

27th August 2008

Submission to Ofgem's consultation: "The green supply guidelines: Updated proposals"

The Carbon Trust welcomes Ofgem's analysis of the issues surrounding green tariffs. We agree with Ofgem that the current situation lacks transparency, allows double counting and does not provide additional incentives for renewables. This situation should not continue.

We support the recent announcement from Defra that due to the concerns about the green tariff market all electricity would be treated as 'grid average' for the time being.

The current proposal put forward by Ofgem will address the issue of double counting. However we believe the green supply labelling proposals will add to confusion for several reasons (outlined in section 2 below) whilst not directly reducing carbon emissions through additional renewable capacity.

We have identified 2 potential options for the allocation of carbon benefit to electricity tariffs and recommend that Ofgem, in conjunction with Defra and CLG, take the time to do a full analysis of the implications of both approaches, through assessment of the cost effective potential uptake of additional renewable capacity, and the consideration of the impacts on other areas of policy such as the CRC, building regulations and labelling, and Defra's Quality Assurance scheme for offsets.

1. Current situation

We welcome Ofgem's accurate diagnosis of the current issues surrounding green tariffs, including the lack of additionality and strongly support the need to move away from a system which can lead to double counting of carbon benefits.

We agree with Ofgem's assessment of the market - that renewables are primarily incentivised by the Renewables Obligation support mechanism. We also agree that in this circumstance and where there is considerable under-delivery against RO targets that green tariffs are likely simply to repackage generation capacity that would exist anyway.

We are also concerned about double counting problems - which undermine attempts to accurately account for carbon in the economy. Currently renewable electricity is factored into the calculation of the national electricity emissions factor. Therefore there is a strong risk that the carbon benefit of renewable electricity is being counted twice, once by a consumer that has been sold a green tariff, and separately by all electricity users in general who calculate their emissions based on the grid emissions factor. In addition the existing confusion around the audit trail for green tariffs means there is the possibility of two end consumers claiming the benefit of the same supply.

2. Ofgem proposal

We support Ofgem's diagnosis of the issues and also the recent announcement from Defra that due to the concerns about the green tariff market all electricity would be treated as 'grid average' for the time being. This approach, also reflected in the Ofgem consultation, brings much needed clarity when organisations or domestic consumers are calculating their 'carbon footprint'. However, our view is that further work is required to determine the best long term carbon accounting solution - and our thoughts on this are set out in section 3 below.

We are concerned however that the labelling proposal from Ofgem is counter productive. We have three primary concerns about the labelling proposal:

- (i) As a voluntary scheme we do not believe the proposal will lead to a properly regulated and functioning market that consumers will understand.
- (ii) The current combination of providing the supplier mix fuel disclosure and a star rating for environmental benefit may be confusing e.g., is a supplier with 100% wind energy but only a bronze star better or worse than a coal supplier with a gold star? This approach is both confusing and also contradicts the use of 'grid mix average' emissions factors. If all electricity is to be treated as having the same carbon intensity the concept of publishing supplier fuel mix information in this way is not helpful.
- (iii) The label will not drive additional renewable energy capacity and is not properly linked to carbon - the primary environmental issue in this context. As a minimum, the 'additional activities' which qualify for the label, should explicitly be focused on carbon reduction.

3. Future Options

Organisations and consumers need to understand their carbon impact for regulatory and CSR purposes. It is therefore essential that the rules governing electricity tariff labelling and the carbon accounting associated with those tariffs are agreed across government, are mandatory and properly enforced.

We believe there are 2 viable long term options for the allocation of carbon benefit to electricity tariffs:

- a) All electricity that is supplied via the grid is a homogenous product with the same carbon intensity - based on the average of the different generation sources.
- b) All electricity tariffs have a calculated emissions factor based on allocation of the generated power by source to individual end users, via a mandatory reporting system covering the entire market.

We are currently moving towards the first situation. This has the merit of clarity, simplicity and consistency with the forthcoming CRC. This approach is a significant improvement on the current muddled situation. However, if this route is selected the concept of a 'green tariff' is no longer valid and we should accept that demand side pressure for renewables will not be created in a market dominated by upstream generator incentives.

Before we fully adopt this solution it would be advisable for Ofgem, together with Government, to also consider the feasibility and merits of option B above (mandatory labelling of all tariffs). This should incorporate whether this would potentially create significant additional financial drivers for renewables - the delivery of which is critical to carbon reduction goals - and the implications for the uptake of energy efficiency and fit with policy designed to deliver demand

reduction (such as the CRC, building regulations and labelling etc.). The knock on implications of this approach are quite different and a full study of the pros and cons of both approaches would ensure that the UK moves forward with the most advantageous carbon accounting approach for electricity.

We urge Ofgem, together with DEFRA, to conduct a detailed analysis into the effect and feasibility of reporting emission factors for individual tariffs on a mandatory basis. Based on this fact base a final decision on the best approach for the UK should be taken.