultation responses

- Majority of responses centred on REGO demonstrating source of supply with some form of additionality but this will not satisfy the objective. Why?
  - Electricity that is being used by suppliers to meet RO, and is being paid for by all consumers, is being re-sold as green electricity:
    - if base product before any additionality is considered already “comes from renewable sources” then consumers confused by need for additionality
    - any additionality in the form of ROC retirement becomes almost impossible to explain
  - **Using REGOs to demonstrate source for renewable energy comes with additional problems:**
    - REGOs would enable large hydroelectric & interconnector sourced energy to be eligible for “green” status
    - underlying logic of slicing and dicing the Fuel Mix Disclosure to channel parts of the fuel mix to individual sets of customers would enable 60TWh of existing nuclear output to be sold as “green”
  - Generally 1 REGO = 1 LEC, therefore potential double (or indeed treble) counting unless the LEC is retired:
    - this would increase cost to green domestic consumers by £20 pa with NO environmental benefit
- The consequence of using the REGO alone as a test of greenness is that no additional environmental benefit of any kind is delivered even though the customer is paying additional charges for a supposedly green tariff
- Question: If we implemented a green accreditation based on renewable source+additionality, would the headlines disappear?

# Our Proposed Renewable Guideline Objective

- All green tariffs must pass the following test from consumer's viewpoint:

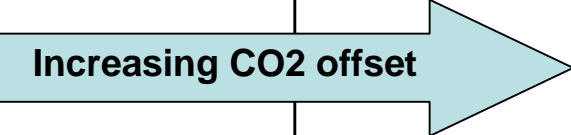
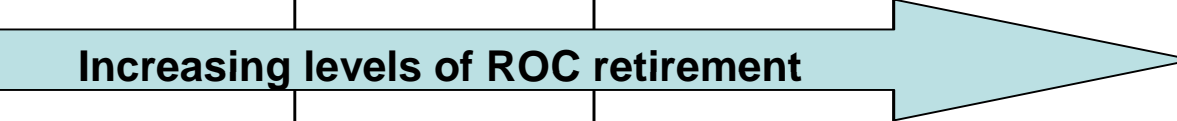
*“If I sign up for this product, does some additional environmental benefit happen that would not have otherwise happened”*

- Define credible green tariffs that ‘do environmental good’ above & beyond legislative requirements
  - Which will provide consumers with credible green tariff offerings
  - Which will eliminate consumer confusion about what green energy means
  - Which will result in an increase in demand for renewable energy and increase investment in future renewables
  - Which will create a vibrancy in green tariffs

## So what are we proposing?

- That green tariffs are not based on renewable source unless the energy is being taken completely outside the RO i.e. all three certificates retired
- That the resultant costs are linked to those customers who choose to purchase the green tariffs
- That additionality in terms of renewable investment and carbon emission reduction is delivered through:
  - Green fund
  - Carbon offsetting
  - ROC retirement
  - Anything else?
- And communicated through a star system

# So what could the star system look like

1 star	2 star	3 star	4 star	5 star Renewable supply
£min contribution to green fund	Increasing CO2 offset 			
	or			
	Increasing levels of ROC retirement 			

## Principles in support of ROC retirement

- It is an anticipated mechanic of the current RO regime
- No other green certificate has such a strong link to renewable investment
- Costs to the wider consumer base remain capped at the buy-out price. Additional costs are limited to the consumers who choose to purchase the green tariffs
- ROC retirement provides an additional stimulus to renewable investment through two mechanisms:
  - increasing the strength of the ROC price signal
  - taking investment in renewables outside of the RO and stimulating investment above the RO level

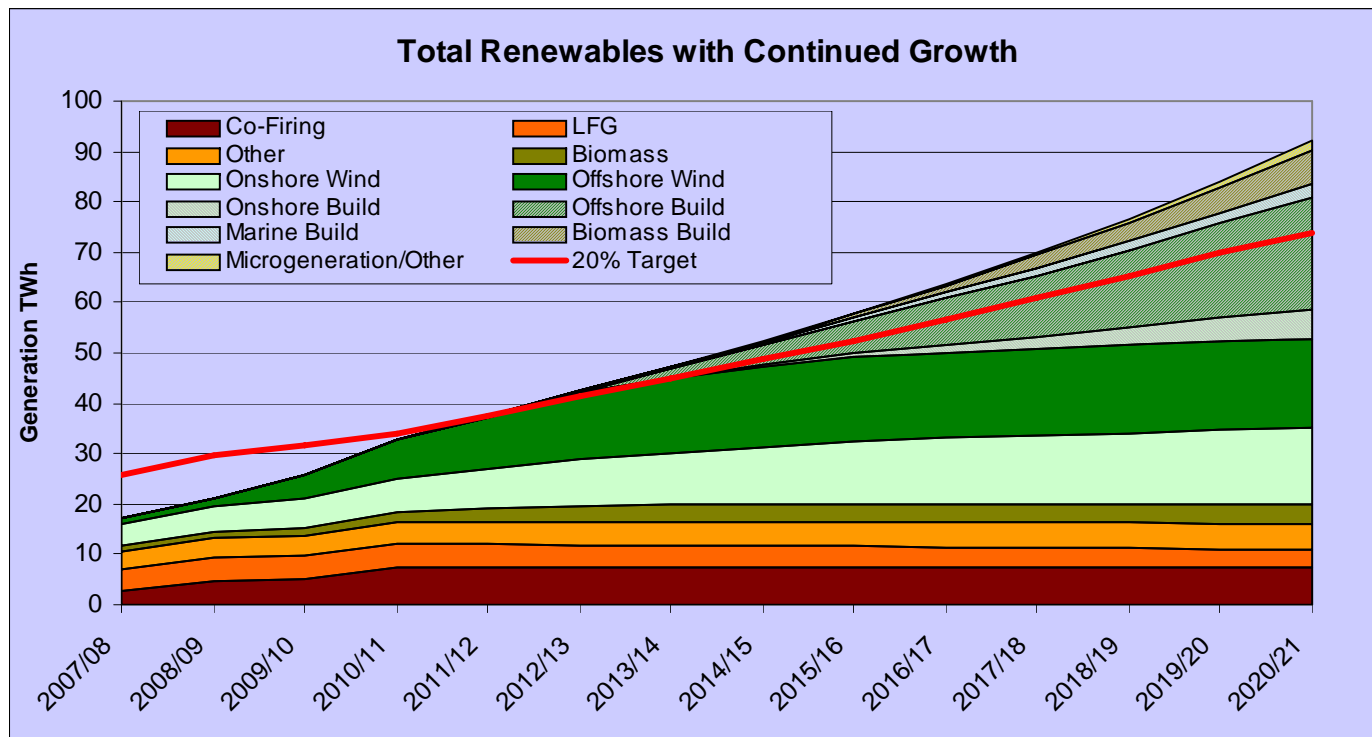


# Can ROC retirement stimulate build above RO?

- At present, significant “blockers” to renewable build that mean increased prices don’t necessarily deliver new build:
  - Planning
  - Grid constraints
  - Supply chain
- But can we see scenario where build above RO happens?
  - Planning and grid issues being addressed through legislative and process reform
  - Supply chain should deliver if demand is sustained
  - If we don’t address constraints, problem is far more fundamental than ROC retirement
  - On- and offshore wind have tremendous potential to deliver (BWEA suggests 18GW offshore wind possible by 2020)
  - Marine, biomass and microgeneration have huge longer-term potential
  - Taking renewable investment outside RO can stimulate additional demand without increasing cost or risk for wider consumer base
  - This can represent step towards EU “20% of energy” target through consumer pull instead of new legislative push
  - CCGT build in 1990s faced very similar blockers but delivered massive new capacity in the face of global market technology demand

# A scenario for 2020 renewables

- Assume Oxera/DTI delivery plan by 2015
- Assume by 2020, 20% of consumers buy green energy with 25% additional ROC retirement (i.e. 45% ROC-backed)
- Consumer demand creates certainty beyond end of RO (2027) and thus enables developers to continue to build as RO price signal “runs out”
- This would deliver an extra 5% renewable generation above legislative targets – our analysis shows this is feasible
- However, this will only happen if consumer demand is taken outside of the target



Source: Oxera/DTI to 2015, Centrica estimates beyond

## Conclusion

- Consultation represents a massive opportunity that we must not miss
- Need to move quickly or confidence will evaporate
- Consensus will be impossible, but the bar must remain high
- Fundamental problem:
  - **is not** that unfounded source claims are being made by suppliers
  - **is** that green electricity is simply re-badging electricity that is being used to meet RO and paid for by all
- Best solution:
  - **is not** better source badging to inform consumers
  - **is** making sure that additional environmental benefit is the only determinant of “green-ness”

## Press Headlines in six months time

- “Consumers can have total confidence in green energy”  
Source: NCC & energywatch 14/12/06
- “Going green is a doddle”  
Source: The Observer 12/08/07
- “Consumer groups applaud the credentials of UK utilities”  
Source: Datamonitor 14/12/06
- “Green energy tariffs do what it says on the tin”  
Source: The Times 04/06/07
- “‘Eco-friendly’ energy tariffs will take the UK to the vanguard of renewable deployment in the EU”  
Source: The Observer 17/12/06