

The green supply guidelines: Updated proposals

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CarbonSense submission

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CarbonSense

Over the last five years CarbonSense has become highly regarded as an active, independent and insightful voice in the field of climate change and carbon in the UK and internationally.

We help businesses, other organisations and communities develop climate change leadership strategy and communication, carbon footprint analysis, business development, training and other services. We have worked with businesses such as BT, TNT, PepsiCo, Honda, HSBC and Thames Water as well as UK government departments, the Carbon Trust and the Energy Saving Trust, the Natural History Museum, Imperial College and other world-leading institutions.

We have also played a leading role in many community-based initiatives including Climate Challenge Now – a project supported by Defra in which we explored green tariffs and related issues with nearly 800 people in community groups and supported an outreach process to 135,000 residents.

Our interest is in contributing to the development of the carbon literacy of the people whose actions will have the greatest impact on climate change in the next few years, and in creative solutions to climate change. Our viewpoint remains independent of the interests of any particular stakeholder group.

References to specific paragraphs within Ofgem's proposals are indicated below e.g. (2.3).

General principles and context

Given the scale and urgency of the climate challenge, our views of the principles and context in which Ofgem's proposals need to be considered are as follows:

- The climate is changing now and the human and economic costs are rising.
- Governments alone can't prevent further climate change - actions by business and the general population are also required.
- It is imperative that market forces, including business and consumer demand for low carbon energy, are harnessed to the full to accelerate carbon reducing actions and solutions.
- Absolute measures of carbon emissions are a better form of reference than measures of abatement or projections based on a hypothetical 'business as usual'.

- In the UK, it is essential that the carbon content or intensity of energy supplies, on the basis of contracts, is transparent to purchasers.
- Consumers and business customers need clear, transparent and trustworthy carbon intensity information. They do not need simplistic systems that obscure critical facts.
- Ofgem should not introduce measures that create barriers to new entrants in the electricity market or that protect existing suppliers at the expense of new entrants or consumers.
- The treatment of all UK electricity as 'grid average' will undermine key market drivers for low carbon electricity generation.

An approach based on the carbon intensity of individual tariffs, as proposed in the November consultation, could add clarity and transparency to the market and could be used as part of an approach that would eliminate double counting. If necessary, both the obligations imposed by the Government on suppliers and consumer concerns about nuclear energy could readily be addressed within such an approach. In our view, the arguments that are now being put forward by Ofgem against an approach based on the carbon intensity of tariffs are conjectural, not supported by the evidence that has been presented, and rest on concepts such as 'business as usual', 'additionality' and 'environmental benefits' that cannot provide a sound and proper foundation for climate change policy or meet the interests of consumers with regard to electricity tariffs.

Protecting consumers is Ofgem's first priority

It is a matter of concern that compared to Ofgem's proposals of 2007, the "updated" proposals are a *volte-face* that we do not find adequately explained by Ofgem. While some of the arguments put forward may appear to be reasonable when taken in isolation, when taken together the firm impression given is that Ofgem has been "leant on" by Defra.

Ofgem reports (2.3) that it has been "mindful" of recent changes to Defra's *Guidelines for Company Reporting on Greenhouse Gas Emissions*. However, "to ensure" that Ofgem develops a policy that is "consistent" with Defra "on these issues" (2.3) implies that Ofgem's first priority – to protect consumers – is shared by Defra. This is patently not the case.

On the subject of green tariffs, in our view Ofgem has failed in its first priority – to protect the consumer - over a period of several years. It would be extremely disappointing if this priority was sublimated under misguided pressure from Defra.

Use of research

The selective use of research findings to support arguments that the same research, when taken as a whole, does not support, is not an uncommon practice. It is a matter of serious concern that Ofgem, in our view, appears to be doing precisely this with the results of research conducted by Ipsos MORI. Arguments put forward by Ofgem with regard to 'additionality' and 'environmental benefits' are clearly based on pre-determined opinion and not on the consumer research.

Vested interests

Ofgem has taken advice from consultants that have vested interests in advancing the concept of additionality and the practice of offsetting. While we do not question the conduct of those consultants, when advice is sought only from parties that adhere to a particular point of view, it does raise questions about balance and the judgement of Ofgem.

Carbon intensity banding

We note the combination of doubt and speculation in Ofgem's "concerns" (2.4) "that, under this approach, consumers may have thought that their electricity consumption was not leading to carbon emissions". Banding would indicate the relative carbon intensity of the tariff and not, in our view, be likely to convey such an impression. We agree that inappropriate branding of a tariff could falsely convey such an impression (as is the case at the present time) but any such inappropriate branding represents a failure to address advertising claims, not a problem with the carbon intensity banding approach.

Ofgem also claims to have "concerns" (2.4) that consumers "may have thought...that there was a direct link between their electricity consumption and the use of renewable generation." A carbon intensity banding approach would indeed quantify a link between the consumer's own electricity use and renewable generation. It would represent only an extremely limited direct link with "the use" of renewable generation - if by this term Ofgem seeks to imply the UK in total - but any implied suggestion that consumers may have had such a thought is, we believe, far-fetched.

Ofgem goes on (2.4) to suggest that there could be "further mistrust from consumers in the event that they discovered that their green tariff did not lead to any change in the overall generation mix or any environmental benefit, and that they were already paying for renewable generation anyway." Both of

these misunderstandings arise currently - as a result of failures to properly regulate the marketing of green claims by supply companies - and there is mistrust as a result. A carbon intensity banding approach could enable consumers to know what they are, and what they are not paying for – which in our experience is of most immediate concern to the consumer. A carbon intensity banding approach need not hinder the informing of consumers about government targets and how the government is seeking to meet them.

In paragraph 2.5, Ofgem presents a somewhat rigid view of the information that could be incorporated into a carbon intensity banding approach. Ofgem states “...the suggestion that ‘your’ carbon emissions can be reduced by switching to a green tariff is not consistent with the unfortunate fact that this has no impact on GB emissions from the electricity sector (or at least not the same impact as is described in the carbon banding). The explanation for this paradox is that with carbon banding, any savings made by one customer would be a notional re-allocation of the carbon to a different customer, or spread across all customers who would be unlikely to notice.” Carbon intensity banding could incorporate re-allocations and residual adjustments, based on contracts.

Environmental benefit

The proposed elevation of ‘environmental benefit’ to become a central aspect of tariffs is fundamentally flawed. The first and foremost issue that needs to be addressed is climate change and reductions in the carbon intensity of energy supplies can help with this. Any attempt to quantify any other ‘environmental benefit’ will inevitably introduce inordinate complexity and confusion. There is no satisfactory way of quantifying and comparing a variety of environmental benefits. Ofgem proposes to quantify ‘environmental benefit’ by a measure of expenditure or financial equivalence (3.18, 3.26 and 3.38). This will certainly not provide a measure of effectiveness. Expenditure does not provide a good measure of environmental impact, effect or “benefit”. In paragraph 2.5, Ofgem refers to “raising awareness among consumers of environmental issues associated with energy use”. Ofgem states that “any measures to raise awareness should be based on a fair representation of the impact”. We do not understand how Ofgem can on one hand consider that “fair representation” of an impact is essential but, on the other hand, a meaningful measure of environmental benefit is not. Furthermore, ‘environmental benefit’ is not and never will be a core activity for electricity supply companies.

It may be reasonable for an energy supplier to pass on a proportion of the price they charge to, for example a charity such as the RSPB, or indeed for such a charity to market such an arrangement.

However, this cause-related marketing has little to do with the fundamental issues that need to be addressed here.

Additionality

A couple of concepts have become unduly embedded in UK Government policy. Both 'business as usual' and 'additionality' are concepts that can be useful in certain circumstances. However, when applied beyond sensible limits they can become ridiculous. Their use in the context of offsetting has been extended beyond reason, with projections of fictitious future scenarios being used as the basis of carbon claims and a major plank of an artificial carbon market. As mentioned elsewhere, Ofgem has taken advice from consultants with commercial interests in offsetting who are likely to be advocates of these concepts. We do believe, as Ofgem implies that the Ipsos MORI research suggests, that when consumers sign up to a green tariff they expect to be in receipt of something different to other tariffs. However, the idea that consumers expect that this difference is something "additional" is an idea that has been imposed by Ofgem (e.g. 2.8) and not one that truly represents the views of consumers. The terms "additional" and "additionality" are not normally a part of the consumers' lexicon. In imposing terminology, we believe Ofgem is in fact imposing a concept and consequently misrepresenting the views and perceptions of consumers. Measures of absolute carbon emissions are a better form of reference than measures of abatement. For these reasons, the proposals with regard to additionality and its measurement (3.26 – 3.31) are entirely inappropriate.

Similarly, the proposals at paragraph 3.39 and 3.40 are concerned with spurious, relative and unsatisfactory measures and should be dropped.

Contractual attribution

In para 2.8, Ofgem states "...it should not be possible for suppliers to arbitrarily attribute certain segments of their generation portfolio to particular consumers or to suggest that their contracted generation portfolio makes electricity use zero or low carbon." This point of view seems to be based on a view of the unsatisfactory badging of tariffs that occurs today rather than on the clarity that a carbon intensity banding approach could achieve. The inclusion of the word "arbitrarily" is puzzling and appears intended to add weight to an argument which, in our view, is not satisfactory.

Ofgem also states (2.8) "This practice may also be inconsistent with energy efficiency messages if it portrays the idea that their increased consumption will not detrimentally affect the environment." This

appears to be another instance in which Ofgem is, in effect, criticising current practice rather than offering a genuine comment on a carbon intensity banding approach. If such an approach were to be implemented, Ofgem's comment that "In fact, any increase in their consumption will likely be met by the generation of electricity through coal or gas-fired power stations and therefore, at best, the resulting energy can be considered to have a carbon intensity equivalent to that of the average grid mix." is misleading and would not be true for any consumer that has a proper contract for a lower carbon supply.

Accreditation

Ofgem states (3.2) that "success will ultimately hinge upon a brand awareness of the accreditation scheme" but a carbon intensity banding approach that does not involve "environmental benefits" will not require this and nor will it require the kind of advertising expenditure, in effect on behalf of energy suppliers, that Ofgem also proposes in paragraph 3.2.

Point of sale information

Figure 3.1 appears to present information that is tariff-specific. Elsewhere in the proposals e.g. 3.17, Ofgem appears to have removed proposals for information to be provided that is tariff-specific. It is our view that carbon intensity information should be tariff-specific and information about any other 'environmental benefit' should fall outside the scheme altogether.

Withdrawal of support

The penalty, on suppliers misusing the proposed scheme, suggested by Ofgem (3.35) is to "withdraw ... support". It is extremely difficult to imagine how such a weak penalty could be considered by consumers to be of any real value.

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