



THE GREEN SUPPLY GUIDELINES

RESPONSE TO OFGEM'S UPDATED PROPOSALS

Background

The London Climate Change Agency ('LCCA') agrees with Ofgem that there is a need to strengthen the link between green tariffs offered by electricity suppliers and the environmental benefits which arise out of the electricity being purchased by the consumer.

Electricity purchased from a renewable source has been considered to have an intrinsic environmental value for which in some cases the consumer has been prepared to pay a premium. The consumer can then take credit for a 'green' purchase (at least at the level of public perception), even though there is neither physical nor economic connection between the environmental value of the power and its consumption by the consumer concerned.

As the sale of 'green electricity' has increased, so has the need to provide guidance to consumers regarding what they may expect in return for purchasing from a 'green tariff' or what environmental benefit will be delivered in return for the purchase of 'green power' by a corporate consumer who reports the purchase in its annual report.

Apart from considerations relating to public confidence in the green energy market, there is also the pragmatic consideration, of ensuring that whatever policy is followed regarding the validation of green energy sales, the effect is to increase investment in energy of low or zero carbon origin. Some current marketing practices can be seen to stimulate new investment only as a marginal effect. The principal result of them is only to cause renewable and low carbon energy which is required to be produced in any event, to satisfy a demand for 'green labelled' energy which it was not produced to meet and upon which the economics of its production are not in any material respect dependent.

The LCCA therefore agrees in principle with the proposals put forward by Ofgem, save in respect of the breadth of the additional activities which are proposed. These activities should be confined to the supply of energy under conditions that are genuinely additional – see comments on guidelines to additionality below.

The London Climate Change Agency's Interest

The London Climate Change Agency has a central role in the delivery of the Mayor of London's climate change targets, including promoting the delivery of decentralised energy in London, as part of a target to enable 25% of London's energy needs to be met by means of decentralised energy systems by 2025.

In the case of these schemes, whether installed to serve a new development or existing buildings, there is a direct link between the consumer demand for the energy and the production of the heat, cooling and power –

- a. A causal and economic link, in that the scheme would not be built unless the demand for the low or zero carbon energy in the locality served by the scheme is there, whether that demand is created by planning requirements as in the case of new developments or in respect of existing buildings, incentives to the consumer;
- b. A physical link, in that heat or cooling is provided to the consumer by means of a generating plant the output of which is not homogenised within a market covering the whole or a large area of the UK. The same is in principle true of the electricity supply which is generated locally and energises the local distribution system or private wires.

The decentralised energy plants, whether delivering energy of low or zero carbon origin, are therefore ‘additional’, insofar as they cannot be built in the absence of demand from identifiable consumers who would otherwise be consuming the grid mix of energy.

It is misleading to suggest that the demand of any consumer within a particular locality in London can be satisfied in any real sense by ‘green energy’ which is made available as a result of Renewable Obligation Certificates (‘ROCs’) being issued to any generator of renewable power. There is unlikely to be any causal or economic or physical link between the production of the ‘green energy’ and the identity or locality of the consumer. However, those elements are fundamental to ensure that the production facilities for the ‘green energy’ which are used to respond to the demand, are genuinely additional.

To the extent that demand for low or zero carbon electricity in London is satisfied by any means that does not satisfy the requirement for ‘additionality’, it is helping to displace demand for energy from systems that are genuinely ‘additional’, of which within London, the decentralised energy systems to be established to meet London’s ambitious carbon targets are a principal example.

The Contrary Argument

A contrary view is that the distinction should not be between a homogenous grid mix on the one side and electricity characterised by complying with Ofgem’s ‘additionality’ test on the other. The electricity comprising the grid mix should be differentiated by attribute (effectively labelled by reference to its contractual differentiation). It should then be able to be sold to consumers as renewable / low carbon or with some other environmentally positive attribute, whether or not at a premium.

We reject this view. We believe it encourages stagnation in the growth of the market for new low and zero carbon energy sources that are genuinely ‘additional’. There is no evidence that to the extent that premiums are paid for renewable or low carbon electricity supported by ROCs or Climate Change Levy Exemption Certificates (‘LECs’), those premiums have caused the generating capacity for renewable and low carbon energy to increase. In practice, such sales enable a demand to be satisfied for renewable or low carbon energy without the purchaser paying the full or any part of the additional cost of the electricity concerned, over and above that of the existing grid mix.

The public may also be confused by the validity of a consumer claiming 'green credentials' for consuming renewable or low carbon electricity which is available anyway, regardless of the demand for it.

The guidelines: proposed approach – Responses to Questions

Q.1. Do you think that the suggested information in tiers 2 and 3 is appropriate to ensure that consumers have access to the information they need?

In principle yes, but its presentation needs developing.

Q.2. Are the examples of additionality given correct?

- a. *The range of additionality activities proposed is too broad.* These should be confined to the provision of low and zero carbon energy (whether in the form of electricity or thermal energy) which conforms to the requirement of being genuinely 'additional', that is to say there is a causal and economic link as described above.

Setting the range of additionality activities as wide as Ofgem proposes contains serious weaknesses –

- *First, public perception.* The credibility of a 'green tariff' and public acceptance of its merits is seriously undermined by including activities within it which are remote from or have no connection with the generation of the 'green' energy being purchased by the consumer. The 'green tariff' will be perceived as 'greenwash' – one of the hazards which Ofgem wishes to avoid;
- *Second, effectiveness.* A green tariff should be directed at promoting the increase in the generation and consumption of low and zero carbon energy, in place of high carbon content sources of energy. The proposed breadth of the additionality activities diverts focus from that to other activities which, although they may have merit in their own right, do not directly contribute to that objective or have no relationship with it at all. Examples of proposed activities that do not directly contribute to 'green tariff' objectives are –
 - installation of energy efficiency technologies
 - consumer behaviour measures
 - research and development into renewable technologies

Examples of proposed activities that have no relationship with 'green tariff' objectives at all are–

- retirement of EU allowances
- purchase of offsets
- contribution to an environmental charity

- b. *The examples of additionality should include support for low carbon heat installations, not only renewable installations. Both contribute to carbon reduction.*

In relation to renewable generation, the test for inclusion as 'additional' should not be related to size, but should be related to whether the renewable installation is in receipt of ROCs. In the case of low carbon generation, the position is more complex, because LECs are worth far less than ROCs and do not support the economics of low carbon generation in the same way. In addition, the LECs have no value in respect of electricity sold to private consumers who do not pay Climate Change Levy. In the case of low carbon generation therefore, we suggest it should be regarded as properly 'additional' on any scale and regardless of its status with regard to LECs, provided it can be shown that the generation of the low carbon energy is in response to the demand of an identifiable consumer or group of consumers, such as the residents of a housing development or consumers who receive heat from a decentralised energy scheme.

Q.4. what are your views regarding the treatment of additionality for non – domestic customers, particularly with respect to the most appropriate way to rate these tariffs?

In principle, the treatment of 'additionality' for non domestic consumers should be the same as for domestic consumers.

The rating of the supplier's contribution to additionality would need to be adjusted to fit the larger quantities of energy consumed by many non domestic suppliers, but that is achievable by linking the measure of additionality to a percentage of the non domestic consumer's energy payments.

London Climate Change Agency

21st August 2008