REA response to
The green supply guidelines – updated proposals

The Renewable Energy Association is the largest renewable industry body in the UK, with over 530 member companies. The Association and its members are active across the full range of renewable energy technologies and applications.

The core membership we seek to represent is renewable energy producers, renewable fuel providers, renewable energy equipment manufacturers, installers and project developers. We also have many corporate members with interests in these areas, but whose core business lies elsewhere.

For example, we have in membership, the "big six" electricity supply companies. The association has never claimed to represent the supply interests of these members. With respect to this consultation we suggest that the Energy Retail Association's response, rather than our own, would be the place to find the collective response for supply businesses.

Introduction

Consumer demand is a very important potential driver for environmental change. Environmental awareness has been encouraged and has grown greatly over the last decade. Ultimately, consumer pull has the potential to be the strongest and most enduring signal. Once the 'playing field is level' and the right signals and information are in the market it is customer demand which will ultimately sustain the renewables market.

It is well recognised that it is difficult to enable consumer pull to exert the influence it could in the UK market; the nature of the Renewables Obligation and its interaction with green supply tariffs makes it hard to achieve meaningful additionality. Unfortunately no satisfactory solution has yet been found to this problem. Until a satisfactory solution is found, we believe that it is best to openly acknowledge the difficulties and concentrate on increasing transparency. We feel that Ofgem's current proposals are a step backwards in this respect.

Our response to Ofgem's previous consultation was positive and we were supportive of many of the proposals put forward. We are disappointed that Ofgem has gone back on many of these proposals, in particular the labelling of individual tariffs. As a result this response is far less supportive.

In our view the proposals are better than the situation at the moment, but are still far short of what is required. The proposals will reduce transparency rather than increase it, restrict consumer choice and stifle consumer engagement, yet will not solve the problem with confusion. If meaningful additionality were possible, it would be entirely right for Ofgem to make this of paramount importance. As it is not, we are concerned about the rationale behind the emphasis on additionality. We are also concerned about the rationale behind emissions reporting, which is in direct conflict with Defra's best practice guidelines on reporting greenhouse gas emissions.

If the proposals don't work and cause further confusion as we fear they will, and if additionality can be questioned as we think it can be, this will further undermine confidence in green tariffs.

We explain our concerns below and then briefly answer the four questions in chapter 3.

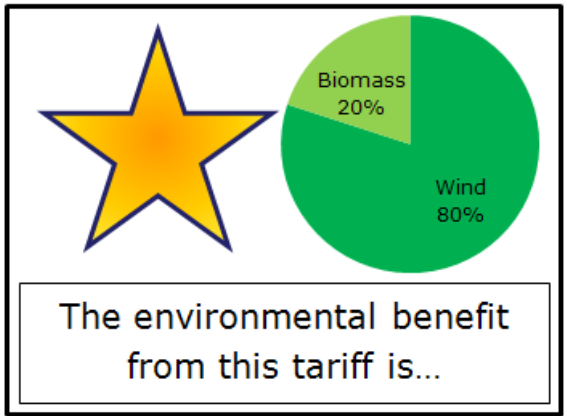
Confusion

A major contributing factor to the confusion will be the conflict between the proposals and fuel mix disclosure requirements. The proposals require average ***physical flow*** to be reported, whereas fuel mix disclosure requires the reporting of suppliers' fuel mix based on ***contractual flow***.

Page 14 provides an example of the "tier 1" information to be presented for a tariff. The third bullet point states this should include

"**A fuel mix chart**: This would depict the *overall supplier level fuel mix* to give an indication to customers of the environmental credentials of the supplier"

(italics added)



Ofgem gives an example chart shown opposite. The supplier in this example supplies 100% renewable electricity.

But the theme running through the entire guidelines is that suppliers will be required to tell customers that the emissions arising from their electricity corresponds to the average grid mix – i.e. around 5% renewables). See page 9 para 2.8b.

Thus Ofgem requires the supplier in the example above to make it clear to its customers that its electricity has the same carbon emissions as the average grid mix, yet simultaneously to inform them that overall they supply 100% renewables, as shown on the chart. This is surely a confusing message to give.

Transparency and customer choice

The European Union introduced a directive in 2003 requiring the introduction of fuel mix disclosure by supplier to improve transparency to customers on the electricity they are supplied. Labelling individual tariffs would take this a stage further. In contrast, labelling all electricity as average grid emissions provides no information to customers on what electricity is being contracted for under their tariff.

Ensuring customers are informed of what they are getting in a straightforward, honest and comparable way should be the focus of the guidelines. If customers know what is on offer, they are then able to make the decision of whether they want to buy the product.

For example a tariff which provides 100% renewable electricity on the basis of Regos could also include a health warning to let consumers know that there is no guarantee the product will increase renewable electricity generation. Consumers

may still choose to buy the product for a reason other than additionality, perhaps to signal to their suppliers that renewable electricity is important to them. If on the other hand after having been given the information consumers decide not to buy the product, then the market will have decided this is not a product consumers are interested in. We think this is preferable to Ofgem effectively pre-empting consumers' decision, particularly as the outcome could be that consumers are interested in the product.

Consumer engagement

The level of deployment of renewables must increase at an unprecedented rate if the UK's share of the European Union 20% renewables target is to be met. To meet the target will require public support. If consumers are able to relate in some way to the renewable electricity that is being built through knowing they are purchasing some of it, that should increase acceptance. It also provides an opportunity for suppliers to explain to consumers more about what they are supplying and how it will help the environment. Conversely, shutting consumers out of the process will make them more distant from it making it feel that renewable electricity is being imposed on them remotely.

Emissions reporting Rationale

The rationale behind Ofgem's proposed guidelines is in conflict with Defra's rationale for its greenhouse gas emissions reporting guidelines. This is worrying given the two are supposed to be consistent and puts a question mark over how robust the rationale actually is.

Whist Defra's guidelines stem from the rationale of assigning customers the ***right to claim the emissions savings*** resulting from green electricity, Ofgem is concerned about customers being misled about the ***physical*** mix of electricity they are receiving.

Ofgem uses a yogurt analogy to back up its argment. However, we do not agree with that customers are concerned about the physical mix. We believe that most customers understand that all electrons are the same and that renewable electrons cannot be distinguished from non-renewable electrons.

Following Ofgem's logic, if a consumer was physically getting green electricity e.g. a wind turbine connected to a supermarket, the supermarket ***should*** be able to claim to be getting electricity with zero emissions. (Ie Its "yogurt" has not gone into the "central processing facility").

Following Defra's guidelines the supermarket would not be able to claim the emissions reductions resulting from green electricity if it is partly subsidised by all consumers (i.e. which it would be if ROCs are claimed). In this example the supermarket (as it is claims the ROCs) has to report its "yogurt" as having gone through the "central processing facility" even though it hasn't.

We believe both rationales are flawed, but at the very least Ofgem and Defra should be consistent in their approaches.

Difficulties with achieving additionality

Green consumerism is the phenomenon of environmentally-conscious individuals using their purchasing power to influence change. Consumers that sign up to a green tariff probably believe that the amount of renewable electricity generated will be directly increased as a result. Because of the constraints imposed by the Renewables Obligation, this cannot be the case.

We believe it is best that this is pointed out to them, in the interests of honesty and transparency. They are then in a position to decide whether to sign up to a tariff on the basis of other factors.

Ofgem's focus is on projects which would not have happened were it not for the existence of green tariffs. However it is almost impossible to say whether something would have happened anyway and it makes for a distorted approach for viewing the funding of a project.

The viability of a renewable electricity project usually depends on a number of sources of revenue. These may include the electricity price, triads, ROCs and LECs. The carbon price will also help the economic viability as certificates will not have to be purchased. The addition of a premium from selling green supply would add to this funding.

The elimination of any one of the above sources of funding might stop a marginal project being economically viable. It could be argued for each source of funding that without it the project wouldn't happen and so each one provided additionality for that project. With this approach there is an incentive to say that anything is marginal, even if it's not, and there's no real way of customers or authorities knowing whether the claim is correct. Solving this problem results in perverse incentives.

It creates a perverse in that an easy way to prove additionality is by choosing a really uneconomic project as it clearly wouldn't have been built otherwise, but this is obviously not the most efficient use of a consumer's money.

Ofgem's gold, silver and bronze proposals are based on the amount of money spent to deliver "additionality". However just because more money is spent on a project, it doesn't make it better. Indeed it could encourage economic inefficiencies. This would be in contradiction to Ofgem's current primary remit. This could lead to complaints that a particular bronze tariff is actually better than a gold tariff, confusing the public and undermining the system further.

We assume the difficulty in proving additionality with the RO in place is the reason that Ofgem has gone mainly for non-renewable electricity projects in its list of qualifying additional activities. The difficulty with this is it makes the link between the premium product and the electricity more distant. The consumer is likely to believe that by signing onto a renewable electricity tariff, they are leading to more renewable electricity generation, whereas they will be told they are actually consuming brown electricity and their premium will be used for something potentially

unrelated to renewable electricity. We expand on some of the problems with some of Ofgem's examples of ways of achieving additionality at the end of this document.

Our suggestions

Our position on green supply has changed little from our last consultation response, summarised below. For more detail on any of them please contact us or see our previous response.

Our summary of requests in our last response are below.

Fuel mix disclosure for all tariffs (made mandatory)

Use of REGOs to support renewable electricity claims (made mandatory)

Consistent information provision across suppliers

Additionality not a requirement and suppliers can charge more (increased transparency option)

Extended to include non domestic consumers

Monitoring and auditing of supplier claims (via an independent body)

Enforcement (by Ofgem)

Fuel mix disclosure to give actual fuel mix not last year's fuel mix

Clear annual reporting of fuel mix

Label biomass as zero carbon

Compatibility with European labelling systems

More analysis of the impact of imports

Guidelines for renewable gas tariffs

Questions

Our responses to the questions should be taken in conjunction with the preceding analysis. Though we have responded below on the best way of implementing Ofgem's current proposals, we do not believe that these proposals offer the best way forward.

Q1: 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? Yes. Though it is not entirely clear how the 'environmental benefit from this tariff…' under tier 1 will work. There should be some indication in the tier 1 information of what gold, silver and bronze actually mean i.e. the amount of money going to the environmental benefit should be included.

Q2: Are the examples of additionality that are suggested all correct? Should any alternative examples be included? Is the threshold of 1MW for small scale renewable/low carbon generation appropriate? If you think an alternative threshold would be more appropriate please explain why. Biomethane injected into the gas grid does not currently receive any reward so should be added to the list.

Q3: Is the example related to the proposed bands (gold, silver, bronze, etc) appropriate? If you think an alternative way of setting a minimum standard and associated ratings would be better, please explain why and how it would work in practice. Ranking additionality in a fair manner will be extremely difficult and we don't think Ofgem's proposals provide appropriate solutions - the *amount* of money spent says nothing about how *well* it was spent.

We would rather Ofgem concentrate on getting the basics right first. If confusion is removed and suppliers provide clear messages about what they are and are not providing in a tariff, ranking additionality probably won't be necessary. Consumers will be able to compare the different tariffs suppliers are providing and decide for themselves which they think is better. A proposed method of enforcement is described in our previous response. In brief, monitoring suppliers' messages could be done by a consumer organisation which would refer any significant cases to Ofgem for a decision on whether action should be taken.

Q4: 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? As far as possible this should be the same as for domestic tariffs to avoid confusion. The difficulty in doing this again emphasises why this is not necessary at this stage and should only be done as a last resort if the market shows it is not able to sort it out itself once double counting is eliminated and messages from suppliers are clear.

Problems with additionality – specific examples

To demonstrate our concerns about deciding whether something is additional we have picked out a few examples from the list given.

Retirement of EU allowances under the EU Emissions Trading Scheme – presumably the logic here is that if allowances are retired, the price of emissions will go up and so fewer people will emit carbon. This is little different to the argument that charging a premium for green electricity tariffs will result in more investment in renewable electricity. The UK has both ambitious renewable energy and carbon reduction targets.

Installation of energy efficiency technologies (outside of the CERT programme) CERT requires proof that energy efficiency technologies are additional. If a supplier thinks a technology is not additional enough to meet the CERT requirements, how will Ofgem prevent the technology benefiting under this scheme? There may also be other problems with this proposal such as proving it wouldn't have otherwise happened under CERT.

Smaller-scale (e.g. community based) renewable electricity projects – a limit of 1 MW has been suggested – would they still be able to claim ROCs and LECs? What about perverse incentives to install 1MW instead of 2MW in a site appropriate for 2MW? Whatever the size of the limit there will be perverse incentives around that limit.

Contribution to the development and deployment of onsite renewables (non domestic proposal) – Defra considers claiming anything other than average grid mix emissions for onsite renewables where ROCs are claimed is double counting, as the emissions reduction has already been counted under the RO. This is not something we agree with, because we think there is a contribution to be made to the development and deployment of onsite renewables. By suggesting this as additional does Ofgem agree it isn't double counting?